

Registered No: 05016028

**UPP Group Holdings Limited
Report and financial statements**

For the year ended 31 August 2019



Contents

Directors and advisors	1
Strategic report	2
Directors' report	8
Report of the independent auditor to the members of UPP Group Holdings Limited	10
Group income statement	13
Group statement of comprehensive income	14
Group statement of changes in equity for the year ended 31 August 2019	15
Company statement of changes in equity	16
Group statement of financial position	17
Company statement of financial position	19
Group statement of cash flows	20
Notes to the financial statements	21
1. General information	21
2. Accounting policies	21
2.1 Basis of preparation	21
2.2 Going concern	21
2.3 Basis of consolidation	21
2.4 Tangible fixed assets	22
2.5 Finance receivable (pre 1 September 2014)	22
2.6 Non-recourse finance (pre 1 September 2014)	23
2.7 Service concession intangible and financial assets (post 1 September 2014)	23
2.8 Revenue	24
2.9 Valuation of investments	25
2.10 Debtors	25
2.11 Cash and cash equivalents	25
2.12 Intangible fixed assets (excluding Service Concession Arrangements)	25
2.13 Interest bearing loans and borrowings	26
2.14 Creditors	26
2.15 Derivative instruments	26
2.16 Finance costs	26
2.17 Borrowing costs	27
2.18 Hedge accounting	27
2.19 Taxation	28
2.20 Related party transactions	28
2.21 Defined contribution pension scheme	28
2.22 Defined benefit pension plan	29
2.23 Share-based payments	29
2.23 Cash-settled arrangements	29
2.24 Long-term incentive scheme	29
3. Judgements and key sources of estimation uncertainty	30
4. Turnover	33
5. Directors' remuneration	33
6. Auditor's remuneration	34
7. Employee information	34
8. Operating profit	35
9. Interest receivable and similar income	35
10. Interest payable and similar charges	35
11. Tax on loss on ordinary activities	36
12. Intangible fixed assets - Other	37
13. Intangible fixed assets – Service Concession Arrangements	38
14. Tangible fixed assets	39
15. Company's investments	40
16. Debtors subject to non-recourse finance	40
17. Debtors: amounts falling due within one year	41

18.	Debtors: amounts falling due after one year	41
19.	Creditors: amounts falling due within one year	41
20.	Creditors: amounts falling due after more than one year	42
21.	Called up share capital	45
22.	Reserves	46
23.	Retirement benefit schemes	46
24.	Equity-settled share-based payments	49
25.	Parent undertaking and controlling party	50
26.	Related party transactions	50
27.	Investments	51
28.	Notes to the statement of cash flows	52
29.	Financial risk management	52
30.	Financial instruments	55
31.	Financial commitments	56

UPP Group Holdings Limited

Directors and advisors



Directors

R Bienfait
H Huizing
I Frolova
R McClatchey
A Wilkie
H Gervaise-Jones
A Percival
M Swindlehurst
P Milner
J Hu

Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Registered office

40 Gracechurch Street
London
EC3V 0BT

Registered No

05016028

UPP Group Holdings Limited

Strategic report

for the year ended 31 August 2019



The directors present their report for the year ended 31 August 2019.

Review of the business

The Group's principal activities during the year continue to be the development, funding, construction and operation (including facilities management) of student accommodation under the University Partnerships Programme ('UPP').

Operational performance

On 1 March 2019, the group management and administration activities of the company and associated staff and assets transferred from UPP Group Limited to UPP Group Holdings Limited which now carries on those activities for the group.

For the year ended 31 August 2019, the Group maintained an interest in 32,716 operational rooms for a weighted average lease period of 50 years. In addition, a subsidiary undertaking, UPP Residential Services Limited, provides services for 1,172 operational rooms in discrete contracts in which the Group does not hold any interest in the lease. During the academic year 2019/20, the Group will have a total of 1,587 study bedrooms under construction.

The operational performance of the Group remained extremely strong - achieving 100% occupancy for the year ended 31 August 2018 and 99.1% occupancy on available rooms at the start of the year ending 31 August 2019.

The financial year ended 31 August 2019 has seen the Group continue to pursue its well-established strategy of controlled and selective growth with leading universities, generating long-term predictable RPI-linked revenues.

During the year the Group has continued to grow the number of beds under management with both new and existing partners, reaching financial close on a further scheme with the University of Exeter and practical completion of construction activities relating to schemes with the University of Hull and the University of London. During the year, the Group continued to progress latent defect work identified in 2016 in newly built accommodation at one of the Company's subsidiary undertakings, UPP (Exeter) Limited. The programme of remediation continues, with no financial impact on the performance of the subsidiary undertaking.

In January 2019, the Group successfully reached financial close on the 1,182-bed East Park project as part of its ongoing partnership with the University of Exeter. UPP procured a total of £139.7 million of senior debt, subordinated debt and equity. Pension Insurance Corporation plc ('PIC') provided £125.1 million of index-linked debt financing with a tenor of circa 48 years, with £14.6 million of subordinated debt and equity provided by UPP Group and its Shareholders.

In addition to the £41.4 million redevelopment of Moberly and Spreytonway residences, consisting of 251 and 131 beds respectively - already under construction and due for occupation by September 2020 - construction is now well underway on the East Park scheme. UPP has appointed Vinci Construction UK Limited to deliver the development which is set to become operational over two phases in September 2020 and September 2021. When complete the Group will be operating 4,156 rooms on campus.

During August 2019, the final phase of the £155 million Westfield Court development at the University of Hull was completed for the start of the 2019/20 academic year. Construction began in May 2017, with the first phase delivering 478 high-quality bedrooms on the University campus. Phase Two - a further 124 bedrooms - became operational as planned for January 2019.

In total the nine-block development features 1,462 brand new single rooms and one-bedroom apartments. Alongside this development, an urban green and avenue offers a range of facilities including laundry rooms and formal and informal outdoor areas. UPP also assumed the operation of the existing 288 rooms at the University's Taylor Court residences.

UPP Group Holdings Limited

Strategic report (continued)

for the year ended 31 August 2019



In partnership with the University of London, in August 2019 the Group also delivered a further 511 rooms at Eleanor Rosa House in Stratford, East London. The scheme provides a mixed-use, 33-storey landmark building delivering over 18,000 square metres of new student accommodation. UPP is operating all study bedrooms and associated communal space.

Eleanor Rosa House is the Group's second transaction with the University of London, reinforcing UPP's bespoke, long-term partnership with the University which is enhancing and increasing the accommodation available to students at the University and its affiliated institutions.

From 1 January 2019, Henry Gervaise-Jones was appointed to the Board of UPP Bond 1 Holdings Limited and assumed the role of Chief Financial Officer for its parent company UPP REIT Holdings Limited. From the same date, Richard Bienfait the former Chief Financial Officer was appointed Chief Executive Officer.

Shortly following the financial year end on 3 September 2019, Richard Bienfait announced that he will be stepping down from this role at the end of January 2020. In January 2020 a new Chief Executive Officer was announced - Elaine Hewitt. Elaine joins UPP from NHS Property Services Ltd. Elaine will join the Business on 1 April 2020. During the interim period between the departure of Richard and Elaine assuming the role of Chief Executive Officer, Robert McClatchey, current Chairmen will lead the business alongside the Executive Leadership Team.

General Overview

The UK higher education ('HE') sector remains a global destination for students, with demand for UK institutions having grown and both European Union ('EU') and international applicant numbers remaining strong. According to the most recent data from the Higher Education Statistics Agency (HESA), full-time student enrolments to UK institutions grew by 2.6% year on year for 2017/18 to more than 1.8 million. There are now more than 630,000 more full-time students at UK universities each year than was the case in 2000/01. Enrolments have continued to increase despite a fall in the number of 18-year-olds in England. This demographic dip has now reached its lowest point and the population of this cohort is expected to increase by 23.0% over the coming decade. Given that the supply of Purpose-Built Student Accommodation ('PBSA') has increased by less than 327,000 units over the same period, demand for accommodation remains robust.

In terms of the outlook for demand for the academic year 2019/20, main scheme data from the Universities and Colleges Admissions Service ('UCAS') also identifies continued levels of demand from new applicants to UK institutions. The 30 June 2019 data set (shown in Figure 2.21) identifies a 0.2% increase in overall applications to 638,030. Applicants from the UK fell by just 1.1% to a total of 506,040. Student applicants from the EU (excluding the UK) increased by 1.1% to 50,650. The data also underlines the continuing popularity of UK HE with international (non-EU) applicant numbers increasing by 7.9% to 81,340 - an increase of more than 5,000 applicants.

Particularly encouraging were applicant numbers from the 18-year-old population, which increased by just over 1.0%. In England, the 18-year-old application rate increased to a record 39.5% from 38.1% at the same point in 2018. This increase comes against a backdrop of an almost 1.9% fall in the UK's 18-year-old population. There are now well over 275,000 18-year-old applicants to UK universities each year.

The table below presents applicants for all courses by domicile group (30 June 2019).

App. Domicile	2015/16	2016/17	2017/18	2018/19	2019/20
England	460,740	459,430	437,860	421,610	418,940
Northern Ireland	20,800	21,100	20,290	19,310	18,520
Scotland	48,490	49,470	48,940	48,710	47,110
Wales	23,550	23,740	22,530	21,830	21,470
UK	55,580	553,740	529,620	511,460	506,040
EU (excluding UK)	48,930	51,850	49,250	50,130	50,650
Non-EU	70,530	69,300	70,830	75,380	81,340
Total	673,040	674,890	649,700	636,970	638,030

(Source: UCAS)

UPP Group Holdings Limited

Strategic report (continued)

for the year ended 31 August 2019



In terms of the longer-term trends, the most recent UCAS End of Cycle Report (2018), which provides a national overview of demand for, and acceptances to, undergraduate UK HE, identifies that whilst applicant numbers have declined since the 2016 cycle, the number of acceptances issued by universities has seen a small increase. The effect of this has been to increase the overall acceptance rate across the sector by 0.4 percentage points to reach 76.7% - the highest seen since 2008. This suggests that universities are choosing to expand the range of their usual entry requirements to accept applicants with different grade profiles or qualifications. There were 533,360 acceptances issued during the most recent full application cycle. UCAS notes that the data identifies that the appetite for UK HE remains strong and continues to grow year on year.

