Registered No: 08255980

UPP Bond 1 Issuer plc
Unaudited financial statements

For the six months ended 28 February 2017

Unaudited financial statements
For the six months ended 28 February 2017

Basis of reporting

The principal activity of the company is that of a financing company. The company commenced trading on 5 March 2013.

On 5 March 2013 the company issued £307,100,000 of fully amortising fixed rate senior secured notes and £75,000,000 of fully amortising RPI index-linked senior secured notes. On 9 December 2014 the company issued a further £149,700,000 of fully amortising RPI index-linked senior secured notes. These are all listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to seven fellow group companies to enable them to refinance their senior bank facilities and associated costs.

For the purpose of these financial statements and the relevant notes provided the comparative period is for the six month ended 29 February 2016.

UPP Bond 1 Issuer plc

Statement of comprehensive income for six months ended 28 February 2017

	Notes	**28 February 2017 £'000**	*Restated* 29 February 2016 £'000
Other income		**1**	1
Operating profit		**1**	1
Finance income	3	**29,557**	24,424
Finance costs	4	**(29,626)**	(24,917)
Loss on ordinary activities before taxation		**(68)**	(492)
Tax charge on loss on ordinary activities		**-**	-
Loss for the period attributable to owners of the parent		**(68)**	(492)
Total comprehensive income for the period attributable to owners of the parent		**(68)**	(492)

The above results all relate to continuing operations.

UPP Bond 1 Issuer plc

University Partnerships Programme

Statement of financial position as at 28 February 2017

	Notes	28 February 2017 £'000	*Restated* 29 February 2016 £'000
Current assets			
Debtors: due within one year	5	**9,075**	7,794
Debtors: due after more than one year	6	**512,485**	533,318
Cash		**14,490**	13,959
		536,050	555,071
Creditors: amounts falling due within one year	7	**(17,415)**	(15,393)
Net current assets		**518,635**	539,678
Creditors: amounts falling due after more than one year	8	**(512,485)**	(533,853)
		6,150	5,825
Share capital and reserves			
Called up share capital	10	**50**	50
Capital Contributions		**6,580**	6,580
Retained earnings		**(480)**	(805)
		6,150	5,825

UPP Bond 1 Issuer plc

Statement of changes in equity as at 28 February 2017

Attributable to owners of the parent

	Share capital	Capital Contributions	Retained earnings	Total
	£'000	£'000	£'000	£'000
At 1 September 2016	50	6,580	(412)	6,218
Profit for the financial period	-	-	(68)	(68)
Total comprehensive income for the period	-	-	(68)	(68)
Balance at 28 February 2017	**50**	**6,580**	**(480)**	**6,150**

UPP Bond 1 Issuer plc

Statement of cash flows
For the six months ended 28 February 2017

	28 February 2017 £'000	29 February 2016 £'000
Cash flows from operating activities		
Loss for the period	**(68)**	(492)
Adjustments for:		
Cash outflow for interest payable	**(9,162)**	(9,219)
Cash inflow for interest receivable	**9,162**	9,219
Increase in creditors	**137**	477
Net cash generated from operating activities	**69**	(15)
Cash flows from investing activities		
Net loans made to fellow group undertakings	**-**	-
Scheduled repayments of loans to fellow group undertakings	**5,222**	4,304
Net cash used in investing activities	**5,222**	4,304
Cash flows from financing activities		
Net proceeds from issuance of senior secured notes	**-**	-
Scheduled repayment of senior secured notes	**(5,222)**	(4,304)
Net cash flow generated from financing activities	**(5,222)**	(4,304)
Net increase in cash and cash equivalents	**69**	(15)
Cash and cash equivalents at beginning of period	**14.421**	13,974
Cash and cash equivalents at the end of the period	**14,490**	13,959

upp University Partnerships Programme

Notes to the financial statements for the six months ended 28 February 2017

1. Principal accounting policies

(a) Basis of accounting

UPP Bond 1 Issuer plc is a company registered and domiciled in England and Wales. These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The financial reporting standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

Change in accounting policy

Directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis'. A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness (see also section (c) valuation of RPI swaps for further details on the transfer value measurement basis).