The impending exit of the UK from the EU continues to cast uncertainty across numerous sectors of the economy. At the time of writing, Brexit is due to occur at the end of January 2020.

Whilst there have been some concerns in relation to how these changes might impact EU and International student enrolment post-Brexit, scenario 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 less than 1.0%.

Despite some uncertainty, UCAS published data at the 30 June 2019 indicating that, following UK's vote to leave the EU, the number of applicants from the EU increased by 1.0% - having increased by 2.0% during the 2018 cycle. The number of non-EU applicants reported a remarkable increase of 8.0%, the highest number of applicants for this group, again following a 6.0% increase in 2018.

On this basis, the Board remains confident both in the robust nature of domestic and international demand for UK HE, the Group pipeline and the capacity of the Group to secure and deliver transactions coming to market based on its unique selective approach to partnerships. The Board remain cognisant of the attendant risks relating to this approach and will continue to actively manage these where they arise.

UPP Group Holdings Limited

Strategic report (continued)

for the year ended 31 August 2019



Financial risk management objectives and policies

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

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

Interest rate risk:

The Group's finances its operations through a mixture of retained profits, intra group borrowings, parent company loans and an overdraft facility. Interest on the intra group borrowings and parent company loans is at fixed commercial rates. Interest on the overdraft facility is at a base rate plus a margin. This overdraft is in place to aid short term cash management and it is renewable annually.

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.

Market specific risks:

The Group remains exposed to industry specific risks such as demand fluctuation driven by changes in funding arrangements of UK higher education; changes to tuition fees and maintenance grants and Government policy aimed at generating greater competition between institutions for students with high grades.

The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties. During the year the Group introduced a number of further initiatives to further improve the management of these risks. In the case of exposure to the loss of risk capital in bidding and long term demand risk, the Group has established an Investment Committee under whose terms of reference proposed investments are scrutinised and challenged on the basis of cost and other commercial conditions ahead of any decision taken to proceed.

Key financial performance indicators

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

	2019	2018
	£'000	£'000
Turnover	258,068	247,096
EBITDA (Earnings before interest, tax, amortisation and depreciation)	88,153	80,691
Loss after tax	(7,077)	(15,716)
Equity shareholders' funds	86,705	129,343

UPP Group Holdings Limited

Strategic report (continued)

for the year ended 31 August 2019

Key drivers behind the movements in key financial performance indicators above are:

- Like-for-like turnover increased by 6% during the year primarily due to the increase in student accommodation rental income (by £9,842,000) and increase in finance receivable from service concession arrangements (by £3,756,000).
- The increase in EBITDA during the year was caused mainly by higher rental income and increase in finance receivable from service concession arrangements.

Key Financial risks

The Group uses various financial instruments including loans, senior bank facilities, secured listed bond notes, interest rate swaps and RPI swaps, cash, equity investments and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the 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 with entities not included within the Group.

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. These policies have remained unchanged from the previous year.

Interest rate risk

The Group finances its operations through a mixture of equity, bank borrowings and secured listed bond notes. The Group exposure to interest rate fluctuations on its bank borrowings is managed by the use of fixed rate debt and interest rate swaps which fix variable interest rates for a period of time.

When the associated bank borrowings are fully repaid the Group may be required to terminate the interest rate swaps earlier than they mature and may become liable to pay penalties. When this occurs the cost of this termination is taken to the profit and loss account on termination.

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 liquidity by investing cash assets safely and profitably. The maturity of borrowings is set out in note 20 to the financial statements.

UPP Group Holdings Limited

Strategic report (continued)

for the year ended 31 August 2019

Other risks and uncertainties

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.

Credit risk

The Group receives the majority of its revenue from its University Partners and it is not exposed to significant credit risk. Any cash balances are with institutions of a suitable credit quality.

Employees

The Group is an equal opportunity employer with particular reference to non-discrimination and non-harassment on the basis of ethnic origin, religion, gender, age, disability and sexual orientation. The Group gives disabled people the same consideration as other individuals. Matters which affect the Group are communicated to employees through formal and informal meetings, internal announcements and regular contact with directors and senior management. UPP Group secured Investors in People accreditation. The Group successfully implemented the living wage across the portfolio.

On behalf of the Board



Henry Gervaise-Jones
Director
31 January 2020

UPP Group Holdings Limited

Directors' report

for the year ended 31 August 2019



The directors present their report for the year ended 31 August 2019.

Principal activity

The Group's principal activity is the development, funding, construction and operation (including facilities management) of student accommodation under the University Partnerships Programme ('UPP').

Financial risk management objectives and policies

The Group's financial risk management objectives and policies are of strategic significance and are therefore detailed in the Strategic Report on pages 5 & 6.

Going concern

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

Dividend

The directors do not propose the payment of a dividend (2018: £nil).

Directors and their interests

The directors holding office during the year ended 31 August 2019 and subsequently are:

R Bienfait	(resigned on 31 January 2020)
M Bryan	(resigned on 31 July 2019)
I Frolova	
H Gervaise-Jones	(appointed on 1 January 2019)
J Hu	(appointed on 31 July 2019)
H Huizing	
R McClatchey	
P Milner	(appointed on 6 February 2019)
S O'Shea	(resigned on 31 December 2018)
A Percival	(appointed on 6 February 2019)
M Swindlehurst	(appointed on 6 February 2019)
J Wakeford	(resigned on 31 January 2019)
A Wilkie	

At 31 August 2019 two of the Company's directors held a beneficial interest in the 'B' ordinary shares of the wholly owned subsidiary Company, UPP Group Limited. Also another six Company's directors and three other directors held a beneficial interest in the 'C' ordinary shares of the Company. These shares hold no dividend or voting rights.

At 31 August 2019, other than the interest noted above, none of the directors had any beneficial interests in the shares of the Company or in any of the subsidiary companies.

UPP Group Holdings Limited

Directors' report (continued)

for the year ended 31 August 2019

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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


The directors confirm that:

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

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

The directors are protected by Directors and Officers Liability Insurance provided by the Group.

On behalf of the Board



Henry Gervaise-Jones
Director
31 January 2020

Report of the independent auditor to the members of UPP Group Holdings Limited

Opinion

We have audited the financial statements of UPP Group Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 August 2019 which comprise the Group income statement, Group statement of comprehensive income, Group statement of changes in equity, Company statement of changes in equity, Group statement of financial position, Company statement of financial position, Group statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusion relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 2 to 8, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Report of the independent auditor to the members of UPP Group Holdings Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.



**Simon Bevan BA FCA
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditors, Chartered Accountants
London**

5 February 2020

UPP Group Holdings Limited

Group income statement

for the year ended 31 August 2019

	Notes	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Turnover	4	258,068	247,096
Cost of sales		(143,673)	(140,340)
Gross profit		114,395	106,756
Operating expenses		(39,440)	(37,427)
Operating profit	8	74,955	69,329
Interest receivable & similar income	9	4,199	3,170
Interest payable & similar charges:	10		
Senior financing interest		(69,778)	(73,851)
Other interest payable & similar charges		(17,904)	(15,499)
		(87,682)	(89,350)
Loss on ordinary activities before taxation		(8,528)	(16,851)
Tax on loss on ordinary activities	11	1,451	1,135
Loss for the financial year		(7,077)	(15,716)
Loss for the financial year attributable to:			
Non-controlling interests		(710)	(1,324)
Owners of the parent		(6,367)	(14,392)
Loss for the financial year		(7,077)	(15,716)

The above results all relate to continuing operations.

The notes on pages 21 to 56 form part of these financial statements.

UPP Group Holdings Limited

Group statement of comprehensive income

for the year ended 31 August 2019

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Loss for the financial year	<u>(7,077)</u>	<u>(15,716)</u>
Revaluation of principal asset	7,566	36,070
Deferred tax on revaluation of principal assets	(606)	30,831
Fair value movements on swaps	(57,502)	34,644
Deferred tax on fair value of swaps	-	(24,022)
Actuarial gain relating to pension scheme	-	563
Deferred tax attributable to actuarial gain	-	(338)
Total other comprehensive income/(loss) for the year	<u>(50,542)</u>	<u>77,748</u>
Total comprehensive income/(loss) for the year	<u><u>(57,619)</u></u>	<u><u>62,032</u></u>
Total other comprehensive income/(loss) for the year attributable to:		
Non-controlling interests	(759)	4,593
Owners of the parent	<u>(49,783)</u>	<u>73,155</u>
	<u><u>(50,542)</u></u>	<u><u>77,748</u></u>
Total comprehensive income/(loss) for the year attributable to:		
Non-controlling interests	(1,469)	3,269
Owners of the parent	<u>(56,150)</u>	<u>58,763</u>
	<u><u>(57,619)</u></u>	<u><u>62,032</u></u>

The notes on pages 21 to 56 form part of these financial statements.

UPP Group Holdings Limited
Group statement of changes in equity for the year ended 31 August 2019



	Share capital	Share premium	Other reserve	Capital reserve	Cash flow hedge reserve	Revaluation reserve	Profit and loss account	Shareholders' equity	Non- controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2017	6,998	213,005	46,577	17,967	(116,019)	170,874	(310,346)	29,056	5,110	34,166
Loss for the financial year	-	-	-	-	-	-	(14,392)	(14,392)	(1,324)	(15,716)
Other comprehensive income	-	-	-	-	10,123	62,235	797	73,155	4,593	77,748
Total comprehensive income	-	-	-	-	10,123	62,235	(13,595)	58,763	3,269	62,032
Capital contributions	-	-	-	145	-	-	-	145	-	145
Non-controlling interest investment	330	32,670	-	-	-	-	-	33,000	-	33,000
Reclassification	-	-	-	-	-	-	-	-	-	-
Transfer to profit and loss account	-	-	-	-	-	-	-	-	-	-
At 31 August 2018	7,328	245,675	46,577	18,112	(105,896)	233,109	(323,941)	120,964	8,379	129,343
Loss for the financial year	-	-	-	-	-	-	(6,367)	(6,367)	(710)	(7,077)
Other comprehensive income	-	-	-	-	(56,743)	6,960	-	(49,783)	(759)	(50,542)
Total comprehensive income	-	-	-	-	(56,743)	6,960	(6,367)	(56,150)	(1,469)	(57,619)
Capital contributions	-	-	-	143	-	-	-	143	-	143
Issue of ordinary shares	147	14,603	-	-	-	-	-	14,750	-	14,750
Equity-settled share-based payments	2	443	(357)	-	-	-	-	88	-	88
Non-controlling interest investment	-	-	-	-	-	-	-	-	-	-
Transfer to profit and loss account	-	-	-	-	-	-	-	-	-	-
At 31 August 2019	7,477	260,721	46,220	18,255	(162,639)	240,069	(330,308)	79,795	6,910	86,705

The notes on pages 21 to 56 form part of these financial statements.

UPP Group Holdings Limited

Company statement of changes in equity

for the year ended 31 August 2019

	Share capital	Share premium	Capital reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 September 2017	6,998	213,005	9,964	39,362	269,329
Results for the financial year	330	32,670	-	-	33,000
At 31 August 2018	7,328	245,675	9,964	39,362	302,329
Issue of ordinary shares	148	14,603	-	-	14,752
Equity-settled share-based payments	1	85	-	-	86
Results for the financial year	-	-	-	(7,066)	(7,066)
At 31 August 2019	7,477	260,364	9,964	32,296	310,101

UPP Group Holdings Limited

Group statement of financial position

as at 31 August 2019

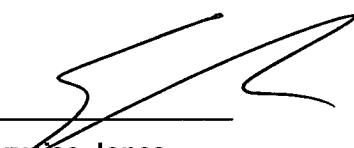
	Notes	31-Aug 2019 £'000	31-Aug 2018 £'000
Non-current assets			
Goodwill & other assets	12	33,094	34,163
Service concession arrangements	13	383,183	260,184
Tangible assets	14	1,474,805	1,473,935
		<u>1,891,082</u>	<u>1,768,282</u>
Current assets			
Debtors subject to non-recourse finance	16	102,984	103,261
Debtors: amounts falling due within one year	17	18,326	12,915
Debtors: amounts falling due after one year	18	22,566	33,836
Cash at bank and in hand	28	231,339	207,781
		<u>375,215</u>	<u>357,793</u>
Creditors: amounts falling due within one year	19	(98,926)	(116,537)
Net current assets		<u>276,289</u>	<u>241,256</u>
Total assets less current liabilities		<u>2,167,371</u>	<u>2,009,538</u>
Creditors: amounts falling due after more than one year	20	(2,078,641)	(1,878,574)
Provisions for liabilities		(143)	(126)
Net assets excluding pension liability		<u>88,587</u>	<u>130,838</u>
Pension liability	23	(1,882)	(1,495)
Net assets		<u>86,705</u>	<u>129,343</u>

UPP Group Holdings Limited
Group statement of financial position (continued)
as at 31 August 2019

	Notes	31-Aug 2019 £'000	31-Aug 2018 £'000
Share capital and reserves			
Called up share capital	21	7,477	7,328
Share premium account	22	260,721	245,675
Other reserve	22	46,220	46,577
Capital reserves	22	18,255	18,112
Cash flow hedge reserve	22	(162,639)	(105,896)
Revaluation reserve	22	240,069	233,109
Profit and loss account		(330,308)	(323,941)
Equity attributable to owners of the parent company		79,795	120,964
Non-controlling interest		6,910	8,379
		86,705	129,343

The notes on pages 21 to 56 form part of these financial statements.

The financial statements were approved and authorised for issue by the board on 31 January 2020 and were signed on its behalf by:



Henry Gervaise-Jones
Director

UPP Group Holdings Limited

Company statement of financial position

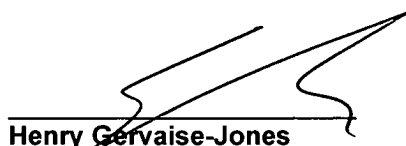
as at 31 August 2019

	Notes	31-Aug 2019 £'000	31-Aug 2018 £'000
Fixed assets			
Intangible assets	12, 13	1,402	-
Fixed assets	14	634	-
Investments	15	284,866	270,115
		286,902	270,115
Current assets			
Debtors	17	33,535	32,211
Cash at bank and in hand		133	5
		33,668	32,216
Creditors: amounts falling due within one year	19	(4,933)	(2)
Net current assets		28,735	32,214
Total assets less current liabilities		315,637	302,329
Creditors: amounts falling due after more than one year	20	(5,393)	-
Provisions for liabilities		(143)	-
Net assets excluding pension liability		310,101	302,329
Share capital and reserves			
Called up share capital	21	7,477	7,328
Share premium account	22	260,364	245,675
Capital reserves	22	9,964	9,964
Profit and loss account – brought forward		39,362	39,362
Profit and loss account – current year		(7,066)	-
Shareholders' funds		310,101	302,329

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

The notes on pages 21 to 56 form part of these financial statements.

The financial statements were approved and authorised for issue by the board on 31 January 2020 and were signed on its behalf by:


Henry Gervaise-Jones
Director

UPP Group Holdings Limited

Group statement of cash flows

for the year ended 31 August 2019

	Year ended 31 August 2019 Group £'000	Year ended 31 August 2018 Group £'000
Loss for the financial year	(7,077)	(15,716)
<i>Adjustments for:</i>		
Tax on loss on ordinary activities	(1,451)	(1,135)
Net interest expense	<u>83,483</u>	<u>86,097</u>
Operating profit	74,955	69,246
Depreciation	10,091	7,752
Amortisation of intangible assets and goodwill	3,135	3,728
Amortisation of computer software	223	472
Increase / (decrease) in provisions for dilapidations	16	16
(Increase) / decrease in debtors due within one year	4,006	(927)
Increase / (decrease) in creditors due within one year	<u>6,352</u>	<u>5,922</u>
Net cash inflow from operating activities	<u>98,778</u>	<u>86,209</u>
Investing activities		
Interest received	4,199	3,050
Payments to acquire intangible fixed assets	(849)	(113)
Payments to acquire service concession arrangements	(132,461)	(173,383)
Payments to acquire tangible fixed assets	<u>(705)</u>	<u>(580)</u>
Net cash flow used in investing activities	<u>(129,816)</u>	<u>(171,026)</u>
Financing activities		
Repayment of senior debt	(11,026)	(9,398)
Repayment of fixed rate debt	(4,008)	(3,691)
Repayment of index-linked debt	(9,144)	(8,199)
New long term index-linked debt	123,354	131,677
New intercompany loans	(8,030)	-
Interest paid	(52,656)	(53,923)
Finance lease payments	1,356	-
Capital contributions	<u>14,750</u>	<u>33,000</u>
Net cash flow from / (used in) financing activities	<u>54,596</u>	<u>89,466</u>
Increase / (decrease) in cash and cash equivalents	<u>23,558</u>	<u>4,649</u>
Cash and cash equivalents at 1 September	<u>207,781</u>	<u>203,132</u>
Cash and cash equivalents at 31 August	<u>231,339</u>	<u>207,781</u>

The notes on pages 21 to 56 form part of these financial statements.

UPP Group Holdings Limited

Notes to the financial statements

for the year ended 31 August 2019

1. General information

UPP Group Holdings Limited is a private company limited by shares and incorporated in England with a company number 05016028. The registered office is 40 Gracechurch Street, London, EC3V 0BT.

2. Accounting policies

2.1 Basis of preparation

The 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 apply transitional relief under Section 35.10 (i) *Service concession arrangements – Accounting by operators* and as a result its tangible assets which meet the definition of service concession arrangements under Section 34 and were 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 Company has taken advantage of the disclosure exemption allowed under FRS 102.1.11(a) not to comply with Section 7 Statement of Cash Flows and it has not presented its own Statement of Cash Flows in these financial statements.

The company has taken advantage of exemption allowed under FRS102 1.12(c) to not disclose information regarding the parent entities financial assets and liabilities.

The financial statements are presented in Sterling (£) which is the Group's functional and presentation 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 and Company's accounting policies (see note 3).

2.2 Going concern

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

2.3 Basis of consolidation

The Group financial statements consolidate the financial statements of UPP Group Holdings Limited and its subsidiary undertaking using the acquisition method from the date control passes to the Group. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

No profit and loss account is presented for UPP Group Holdings Limited as permitted by Section 408 of the Companies Act 2006. The result for the period dealt with in the Company accounts was a profit of £nil (2018: £nil).

In the parent Company financial statements investments in subsidiaries are accounted for at cost less any impairment.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.4 Tangible fixed assets

Tangible fixed assets are stated at historical cost or valuation, less accumulated depreciation and any provisions for impairment. Historical cost includes all attributable expenditure including net finance costs incurred during construction, calculated as a proportion of total finance costs based on the number of rooms in construction over the total number of rooms.

Where the asset has been previously accounted for as a finance lease receivable but has been transferred to a tangible fixed asset due to a change in the significant risks and rewards of the asset, the tangible fixed asset is transferred at the carrying value of the finance lease receivable at the date where the balance of significant risks and rewards changed. This is treated as deemed cost.

Assets in the course of construction are shown at cost and are not subject to impairment reviews.

The carrying value of the tangible fixed asset is reviewed for impairment on transfer using a value in use calculation based on a full year forecast at the point of transfer, extrapolated over the remaining lease period using an appropriate growth rate.

The Group has adopted a policy to revalue assets used in operating leases every five years, on a property by property basis, with an interim valuation performed in year three of the cycle and in other years if there is evidence the value has changed significantly. The surplus or deficit on the book value of the historical assets is transferred to the 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.

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
Fixtures & fittings	- 3-10 years straight line

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.

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 remaining weighted average lease term is 50 years.