The impact of this change in accounting policy to prior period amounts presented is summarised as follows:

	Total comprehensive income	Total equity
	Six months ended 29 February 2016	As at 29 February 2016
	£'000	£'000
As previously stated	**(492)**	**5,825**
Finance income		
Fair value movements on RPI swaps	4,616	33,908
Finance costs		
Fair value movements on RPI swaps	(4,616)	(33,908)
Total restatement	-	-
Restated	**(492)**	**5,825**

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

Notes to the financial statements for the six months ended 28 February 2017

1. Principal accounting policies (continued)

(b) Going Concern

After reviewing the company's forecasts and projections and those of its fellow group undertakings to which the company has provided the on-loans, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing these financial statements.

(c) Significant judgements and sources of estimation uncertainty

Classification of index-linked financial instruments

The Company'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 and because both principal and interest repayment obligations change in the same proportion 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.

Valuation of RPI 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

(d) Financial assets

Loan, prepayments and loans to fellow group undertakings

Prepayments are measured at transaction cost. Loans made to fellow group undertakings are initially measured at fair value net of transaction costs and then they are subsequently measured at amortised cost using the effective interest rate method less impairment.

(e) Finance income

Interest income is recognised in profit and loss as it accrues, using the effective interest method. Interest income also includes gains arising on the change in fair value of derivatives recognised in profit or loss.

Financing income also include gains arising on the change in fair value of derivatives recognised in profit or loss.

1. Principal accounting policies (continued)

(f) Financial liabilities

Loans and secured notes

Loans and secured notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method, with interest expense recognised on the basis of 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 period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the effected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Where loans have been received at below market terms from fellow group undertakings at the direction of this company's parent, the difference between the proceeds and fair value is taken to capital contributions within equity.

Where the financial liability has variable cash flows, such as the index linked bonds, the estimated cash flows are revisited each reporting period and then discounted using the original effective interest rate with any gain or loss taken to profit or loss.

Notes to the financial statements for the six months ended 28 February 2017

1. Principal accounting policies (continued)

(g) Finance costs

Financing costs, comprising interest payable on loans, secured notes and the costs incurred in connection with the arrangement of borrowings are recognised in profit or loss using the effective interest rate method.

Financing costs also include losses arising on the change in fair value of hedging instruments that are recognised in the income statement.

(h) Derivative financial instruments

The company entered into derivative financial instruments, being RPI swaps, to manage its exposure to RPI. This company also has back to back external swaps which materially offset in fair value terms with the swaps with fellow group undertakings.

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each reporting date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the profit or loss immediately.

The company does not apply hedge accounting within these financial statements.

(i) Current and deferred tax

The tax charge for the period represents the sum of the tax currently payable and deferred tax based on the taxable profit for the period.

Deferred tax is recognised on all timing differences at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenditure in tax assessment in periods different from those in which they are recognised in the financial statements. Deferred tax assets are only recongised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

upp University Partnerships Programme

Notes to the financial statements for the six months ended 28 February 2017

1. Principal accounting policies (continued)

(j) Equity and reserves

Share capital represents the nominal value of the shares that have been issued.

Retained earnings includes all retained profits since incorporation.

All transactions with owners of the parent are recorded separately within equity.

(k) Related party transactions

The company is a wholly owned subsidiary of UPP Group Holdings Limited and as such the company has taken advantage of the related party transaction exemption of FRS102 not to disclose related party transactions between two or more members of a group that are wholly owned by the group.

2. Directors' remuneration

The immediate parent company, UPP Bond 1 Limited, paid a fee of £2,800 (2016: £2,800) to Intertrust Directors 1 Limited in respect of services performed in connection with the management of the affairs of the company for the six months to 28 February 2017.

No other directors of the company received payment for services performed in relation to the management of the company.

Notes to the financial statements for the six months ended 28 February 2017

3. Finance income

	Unaudited Six months ended 28 February 2017 £'000	Restated Unaudited Six months ended 29 February 2016 £'000
Finance assets held at amortised cost		
Interest from on-loan agreements with fellow group undertakings calculated using the effective interest rate method	**9,603**	8,574
Indexation of index-linked on-loans	**3,708**	3,299
Total effective interest receivable from on-loans	**13,311**	11,873
Bank interest receivable	**69**	72
Finance assets held at amortised cost	**13,380**	11,945
Held at fair value through profit or loss		
Fair value movement on derivative financial instruments	**16,177**	12,479
	29,557	24,424