2.5 Finance receivable (pre 1 September 2014)

As permitted under FRS 102 Section 35 Transition to this FRS, the Group has elected to take the exemption under FRS 102 paragraph 35.10 (i) to continue to apply its previous accounting treatment in respect of Service Concession Arrangements entered into prior to the date of transition to FRS 102, therefore finance receivables, which qualify as service concession arrangements, and the associated non-recourse finance continue to be accounted under previous UK GAAP policies.

In initially accounting for costs as a finance receivable, all attributable expenditure, including net finance costs, are included in the cost of the finance assets. The finance receivable assets are subsequently valued using the internal rate of return method calculated on the basis of net present value of future cash flows throughout the operational phase, which vary from year to year.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.5 Finance receivable (pre 1 September 2014) (continued)

The finance asset is amortised over the operational phase of the project in accordance with FRS 102. This method of amortisation has been chosen as the profile of profit recognition is principally in line with the debt costs incurred over the life of the project. The amortisation is then credited to finance receivable.

The carrying value of the finance receivable asset is considered with reference to the individual subsidiary undertaking's current and projected cash-flows which have been prepared on the basis of a detailed analysis of each Company's finances, contracts and likely future demand trends, and impairment is reflected as required.

2.6 Non-recourse finance (pre 1 September 2014)

The Group holds certain principal assets under non-recourse finance facilities. These non-recourse finance facilities are secured by way of fixed charge over the principal asset together with contractual terms which provide that the lender will seek repayment of the finance only to the extent that sufficient funds are generated by the specific assets financed and that the lender will not seek recourse to the group in any other form.

2.7 Service concession intangible and financial assets (post 1 September 2014)

The Group contracts with public benefit bodies to construct (or upgrade) student accommodation and operates and maintains the infrastructure asset for a specified period of time, often for its entire useful life.

These arrangements are accounted for based on the nature of the consideration. The intangible asset model is used to the extent that the Group receives a right (a licence) to charge users of the public service. The financial asset model is used when the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. When the unconditional right to receive cash covers only part of the service, the two models are combined to account separately for each component. If the Group performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

- An intangible asset is measured at the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. The intangible asset is amortised over its expected useful life in a way that reflects the pattern in which the asset's economic benefits are consumed by the entity, starting from the date when the right to operate starts to be used. Based on these principles, the intangible asset is amortised in line with the actual usage of student accommodation, with a maximum of the duration of the concession.
- In the financial asset model, the amount due from the grantor meets the definition of a receivable which is measured at fair value. It is subsequently measured at amortised cost. The amount initially recognised plus the cumulative interest on that amount is calculated using the effective interest method.

Any asset carried under concession arrangements is derecognised on disposal or when no future economic benefits are expected from its future use or disposal or when the contractual rights to the financial asset expire.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.8 Revenue

Lease interest in student accommodation (for new assets under FRS 102)

The Group manages student accommodation under service concession followed by a period in which the Group maintains and services the infrastructure. These concession arrangements set out rights and obligations related to the infrastructure and the service to be provided.

For fulfilling those obligations, the Group is entitled to receive either cash from the grantor or a contractual right to charge the users of the service. The consideration received or receivable is allocated by reference to the relative fair values of the services provided; typically:

- A construction component
- A service element for operating and maintenance services performed

As set out above, the right to consideration gives rise to an intangible asset, or financial asset:

Intangible asset

- Revenue from the concession arrangements earned under the intangible asset model consists of the fair value of contract revenue, which is deemed to be fair value of consideration transferred to acquire the asset and payments actually received from the users. Construction revenue is receivable during the construction phase of the contract and rental income from student accommodation is receivable during the operational phase of the contract.
- Construction revenue is recognised by reference to the stage of completion of the contract activity at the year end. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the total contract costs incurred to date and the estimated costs to complete.
- Rental income receivable during the operational phase of the contract is recognised on a straight-line basis over the term accounting period.

Financial asset

- Revenue from the concession arrangements earned under the financial asset model consists of the (i) fair value of the amount due from the grantor; and (ii) interest income related to the capital investment in the project.
- During the construction phase, fair value of amount due from grantor represents the cost arising on the construction of the asset plus a margin.
- Interest income is measured using the effective interest method and recorded when the asset is set up during construction as well as during the operational phase of the contract.

Lease interest in student accommodation (for assets pre 1 September 2014)

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

Management & development

Profit in respect of fees chargeable to universities for development is recognised as the contract progresses.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.8 Revenue (continued)

The profit recognised reflects the proportion of the work carried out at the balance sheet date measured on the basis of costs incurred to date as a proportion of total budgeted costs.

Where the outcome of a development cannot be assessed with reasonable certainty before financial close, no profit is recognised for that project. If it is expected that the development will result in a loss, all of the loss is recognised when foreseen.

Facility management services

Turnover in respect of facility management services provided to entities outside of the group is recognised on the basis of the amount receivable in respect of the accounting period.

2.9 Valuation of investments

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

2.10 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.

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 short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.12 Intangible fixed assets (excluding Service Concession Arrangements)

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 subsidiary undertakings that provide student accommodation is amortised on a straight-line basis over the remaining lease period on the principal asset held by each subsidiary. Goodwill attributed to the remaining subsidiary undertakings is amortised on a straight-line basis over a period of two years in respect of UPP Projects Limited and 20 years in respect of all other subsidiary undertakings. These periods of amortisation represent the expected useful economic life of the goodwill acquired.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.13 Interest bearing loans and borrowings

Loans, secured and unsecured notes

Loans, secured and unsecured notes, including bridge funding, are initially measured at fair value, 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 index linked interest and principal repayments the change in RPI is charged to the profit and loss in the period to which it relates.

Where the financial liability has variable LIBOR linked interest payments, the estimated cash flows are revisited at each reporting year and the effective rate is adjusted to reflect any changes in estimated LIBOR rates over the term of the financial instrument.

2.14 Creditors

Short term 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.

2.15 Derivative instruments

The Group 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 LIBOR 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 period end. The gain or loss on re-measurement is taken to the income statement except where the derivative is designated as a hedging instrument and the hedge meets the criteria for hedge accounting under Section 12. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

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

2.16 Finance costs

Financing costs, comprising interest payable on loans, secured and unsecured notes and the costs incurred in connection with the arrangement of borrowings are recognised in profit or loss 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 the change in fair value of hedging instruments that are recognised in profit or loss.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.17 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.

2.18 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.

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

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 profit and loss when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

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

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.19 Taxation

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.

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.

2.20 Related party transactions

The Group has taken advantage of the terms of FRS 102.33.1A not to disclose related party transactions between members of the Group where such members are wholly owned by a member of the Group.

2.21 Defined contribution pension scheme

Contributions to employees' personal pension arrangements during the period are charged to the profit and loss account as incurred. For eligible employees, contributions are made to employees' personal pension schemes, based on a predetermined percentage of individuals' salaries.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

2. Accounting policies (continued)

2.22 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 Group engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

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

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

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

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

2.23 Share-based payments

The Group provides share-based payment arrangements to certain employees. Equity-settled arrangements are measured at fair value (excluding the effect on nonmarket based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the income statement.

2.23 Cash-settled arrangements

The Group's obligation with respect to long-term employee benefits is calculated as the amount of future benefits that employees have earned in return for their service. This amount is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

2.24 Long-term incentive scheme

The Group operates a long-term incentive scheme for certain employees within the Group. The amount of any awards receivable by the employees will depend on the results of the entity and the overall growth of the business over a period of ten years. In certain circumstances a specific event can trigger an earlier payment. Amounts representing the associated employment expense are included in the profit and loss account.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

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

Valuation of RPI and IR swaps

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

Goodwill useful economic life

The Group establishes a reliable estimate of the useful economic life of goodwill arising on business combinations. Goodwill attributed to subsidiary undertakings is amortised on a straight line basis over the remaining lease period on the principal asset held by each subsidiary. This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows. For further details refer to note 12.

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 the 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.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

Deferred taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Defined benefit pension scheme

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

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

Presentation of the principal asset (for assets pre 1 September 2014)

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

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

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

The directors consider the balance of the risks and rewards lies with the Group and therefore the assets are treated as tangible fixed assets.

Presentation of the principal asset (for assets post 1 September 2014)

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

Since 1 September 2014 these interests fall within the scope of Section 34 of FRS 102 and the Group accounts for all of its principal assets applying the policies under service concession arrangements entered into after that date. Each year the Group applies judgement in assessing the status of these interests, in accordance with the provisions of Section 34 of FRS 102.

Typically the subsidiary undertakings that have entered into arrangements after this date have entered into a Project type Agreement with the relevant University partner that sets out, amongst other matters, the marketing and allocation procedures, the mechanism for which the rental income is set, the service levels that the accommodation is operated within and the condition in which the property reverts to the University at the end of the Concession period.

The subsidiary undertakings that have entered into these arrangements this year take full occupancy and demand risk on the provision of the accommodation. Where the operator does not have an unconditional right to charge the grantor for the use of the assets, the assets are treated as intangible assets. Where the operator does have an unconditional right to charge the grantor for the use of the assets, the assets are treated as financial assets.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

Capitalisation of costs and construction margin

During the period of construction, all costs incurred as a direct result of financing, designing and constructing the student accommodation, including finance costs, have been capitalised.

Revenue on construction is recognised at cost with no margin as profitability is considered negligible with no interim services provided during construction and the risk fully passing down to the building contractor.

Classification of index-linked financial instruments

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 and interest swaps

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.

In determining the fair value of the interest rate swap in UPP (Lancaster) Limited at the trade date in 2007, management have deemed the hedging instrument to be the current swap with a preceding one embedded in it. This is underpinned by the fact that management's intention was to treat the novation as a continuation of the previous relationship. In doing so, the cash flow relating to the preceding interest rate swaps has been included in the cash flow hedge reserve.

Limited recourse of subordinated and bridge funding loan notes

Included within the Bridge Funding Loan Note Facility agreement and the subsequent Subordinated Loan Note Facility agreement by a number of the subsidiary undertakings is a clause that provides the investor into these facilities with no recourse to profits or losses generated outside of each relevant Company's project documents. The directors consider that the likelihood that this clause would be activated is only likely to arise in the instance of the project default which the directors consider to be a remote possibility. Therefore, the directors consider these financial instruments to be basic financial instruments and carried at amortised cost.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

4. Turnover

Turnover represents the amounts derived from the provision of services, which fall within the Group's ordinary activities, stated net of value added tax.

The Group operates in in three main areas of activity, that of provision of student accommodation, the provision of facilities management services and management and development services.

Group turnover arises wholly in the UK and is split as below:

	Year ended 31-Aug-19 £'000	Year ended 31-Aug-18 £'000
Facilities management services	4,194	4,657
Management and development services	482	7,354
Construction services	80,978	76,362
Provision of student accommodation	172,414	158,723
	258,068	247,096

5. Directors' remuneration

The directors of the group companies received remuneration in respect of services performed in connection with the management of the affairs of the group through the wholly owned subsidiaries, UPP Projects Limited and UPP Residential Services Limited.

The remuneration costs for these directors were:

	Year ended 31-Aug-19 £'000	Year ended 31-Aug-18 £'000
Emoluments	1,470	1,235
Loss of office	-	14
Company contributions to defined contribution schemes	50	67
	1,520	1,316

The amounts included above in respect of the highest paid director are as follows:

	£'000	£'000
Emoluments	505	418
Company contributions to defined contribution schemes	-	40
	505	458

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

6. Auditor's remuneration

	Year ended 31-Aug-19 £'000	Year ended 31-Aug-18 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	20	28
The audit of the Company's subsidiaries pursuant to legislation	488	350
	508	368

7. Employee information

The Company has 94 employees (2018: Nil).

	Year ended 31-Aug-19 Number	Year ended 31-Aug-18 Number
The average number of persons employed by the Group during the year was as follows:		
Management and operations	135	131
Site managers	21	22
Administration, maintenance and cleaning (full and part time)	671	624
	827	777

The employment costs of all employees included above were:

	Year ended 31-Aug-19 £'000	Year ended 31-Aug-18 £'000 restated*
Wages and salaries	28,899	27,930
Social security costs	2,489	2,412
Other pension costs – defined contribution	2,086	573
Other pension costs – defined benefit	39	51
	33,513	30,966

*The amount wages and salaries for the year ended 31 August 2018 has been restated. This refers to £3,452k moved from other overheads to wages and salaries to adjust for the correct presentation.

Key management personnel

Directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are key management personnel. Total remuneration with respect of these individuals is £1,762,000 (2018: £1,316,000).

Long Term Incentivisation Scheme

No payments were made under the long term incentivisation scheme during the year (2018: £nil).

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

8. Operating profit

The operating profit is stated after charging:

	Year ended 31-Aug-19 £'000	Year ended 31-Aug-18 £'000
Amortisation of goodwill	1,694	1,695
Amortisation of computer software	223	472
Depreciation	10,091	7,752
Auditors' remuneration (including non-audit fees)	508	368

9. Interest receivable and similar income

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Interest received on cash balances	995	130
Imputed interest receivable on finance receivable	3,204	3,040
	<u>4,199</u>	<u>3,170</u>

10. Interest payable and similar charges

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Financial liabilities measured at amortised cost		
Bank loan interest	25,080	32,356
Interest payable on senior secured notes	13,592	15,287
Interest payable on index-linked facilities	31,106	26,208
Subordinated loan note interest	1,823	2,166
Interest due on loan from parent company	14,655	13,780
Financial liabilities measured at fair value		
Fair value movements on swaps	1,387	(498)
Other charges		
Interest on net defined benefit pension liability & overdraft fee	39	51
	<u>87,682</u>	<u>89,350</u>

Included within the interest payable on index-linked facilities is £16,888,000 (2018: £17,719,000) that relates to the inflation uplift on the index-linked facilities.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

11. Tax on loss on ordinary activities

a) Tax on loss on ordinary activities

The tax charge/(credit) is made up as follows:

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Current tax:		
Current tax on income for the year	(1,471)	(1,025)
Adjustment to tax charge in respect of prior years	20	-
Total current tax credit	<u>(1,451)</u>	<u>(1,025)</u>
Deferred tax:		
Current year	-	(110)
Total deferred tax	<u>-</u>	<u>(110)</u>
Tax (credit) / charge on loss on ordinary activities	<u>(1,451)</u>	<u>(1,135)</u>

b) Tax included in the Group statement of total other comprehensive income

Deferred tax:		
Current year	-	(6,444)
Total deferred tax	<u>-</u>	<u>(6,444)</u>
Total tax credit	<u>-</u>	<u>(6,444)</u>

c) Factors affecting current tax (credit) / charge for the year

The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19%). The differences are explained below:

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Loss on ordinary activities before tax	<u>(8,528)</u>	<u>(16,851)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(1,620)	(3,202)
<i>Effects of:</i>		
Disallowable expenses / non-taxable income	1,828	1,389
Adjustment to tax charge in respect of prior year	20	-
Brought forward losses utilised in the year	(620)	-
Movement in deferred tax not recognised	1,254	2,139
Group relief	1,160	(722)
Deferred tax release	-	(110)
Exempt property rental (profits)/losses in the year	(3,473)	(629)
Current tax (credit) / charge for the year (note 11a)	<u>(1,451)</u>	<u>(1,135)</u>

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

11. Tax on loss on ordinary activities (continued)

d) Factors that may affect future tax charges

A deferred tax asset of £72,741,000 (2018: £72,551,000) in respect of available tax losses has not been recognized at 31 August 2019. This is due to there being no persuasive and reliable evidence available at this time of suitable profits to offset these losses.

There will be a reduction in the corporation tax rate from the current rate of 19% to 17% from 1 April 2020.

UPP REIT Holdings Limited is a Real Estate Investment Trust ("REIT"). As a result, the company does not 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 usual.

12. Intangible fixed assets - Other

	Computer software £'000	Goodwill £'000	Total £'000
Group Cost			
At 1 September 2018	1,461	60,121	61,582
Additions	848	-	848
At 31 August 2019	2,309	60,121	62,430
Amortisation			
At 1 September 2018	(686)	(26,733)	(27,419)
Charge during the year	(223)	(1,694)	(1,917)
At 31 August 2019	(909)	(28,427)	(29,336)
Net book value			
At 31 August 2019	1,400	31,694	33,094
At 31 August 2018	775	33,388	34,163

Goodwill has arisen on the acquisition of subsidiary undertakings in April 2004 and during the years ended 31 August 2008 and 31 August 2012, and the acquisition of minority interests in UPP (Alcuin) Limited and UPP (Nottingham) Limited previously held by University of York and Nottingham Trent University respectively in March 2013.

Goodwill attributed to subsidiary undertakings that provide student accommodation is amortised on a straight-line basis over the remaining lease period on the principal asset held by each subsidiary, the longest of which expires in 2058. This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows.

Goodwill attributed to the remaining subsidiary undertakings is amortised on a straight-line basis over a period of two years in respect of UPP Projects Limited and 20 years in respect of all other subsidiary undertakings. These periods represent the anticipated period over which future cash flows are expected to be generated on the business at the date of acquisition.

The carrying amount of goodwill is allocated to the cash generating companies acquired. The fair value of those companies has been based on value in use calculations as at the date that the shareholding was acquired. These calculations have been based on a full year forecast at the point of first full operation, extrapolated over the remaining lease period using a 2.5% - 3.5% growth rate. The Group is not currently aware of any reasonable changes which would necessitate changes in its key assumptions.

The computer software relates to purchased as well as internally generated computer software costs. The computer software is being amortized evenly over its useful life between 3 to 5 years.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

12. Intangible fixed assets - Other (continued)

Company	Computer software £'000	Total £'000
Cost		
At 1 September 2018	-	-
Additions	1,553	1,553
At 31 August 2019	1,553	1,553
Amortisation		
At 1 September 2018	-	-
Charge during the year	(151)	(151)
At 31 August 2019	(151)	(151)
Net book value		
At 31 August 2019	1,402	1,402
At 31 August 2018	-	-

13. Intangible fixed assets – Service Concession Arrangements

Group	Assets for use in operating leases £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation			
At 1 September 2018	79,720	182,496	262,216
Additions	-	124,217	124,217
Transfers	230,201	(230,201)	0
At 31 August 2019	309,921	76,512	386,433
Amortisation			
At 1 September 2018	(2,033)	-	(2,033)
Charge during the year	(1,217)	-	(1,217)
At 31 August 2019	(3,250)	-	(3,250)
Net book value			
At 31 August 2019	306,671	76,512	383,183
At 31 August 2018	77,688	182,496	260,184

Assets in the course of construction are scheduled to become operational in September 2020 and September 2021.

The carrying value of the assets is the fair value of consideration transferred and will be amortised over its expected useful life which will reflect the concession length of each of the arrangements.

The additions relate to construction in UPP (Exeter 2) Holdings 1 Limited and UPP (East Park) Holdings 1 Limited.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

14. Tangible fixed assets

Group	Assets for use in operating leases £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation			
At 1 September 2018	1,483,190	5,837	1,489,027
Revaluation	10,256	-	10,256
Additions	-	705	705
At 31 August 2019	1,493,446	6,542	1,499,988
Depreciation			
At 1 September 2018	(10,776)	(4,316)	(15,092)
Charge during the year	(9,397)	(694)	(10,091)
At 31 August 2019	(20,173)	(5,010)	(25,183)
Net book value			
At 31 August 2019	1,473,273	1,532	1,474,805
At 31 August 2018	1,472,414	1,521	1,473,935

Fixed assets include net finance costs up to the date of completion of £42,287,000 (2018: £42,287,000). An amount of £Nil (2018: £nil) was capitalised during the year.

If assets used in operating leases had not been revalued, they would have been included at the following amounts:

	Assets for use in operating leases 31-Aug 2019 £'000	Assets for use in operating leases 31-Aug 2018 £'000
Cost or fair value	1,260,168	1,289,846
Depreciation	(29,049)	(29,678)
Net book value at 31 August	1,231,119	1,260,168

Assets used in operating leases were subject to an independent interim valuation by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2018.