4. Finance costs

	Six months ended 28 February 2017 £'000	Restated Six months ended 28 February 2016 £'000
Financial liabilities measured at amortised cost		
Interest on secured bond notes payable in more than five years, calculated using the effective interest rate method	**9,603**	8,971
Indexation of index-linked bonds	**3,708**	3,299
Total effective interest payable on bond notes	**13,311**	12,270
Interest paid on cash balances held on behalf of fellow group undertakings	**69**	72
Imputed interest on fair value of loans to fellow group undertakings, calculated using the effective interest method	**69**	96
Financial liabilities measured at amortised cost	**13,449**	12,438
Held at fair value through profit or loss		
Fair value movement on derivative financial instruments	**16,177**	12,479
	29,626	24,917

Notes to the financial statements for the six months ended 28 February 2017

5. Debtors: amounts falling due within one year

	28 February 2017 £'000	29 February 2016 £'000
Loans to fellow group undertakings, net of transaction costs	**9,025**	7,744
Amounts owed by parent company	**50**	50
Prepayments and accrued income	**-**	-
	9,075	7,794

6. Debtors: amounts falling due after more than one year

	28 February 2017 £'000	Restated 29 February 2016 £'000
Derivative financial instruments	**18,520**	35,342
Loans to fellow group undertakings, net of transaction costs	**493,965**	497,976
	512,485	533,318

Loans to six fellow group companies were made on 5 March 2013 from the proceeds of an issuance by the company of £307,100,000 of fully amortising fixed rate senior secured notes and £75,000,000 of fully amortising RPI index-linked senior secured notes.

The company entered into RPI swaps on 5 March 2013 with these six fellow group companies, and the amount above reflects the fair value of these instruments at the period end date.

On 9 December 2014 an additional issuance by the company of £149,700,000 of fully amortising RPI index-linked senior secured notes was on lent to a fellow group company.

The proceeds of these loans enabled these fellow group companies to refinance their previous bank facilities and associated costs. These loans bear the same terms and conditions as the secured notes, see note 9.

Notes to the financial statements for the six months ended 28 February 2017

7. Creditors: amounts falling due within one year

	28 February 2017	29 February 2016
	£'000	£'000
Fixed rate senior secured notes, net of transaction costs	**4,695**	3,613
Index linked senior secured notes, net of transaction costs	**4,330**	4,131
Amounts owed to fellow group companies	**-**	-
Loans from fellow group undertakings	**8,390**	7,649
	17,415	15,393

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

	28 February 2017	Restated 29 February 2016
	£'000	£'000
Fixed rate senior secured notes	**286,260**	289,178
Index-linked senior secured notes	**216,730**	217,077
Derivative financial instruments	**18,520**	35,342
	521,510	541,597
Less: included in creditors amounts falling due within one year	**(9,025)**	(7,744)
	512,485	533,853

9. Borrowings

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 11.

On 5 March 2013 the company issued £307,100,000 of fully amortising fixed rate senior secured notes, and £75,000,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to six 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 31 August 2013.

Notes to the financial statements for the six months ended 28 February 2017

9. Borrowings (continued)

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

On 9 December 2014 the company, issued £149,700,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to UPP (Exeter) Limited to enable that company to repay their previous bank facilities and associated.

The index-linked senior secured notes issued on 9 December 2014 are fully amortising by 2049 with a real interest rate of 1.0370% increasing semi-annually by RPI. The notional amount of these notes at issuance was £149,700,000 with repayments commencing on 28 February 2015.

On 5 March 2013 the company entered into derivative financial instruments, being RPI swaps with three external counterparties. These instruments are mirrored with matching derivative instruments to the six fellow group undertakings. This is to manage the exposure of this company to RPI movements from loan receipts from fellow group undertakings where revenue streams are sensitive to inflation rate risk. See note 11.

The fair values of these instruments are included within Debtors: amounts falling due after more than in year and Creditors: amounts falling due after more than one year.

The senior secured notes issued are secured against the assets of the company and seven related undertakings all 100% owned by the parent company UPP Bond 1 Limited.

10. Called up share capital

	28 February 2017	29 February 2016
	£'000	£'000
Issued, allotted, called up and fully paid		
Total shares at 29 February 2016 and 28 February 2017	**50**	50

Notes to the financial statements for the six months ended 28 February 2017

11. 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 Company, which relate to credit, interest and liquidity risks, which arise in the normal course of the Company's business.

Credit risk

Financial instruments which potentially expose the Company to credit risk consist primarily of cash and loans receivable from fellow group undertakings. Cash is deposited only with major financial institutions that satisfy certain credit criteria.

The company funds its financing activities through the provision of on-loan arrangements with seven fellow group undertakings. All payments due in the period under these on-loan arrangements were received.