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

Discount rates	6.65% - 10.00%
Occupancy rates	98% - 100%
RPI	2.5%

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

14. Tangible fixed assets (continued)

Company	Fixtures & fittings £'000	Total £'000
Cost or valuation		
At 1 September 2018	-	-
Additions	850	850
At 31 August 2019	850	850
Depreciation		
At 1 September 2018	-	-
Charge during the year	(214)	(214)
On revalued assets	-	-
At 31 August 2019	(214)	(214)
Net book value		
At 31 August 2019	634	634
At 31 August 2018	-	-

15. Company's investments

Company	Interest in group undertakings £'000
At 1 September 2018	270,115
Additions	14,751
At 31 August 2019	284,866

The fixed asset investment value above represents the carrying value of the Company's investment in UPP Group Limited.

In January 2019, the Company issued 147,499 £1 Ordinary shares. The share issue raised £14,749,900 which was invested in UPP Group Limited.

In February 2019 the Company issued 845 £1 Ordinary shares in relation to the equity settled shared based payments.

A list of the subsidiary undertakings of UPP Group Holdings Limited, the results of which are included in the consolidated financial statements, can be found in note 26.

16. Debtors subject to non-recourse finance

	31-Aug-19 Group £'000	31-Aug-19 Company £'000	31-Aug-18 Group £'000	31-Aug-18 Company £'000
Finance receivable	102,984	-	103,261	-

The finance receivable asset includes net finance costs of £1,119,000 (2018: £1,119,000). The terms of the finance agreement provide that the lender will seek repayment of the finance only to the extent that sufficient funds are generated by specific assets financed and will not seek recourse to the Group in any other form.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

17. Debtors: amounts falling due within one year

	31-Aug-19 Group £'000	31-Aug-19 Company £'000	31-Aug-18 Group £'000	31-Aug-18 Company £'000
Trade debtors	2,151	-	3,645	-
Amounts owed by parent company	-	-	-	-
Amounts owed by related parties	11,569	-	229	-
Amounts due from subsidiary undertakings	-	32,566	-	32,211
VAT recoverable	1,170	-	4,316	-
Other debtors	905	22	1,100	-
Prepayments and accrued income	2,531	947	3,625	-
	18,326	33,535	12,915	32,211

Amounts owed by subsidiary undertakings and parent company noted above are interest free and repayable on demand.

18. Debtors: amounts falling due after one year

	31-Aug-19 Group £'000	31-Aug-19 Company £'000	31-Aug-18 Group £'000	31-Aug-18 Company £'000
Derivative financial instruments	22,297	-	33,524	-
Deferred tax assets (note 11d)	-	-	-	-
Amounts owed by related parties	269	-	312	-
	22,566	-	33,836	-

19. Creditors: amounts falling due within one year

	31-Aug-19 Group £'000	31-Aug-19 Company £'000	31-Aug-18 Group £'000	31-Aug-18 Company £'000
Current instalment on borrowings	34,817	-	51,463	-
Bridge funding	-	-	5100	-
Trade creditors	14,640	571	15,382	-
Amounts owed to related parties	1,821	16	4,005	-
Other taxes and social security	1,045	-	876	-
Other creditors	250	319	33	-
Accruals and deferred income	46,353	4,027	39,678	2
	98,926	4,933	116,537	2

Included in amounts owed to related parties of £1,821,000 is an amount of £1,808,000 (2018: £1,808,000 shown in amounts owed to parent company) owed to Student UK Topco Limited, the former parent company. This loan is interest free and repayable on demand.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

	31-Aug-19 Group £'000	31-Aug-19 Company £'000	31-Aug-18 Group £'000	31-Aug-18 Company £'000
Senior debt	554,168	-	531,770	-
Senior secured notes	500,185	-	512,468	-
Senior index linked debt	581,847	-	450,571	-
Non-recourse bank debt finance	80,801	-	81,101	-
Secured subordinated loan notes	29,785	-	23,712	-
Secured bridge funding loan notes	-	-	5,100	-
Derivative financial instruments	180,785	-	133,122	-
Loan from parent company	185,887	-	171,479	-
	2,113,458	-	1,909,323	-
Less: included in creditors amounts falling due within one year	(34,817)	5,393	(30,749)	-
	2,078,641	5,393	1,878,574	-

Maturity of debt	31-Aug-19 Group £'000	31-Aug-19 Company £'000	31-Aug-18 Group £'000	31-Aug-18 Company £'000
Repayable within one year or on demand	34,817	5,393	56,563	-
Repayable in more than one year but less than two years	40,185	-	36,447	-
Repayable in more than two years but less than five years	320,417	-	290,682	-
Repayable in more than five years	1,718,039	-	1,551,445	-
	2,113,458	5,393	1,935,137	-
Less: included in creditors amounts falling due within one year	(34,817)	(5,393)	(56,563)	-
	2,078,641	-	1,878,574	-

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

Senior debt

The senior debt facilities above are secured under a number of debenture deeds. Under the terms of the debentures, the finance providers have security by way of a first legal mortgage over all estates or interests in any freehold or leasehold properties and buildings, finance receivable assets and fixtures on those properties.

Senior secured notes

On 5 March 2013 a Group subsidiary, UPP Bond 1 Issuer PLC, issued £307,100k of fully-amortising fixed-rate senior secured notes and £75,000k 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 fellow Group companies 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 £75,000k and repayments are scheduled to commence in August 2038.

On 9 December 2014, UPP Bond 1 Issuer PLC issued £149,700k of fully-amortising index-linked senior secured notes, also listed on the Irish Stock Exchange. Proceeds of this issuance were on-lent on the same terms and conditions to a fellow Group undertaking to enable that company to repay its short-term senior bank facility and associated costs.

The senior secured notes issued are secured against the assets of UPP Bond 1 Issuer PLC and the other wholly-owned subsidiaries of UPP Bond 1 Limited.

Senior index-linked debt

On 14 October 2013, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2056 with a real interest rate of 2.322% increasing semi-annually with RPI. The notional amount of this facility was £40,497k and repayments commenced in February 2016.

On 4 July 2014, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2057 with a real interest rate of 1.792% increasing semi-annually with RPI. The notional amount of this facility was £113,816k and repayments commenced in February 2017.

On 7 April 2016, a Group subsidiary issued £67.3 million 1.030% RPI index-linked loan notes. The proceeds of this issuance were used to repay the existing senior bank debt funding. The loan notes are fully-amortising by August 2049 with a real interest rate of 1.0302% increasing semi-annually with RPI. The notional amount of this facility is £67,322k and repayments commenced on 28 August 2016.

On 21 December 2016, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2062 with a real interest rate of 0.16% increasing semi-annually with RPI. The notional amount of this facility was £86,809k and repayments are scheduled to commence in February 2020.

On 25 May 2017, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2058 with a real interest rate of 0.45% increasing semi-annually with RPI. The notional amount of this facility was £127,636k and repayments are scheduled to commence in February 2020.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

Financial liabilities

On 5 February 2018, a Group subsidiary issued £63,000k of fully-amortising index-linked loan notes in two tranches. The facility is fully-amortising by August 2062 with a real interest rate of 0.207% - Tranche A and 1.203% - Tranche B, increasing semi-annually with RPI. The notional amount of this facility was £63,000k and repayments commenced in February 2018.

On 28 June 2018, a Group subsidiary issued £15,761k of fully-amortising index linked loan notes. The facility is fully-amortising by August 2065 with a real interest rate of 0.044% increasing semi-annually with RPI. The notional amount of this facility was £37,185k and repayments are scheduled to commence in February 2021. An amount of £21,424k remains undrawn as at 31 August 2018 and is scheduled to be fully drawn-down by 29 February 2020.

On 10 January 2019 a Group subsidiary issued £50,841,000 of fully amortising RPI index linked loan notes. The index linked senior loan notes are fully amortising by 2066 with a real interest rate of 0.2% increasing semi-annually by RPI. The notional amount of these notes at issuance was £50,841,000 and the principal amount repayable increases semi-annually by RPI. Repayments will commence February 2022.

On 28 February 2019 the LLP issued £10,546,000 of fully amortising RPI index linked loan notes. The index linked senior loan notes are fully amortising by 2065 with a real interest rate of 0.080% increasing semi-annually by RPI. The notional amount of these notes at issuance was £10,546,000 and the principal amount repayable increases semi-annually by RPI. Repayments will commence February 2021.

On 28 August 2019 the LLP issued £9,992,000 of fully amortising RPI index linked loan notes. The index linked senior loan notes are fully amortising by 2065 with a real interest rate of 0.100% increasing semi-annually by RPI. The notional amount of these notes at issuance was £9,992,000 and the principal amount repayable increases semi-annually by RPI. Repayments will commence February 2021.

On 28 August 2019 the LLP issued £39,939,000 of fully amortising RPI index linked loan notes. The index linked senior loan notes are fully amortising by 2066 with a real interest rate of 0.2% increasing semi-annually by RPI. The notional amount of these notes at issuance was £39,939,000 and the principal amount repayable increases semi-annually by RPI. Repayments will commence February 2022. An amount of £34,299k remains undrawn as at 31 August 2019 and is scheduled to be fully drawn by September 2020.

These facilities above are secured under a number of debenture deeds. Under the terms of the debentures, the finance providers have security by way of a first legal mortgage over all estates or interests in any freehold or leasehold properties and buildings, finance receivable assets and fixtures on those properties.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

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

Non-recourse finance facilities

The finance providers only have recourse over the assets of the company or companies on which they are providing finance, with no recourse to other Group companies.

The key terms of the facilities are:

	Coupon rate	Final repayment dates
Fixed-term loan	13.15%	July 2022
Fixed through an IR swap	4.695%, plus margin until Sept 2017, 5.910% thereafter	September 2044
Inflation-linked loan	Real interest rate of 0.207% - Tranche A and 1.203% - Tranche B increasing semi-annually by RPI	August 2062

Secured subordinated loan notes

The subordinated loan note funding has been provided by Nottingham Trent University, the University of Reading and the University of London.

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 weighted average rate is 11.12% per annum for a weighted average period of 40 years. The final repayment dates on the subordinated loan notes range between August 2048 and August 2069.