Each fellow group company has an individual on-loan arrangement with the company, however under the Common Term Agreements there is a cross collateralisation agreement in place allowing the pooling of each of the bond participants surplus cash (after operating expenses and relevant on-loan debt service), which can be used to support any underperforming bond participants.

At the period end date, the credit risk was concentrated with the seven fellow group undertakings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The loans to fellow group undertakings are aged as follows, using gross cash flows:

	28 February 2017	29 February 2016
	£'000	£'000
Within one year	**9,025**	7,744
Between one and two years	**10,390**	9,025
Between two and five years	**36,218**	33,189
After more than five years	**447,357**	456,297
	502,990	506,255

Interest rate risk

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

Inflation rate risk

The company funds its financing activities through the provision of on-loan arrangements to seven fellow group undertakings. The ability of the fellow group undertakings to repay these on-loans is sensitive to inflation rate risk as these fellow group undertakings provide student accommodation where the growth in rental income is linked to the movement in RPI.

11. Financial risk management (continued)

Inflation rate risk (continued)

To mitigate the risk of inflation movements impacting on the company's ability to services the fixed rate tranche of the bond debt the company has entered into RPI swaps and then issued onward RPI swaps to the fellow group undertakings that have entered into fixed rate on-loan arrangements with the company.

As at 28 February 2017, the Company has economically hedged this risk by carrying the following derivatives, all initially entered into on 5 March 2013, details of which are as follows:

External hedge arrangements

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

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

Hedge arrangements with fellow group undertakings

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

The notional amounts swapped for each period have been determined with reference to a percentage of the debt servicing costs of the fixed rate tranche of the relevant company's on-loan agreement with the company. On each of these swap arrangements the company pays or receives a fixed amount and the fellow group undertaking pays or receives a floating amount.

Notes to the financial statements for the six months ended 28 February 2017

11. Financial risk management (continued)

Liquidity risk

The Company prepares annual cash flow forecasts reflecting known commitments and anticipated payments received from its on-loan arrangements. The Company has available cash flow from these on-loan arrangements to fund present commitments.

Terms and debt repayment schedule

	Currency	Effective interest rate (%)	Year of maturity	**Book value Feb 2017 £'000**
Fixed rate senior secured notes	£	4.9023%	2040	**286,260**
Index linked senior secured notes issued 5 March 2013	£	2.9015%	2047	**79,150**
Index linked senior secured notes issued 9 December 2014	£	1.0520%	2049	**137,580**
Loans from fellow group undertakings issued 5 March 2013	£	4.9023%	2047	**5,875**
Loans from fellow group undertakings issued 9 December 2014	£	3.9023%	2049	**2,515**
				511,380

Notes to the financial statements for the six months ended 28 February 2017

11. Financial risk management (continued)

Capital risk management

The Company manages its capital to ensure that activities will be able to continue as a going concern.

The Company's capital structure is as follows:

	28 February 2017	29 February 2016
	£'000	£'000
Capital contributions	**6,136**	6,136
Equity	**50**	50
	6,186	6,186

Foreign currency risk

The Company operates entirely in the UK and is not exposed to any foreign currency risks.

Notes to the financial statements for the six months ended 28 February 2017

11. Financial risk management (continued)

Financial Instrument categories

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

	Carrying amount 28 February 2017 £'000	Carrying amount 29 February 2016 £000
Financial assets		
Financial assets held at amortised cost		
Cash at bank and in hand	**14,490**	13,959
Amounts owed by parent company	**50**	50
Total financial assets held at amortised cost	**14,540**	14,009
Measured at fair value through profit and loss		
Derivative financial instruments assets (note 6)	**18,520**	35,342
Financial liabilities		
Financial liabilities measured at amortised cost:		
Fixed rate senior secured noted (notes 7/8)	**286,280**	289,178
Amounts owed to fellow group undertakings	**-**	-
Loans from fellow group undertakings (notes 7/8)	**8,390**	7,649
Index linked senior secured notes (note 7/8)	**216,730**	217,077
Total financial liabilities measured at amortised cost:	**511,400**	513,904
Measured at fair value through profit or loss		
Derivative financial instruments liabilities (notes 7/8)	**18,520**	35,342

Where market values are not available, fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates with the following assumptions being applied:

12. Parent undertaking and controlling party

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

UPP Group Holdings Limited is controlled by a 60% stake held by PGGM Vermogensbeheer BV ("PGGM") on behalf of its pension fund clients. PGGM is incorporated in The Netherlands.