Loans from parent company

The loans from parent company is provided by parent company UPP REIT Holding Limited to a wholly owned subsidiary company, UPP Group Limited. These loans bear interest at 12.75% and are repayable on March 2023. These funds were utilised to invest in subsidiary undertakings.

21. Called up share capital

	31 August Group and Company 2019	31 August Group and Company 2018
	£'000	£'000
Issued, allotted, called up and fully paid		
Ordinary share at £1 each	<u>7,477</u>	<u>7,328</u>

In January 2019, the Company issued 147,499 £1 Ordinary shares. The Ordinary shares have the rights and restrictions as set out in the amended Articles of Association of the Company.

In February 2018 the Company issued 845 £1 Ordinary shares in relation to the equity settled share base payments. The Ordinary shares have the rights and restrictions as set out in the amended Articles of Association of the Company.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

22. Reserves

Revaluation reserve

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

Share premium

This reserve records the amount above the nominal value received for shares issued, less transaction costs.

Capital reserve

The capital contributions relate to benefits assigned by The Alma Mater Fund LP who retain the risks associated with the benefits. These have been received in cash and are non-refundable.

Cash flow hedge reserve

Cash flow hedge reserve records the fair value movements on the derivative financial instruments and the deferred tax associated with these.

Profit and loss account

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

23. Retirement benefit schemes

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all employees, complying with auto enrolment legislation from October 2013. The total cost charged to the profit and loss account of £2,086,000 (2018: £573,000) represents a pre-determined amount of the employee's salary paid into the scheme. As at 31 August 2019 £nil (2018: £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 to be 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 2019 were:

	2019	2018
Rate of inflation	3.2%	3.2%
Rate of increase in salaries	3.8%	3.8%
Rate of increase in pensions	2.3%	2.3%
Discount rate for liabilities	1.8%	2.6%

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

23. Retirement benefit schemes (continued)

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 2019 Years	31 August 2018 Years
<i>Retiring today</i>		
Males	21.7	22.7
Females	24.4	25.6
<i>Retiring in 20 years</i>		
Males	23.3	24.9
Females	26.2	28.0

Amounts recognised in the income statement are as follows:

	31 August 2019 £'000	31 August 2018 £'000
Service cost	88	88
Net interest on the defined liability	38	49
Administrative expenses	1	1
	<u>127</u>	<u>138</u>

Amount taken to other comprehensive income is as follows:

	31 August 2019 £'000	31 August 2018 £'000
Return on scheme assets in excess of interest	69	125
Other actuarial gains / (losses) on assets	-	-
Change in demographic assumptions	260	-
Experience gain / (loss) on defined benefit obligation	-	-
Change in financial assumptions	(652)	438
Re-measurement of the net assets / (defined liability)	<u>(323)</u>	<u>563</u>

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

	31 August 2019 £'000	31 August 2018 £'000
Present value of the defined benefit obligation	(5,328)	(4,824)
Fair value of scheme assets	3,446	3,329
Net defined benefit liability	<u>(1,882)</u>	<u>(1,495)</u>

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

23. Retirement benefit schemes (continued)

Defined benefit obligation reconciliation is as follows:

	31 August 2019 £'000	31 August 2018 £'000
At 1 September	4,824	5,188
Current service cost	64	88
Interest cost	124	128
Change in financial assumptions	652	(438)
Change in demographic assumptions	(260)	-
Experience gain on defined benefit obligation	-	-
Estimated benefits paid net of transfers in	(110)	(154)
Past service cost	24	-
Contributions by scheme participants	10	12
At 31 August	<u>5,328</u>	<u>4,824</u>

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

	31 August 2019 £'000	31 August 2018 £'000
At 1 September	3,329	3,198
Interest on assets	86	79
Return on assets less interest	69	125
Other actuarial gains	-	-
Employer contributions	73	82
Administration expenses	(1)	(1)
Benefits paid	(110)	(154)
At 31 August	<u>3,446</u>	<u>3,329</u>

The actual return on scheme assets was £155,000 (2018: £204,000).

The estimated asset allocation of the scheme as at 31 August 2019 is as follows:

	31 August 2019		31 August 2018	
	%	£'000	%	£'000
Equities	62	2,149	64	2,143
Government bonds	3	113	3	93
Other bonds	9	297	10	349
Property	13	455	14	460
Cash	3	101	2	61
Other	10	331	7	223
Total fair value of scheme assets (bid value)	100	3,446	100	3,329
Present value of scheme liabilities		(5,328)		(4,824)
Net deficit		<u>(1,882)</u>		<u>(1,495)</u>

The estimated amounts of contributions expected to be paid to the scheme during the 2019 financial year is £73,000 (2018: £70,000).

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

24. Equity-settled share-based payments

On 1 December 2018, the Group introduced a new share-based payment scheme for the Executive Leadership Team as a part of its remuneration package. This programme was introduced by UPP Group Holdings Limited. New shares in UPP Group Holdings Limited, under the programme, will vest if certain conditions including a defined growth in the valuation of the business are met. In addition, participants in this programme must be employed until the end of agreed vesting periods. After the end of the long term incentive plan term each participant will have the option to sell their vested shares, at a price based upon the valuation of the business at that time.

The key terms and conditions related to the grant under this programme are as follows:

Grant date:	1 December 2018
End date:	31 August 2021
Employees entitled:	Executive Leadership Team
Instruments granted:	845 shares of UPP Group Holdings Limited
Fair value at grant date:	£523.9 per share
Expected volatility:	58%
Expected life:	2.75 years
Expected dividends:	nil

Vesting date	Amount	Conditions
1 September 2019	10% of shares vesting	Service until 1 September 2019 and minimum increase in business valuation of 10.5%
1 September 2020	15% of shares vesting	Service until 1 September 2020 and minimum increase in business valuation of 10.5%
1 September 2021	75% of shares vesting	Service until 1 September 2021 and minimum increase in business valuation of 10.5%

On 1 December 2018, each participant in the scheme purchased shares based on the market value price calculated as at that date. There were 845 shares issued at a nominal of value £1 each and an unrestricted market value of £524 per share (the total value of shares issued was £443k). Each participant also received an interest-free loan of the amount equal to the value of the shares bought. The loans are repayable when the participant sell their shares or earlier if a participant ceases employment with the business.

The long-term incentive plan covers three financial years and will end at 31 August 2021.

Measurement of fair value

The fair value of the long term incentive plan has been measured using a probability-weighted expected-returns methodology. Additional discounts for any lack of control over shares and lack of marketability (recognising the non-marketable uninfluential minority nature of the shares) were applied. The valuation estimate is based on three long cash flow forecasts (base, low and high scenarios). Cash flow forecasts have been developed for each component of the business, taking into account a range of value drivers including:

- Individual occupancy
- RPI
- Rent levels
- Other revenue and operating costs assumptions

These forecasts have been discounted at the Group's estimated cost of equity.

The spread of outcomes of the base, low and high scenarios has been weighted by probability, which management believe captures the potential variation in their business plan.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

25. Parent undertaking and controlling party

UPP Group Holdings Limited is wholly owned by UPP REIT Holdings Limited, a company registered in Jersey. The shareholding in UPP REIT Holdings Limited is 60% owned by PGGM Infrastructure Fund ("PGGM"), on behalf of their pension fund clients. This entity is incorporated in The Netherlands.

The ultimate controlling party is PGGM.

The largest group of which the Company is a member and for which group accounts are prepared is UPP REIT Holdings Limited. Copies of the UPP REIT Holdings Limited accounts can be obtained from www.upp-ltd.com, once they have been published.

The smallest group to consolidate these financial statements is UPP Group Holdings Limited.

26. Related party transactions

As at 31 August 2018 the directors consider that during the year UPP REIT Holdings Limited, Student UK AcqCo Limited, Student UK TopCo Limited, Nottingham Trent University, University of Reading, University of London and University of Hull are the only related parties of the Group by virtue of their shareholdings in the company, UPP (Clifton) Holdings Limited, UPP (Byron House) Holdings Limited, UPP (Reading I) Holdings Limited, UPP (Cartwright Gardens) Holdings Limited, UPP (Duncan House) Holdings Limited and UPP (Hull) Holdings Limited respectively.

Group

During the year Group lent £8,030k to UPP REIT Holdings Limited by way of an interest free loan that is repayable on demand.

During the year the Group incurred costs of £444,000 (2018: £611,000) in respect of services provided by Nottingham Trent University in respect of UPP (Clifton) Holdings Limited and UPP (Byron House) Holdings Limited. An amount of £2,887,000 (2018: £2,778,000) remains outstanding at the balance sheet date. An amount of £160,000 (2018: £712,000) is included within creditors falling due within one year. An amount of £2,272,000 (2018: £2,066,000) is included within creditors falling due after one year. During the year the Group received income of £11,031,000 (2018: £9,130,000) in respect of services provided by these companies to the university.

During the year the Group incurred costs of £2,166,000 (2018: £2,143,000) in respect of services provided by the University of Reading and received income of £29,985,000 (2018: £29,168,000) in respect of services provided to the university. An amount of £964,000 (2018: £1,048,000) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

During the year the Group incurred costs of £135,000 (2018: £130,000) in respect of services provided by the University of London and received income of £10,198,000 (2018: £9,688,000) in respect of services provided to the university. An amount of £2,519,000 (2018: £2,519,000) remains outstanding at the balance sheet date and is included within creditors falling due after one year.

During the year the Group incurred costs of £130,000 (2018: £nil) in respect of services provided by the University of Hull and received income of £nil (2018: £nil) in respect of services provided to the university. An amount of £2,645,000 (2018: £2,581,000) remains outstanding at the balance sheet date. This is included within creditors falling due after one year.

At 31 August 2018, the total loans payable to UPP REIT Holdings Limited were £109,018,000 (2018: £109,018,000) and effective interest accrued on these loans as at the balance sheet date was £90,253,000 (2018: £62,461,000).

On 28 January 2013 Student UK TopCo Limited lent the Group £1,808,000 by way of an interest free loan that is repayable on demand. This amount remains outstanding at the balance sheet date and is included within creditors falling due within one year.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

26. Related party transactions (continued)

Company

In January 2019, the Company issued 148,000 £1 Ordinary shares at £99 premium each. The share issue resulted in £14,750,000 increase in the value of its interest in UPP Group Limited, the Company's immediate subsidiary undertaking.

In February 2019 the Company issued 845 £1 Ordinary shares at £102 premium each to Company's senior management as a part of Long terms incentive scheme introduced. Refer to note 24. During the year Company lent £8,030k to UPP REIT Holdings Limited by way of an interest free loan that is repayable on demand.

The Company had no related party transactions during the year ended 31 August 2018.

27. Investments

The Company owns 100% of the issued share capital in UPP Group Limited.

Details of the trading subsidiaries in which UPP Group Limited holds 20% or more of the nominal value of any class of share capital (or effective interest in), and which are included within the consolidated results of these financial statements, are as follows:

Entity	Proportion	Shares held class	Nature of Business
UPP (Alcuin) Limited	100%	Ordinary	Student Accommodation
UPP (Lancaster) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Broadgate Park) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Nottingham) Limited	100%	Ordinary	Student Accommodation
UPP (Plymouth Three) Limited	100%	Ordinary	Student Accommodation
UPP (Kent Student Accommodation) Limited	100%	Ordinary	Student Accommodation
UPP (Loughborough Student Accommodation) Holdings Limited	100%	Ordinary	Student Accommodation
UPP Leeds Student Residences Limited	100%	Ordinary	Student Accommodation
UPP Loring Hall Limited	100%	Ordinary	Student Accommodation
UPP (Oxford Brookes) Limited	100%	Ordinary	Student Accommodation
UPP (Reading I) Holdings Limited	80%	Ordinary	Student Accommodation
UPP (Kent Student Accommodation II) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Clifton) Holdings Limited	80%	Ordinary	Student Accommodation
UPP (Exeter) Limited	100%	Ordinary	Student Accommodation
UPP (Byron House) Holdings Limited	80%	Ordinary	Student Accommodation
UPP (Kent Turing) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Cartwright Gardens) Holdings Limited	85%	Ordinary	Student Accommodation
UPP (Duncan House) Holdings Limited	85%	Ordinary	Student Accommodation
UPP (Hull) Holdings Limited	90%	Ordinary	Student accommodation
UPP (Swansea) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Exeter 2) Holdings 1 Limited	100%	Ordinary	Student accommodation
UPP (Exeter 2) Holdings 2 Limited	100%	Ordinary	Student accommodation
UPP (East Park) Holdings 1 Limited	100%	Ordinary	Student accommodation
UPP (East Park) Holdings 2 Limited	100%	Ordinary	Student accommodation
UPP Bond 1 Issuer plc	100%	Ordinary	Provision of senior secured bond funding
UPP Projects Limited	100%	Ordinary	Partnerships development for the provision of student accommodation
UPP Residential Services Limited	100%	Ordinary	Provision of facility management services
UPP (MidCo) Limited	100%	Ordinary	Holding company

The proportion of voting rights held is in line with the proportion of shares held.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

28. Notes to the statement of cash flows

a) Cash and cash equivalents comprise the following:

	At 31 August 2019 £'000	At 31 August 2018 £'000
Cash at bank and in hand	214,001	160,849
Short term deposits	17,338	46,932
Cash and cash equivalents	<u>231,339</u>	<u>207,781</u>

b) Significant non cash transactions

There were no significant non cash transactions during the year ended 31 August 2019 and 31 August 2018.

29. 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

The Group finances its operations through a mixture of equity, bank borrowings and secured listed bond notes. The Group exposure to interest rate fluctuations on its bank borrowings is managed by the use of fixed rate debt and interest rate swaps which fix variable interest rates for a period of time.

When the associated bank borrowings are fully repaid the Group may be required to terminate the interest rate swaps earlier than they mature and may become liable to pay penalties. When this occurs the cost of this termination is taken to the profit and loss account on termination.

As at the year end the Group has entered into the following interest rate swaps with external parties:

- a 30 year interest rate swap in UPP (Loughborough) Limited commencing in June 2009 and finishing in June 2039
- a 29 year interest rate swap in UPP (Loughborough) Limited commencing in December 2010 and finishing in June 2039
- a 32 year interest rate swap in UPP (Lancaster) Limited commencing in November 2010 and finishing in March 2042
- a 27 year interest rate swap in UPP (Clifton) Limited commencing in November 2012 and finishing in May 2039
- a 31 year interest rate swap in UPP (Kent Student Accommodation II) Limited commencing in October 2010 and finishing in August 2041
- a 36 year interest rate swap in UPP Leeds Student Residences Limited commencing in June 2008 and finishing in August 2044

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

29. Financial risk management (continued)

The Group adopts hedge accounting for all of the interest rate swaps noted above.

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, 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:

Hedge arrangements with external parties:

- a 27 year RPI swap commencing in February 2014 and finishing in February 2040
- a 27 year RPI swap commencing in February 2014 and finishing in February 2040

Inflation rate risk (continued)

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.

These instruments are mirrored with matching derivative instruments on-lent to six subsidiary undertakings ('AssetCos') all entered into in March 2013 as follows:

Hedge arrangements with AssetCos

- a 25 year RPI swap with UPP (Alcuin) Limited with payments / receipts commencing in February 2015 and finishing in August 2038
- a 27 year RPI swap with UPP (Broadgate Park) Holdings Limited with payments / receipts commencing in February 2015 and finishing in February 2040
- a 27 year RPI swap with UPP (Kent Student Accommodation) Limited with payments / receipts commencing in February 2015 and finishing in February 2040
- a 27 year RPI swap with UPP (Nottingham) Limited with payments / receipts commencing in February 2015 and finishing in February 2040
- a 26 year RPI swap with UPP (Oxford Brookes) Limited with payments / receipts commencing in February 2014 and finishing in August 2039
- a 27 year RPI swap with UPP (Plymouth Three) Limited with payments / receipts commencing in February 2015 and finishing in February 2040

In addition the Group has entered into four additional interest rate swaps with external parties as follows:

- a 30 year RPI swap in UPP (Loughborough) Limited commencing in June 2009 and finishing in June 2039
- a 29 year RPI swap in UPP (Loughborough) Limited commencing in December 2010 and finishing in June 2039
- a 32 year RPI swap in UPP (Lancaster) Limited commencing in November 2010 and finishing in March 2042
- a 27 year RPI swap in UPP (Clifton) Limited commencing in November 2012 and finishing in May 2039
- a 31 year RPI swap in UPP (Kent Student Accommodation) II Limited commencing in October 2010 and finishing in Aug 2041

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.

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

29. Financial risk management (continued)

Inflation rate risk (continued)

Three of the RPI swaps noted above, being the ones held by UPP (Plymouth Three) Limited, UPP (Kent Student Accommodation) Limited and UPP (Kent Student Accommodation II) Limited, do not qualify for hedge accounting as the hedged item does not meet the qualifying criteria of being separately identifiable and reliably measurable. As a result any changes in fair values of the derivatives are recognised through the profit and loss introducing some volatility to the results for the year.

We note, however, that the limitations within FRS 102 Section 12 that mean that the criteria for hedge accounting have not been met for these swaps do not impact the Group's cash flow position. The reasons for entering into RPI swaps remain commercially sound that is they are intended to be held to maturity in order to reduce volatility in the Group's cash flows.

Liquidity risk

The Group seeks to manage liquidity 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 20 to the financial statements.

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 Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

30. Financial instruments

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

Group	Carrying amount At 31 August 2019 £'000	Carrying amount At 31 August 2018 £'000
Financial assets		
Financial assets measured at fair value:		
Derivative financial assets	22,297	33,524
Financial assets measured at amortised cost:		
Trade debtors	2,151	3,148
Related party debtors	905	771
Total financial assets	25,353	37,443
Financial liabilities		
Financial liabilities measured at amortised cost:		
Senior bank debt	554,168	531,770
Senior secured notes	500,185	512,468
Senior index linked debt	581,847	450,571
Loan from parent company	185,887	171,479
Non-recourse bank finance	80,801	81,101
Secured subordinated loan notes	29,785	23,712
Trade creditors	14,640	15,382
Secured subordinated bridge funding loan notes	-	5,100
Related party creditors	1,821	4,005
Total financial liabilities measured at amortised cost	1,949,134	1,795,588
Financial liabilities measured at fair value		
Derivative financial liabilities	180,785	133,122

The Group chooses to adopt hedge accounting for all its derivative financial instruments which meet the qualifying criteria for hedge accounting and reflect all movements in the fair value of these derivative financial instruments, plus the associated movement in deferred tax are accounted through the cash flow hedge reserve as follows:

	31 August 2019 £'000	31 August 2018 £'000
Fair value of derivatives used for hedging		
Creditors: amounts falling due after one year	(180,785)	(133,122)
Debtors: amounts falling due after one year	16,408	26,248
Movement in fair value of derivatives used for hedging		
Recognised profit/(loss) through OCI:		
Owners of the parent	(57,503)	(106,874)
Non-controlling interest	(915)	501
Fair value of derivatives not used for hedging		
Creditors: amounts falling due after more than one year	-	-
Debtors: amounts falling due after one year	5,889	7,276
Movement in fair value of derivatives not used for hedging		
Recognised profit/ (loss) through the Income Statement	(1,387)	498

UPP Group Holdings Limited

Notes to the financial statements (continued)

for the year ended 31 August 2019

31. Financial commitments

At 31 August 2019 the Group had an amount of £97,142k (2018: £89,231k) commitments contracted for but not provided for at that date. This related to ongoing construction of rooms of student residential accommodation.

At 31 August 2019 the Group had future minimum lease payments under non-cancellable operating leases as follows:

Operating leases which expire:	Year ended 31 August 2019	Year ended 31 August 2018
	Land and buildings £'000	Land and buildings £'000
Not later than one year	486	486
After one year but not more than five years	120	606

At 31 August 2019 the Group had no financial commitments other than the operating lease set out above.