

Registered No: 08255980

**UPP Bond 1 Issuer plc
Report and financial statements**

For the year ended 31 August 2016

UPP Bond 1 Issuer plc

Report and financial statements for the year ended 31 August 2016

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UPP Bond 1 Issuer plc

Directors and advisors

Directors

J C W Benkel
S O'Shea
SFM Directors Limited
R Bienfait

Secretary

J C W Benkel

Auditor

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London
E1W 1YW

Registered office

40 Gracechurch Street
London
EC3V 0BT

Directors' report for the year ended 31 August 2016

The directors present their report and financial statements for the year ended 31 August 2016.

Principal activity

The principal activity of the company is that of a financing company.

Financial risk management objectives and policies

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

Going concern

After reviewing the company's forecasts and projections and those of its seven fellow group undertakings to which the company has provided on-loan arrangements, 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.

Dividend

The directors did not declare any dividends for the year (2015: nil).

Directors

The directors holding office during the year to 31 August 2016 and subsequently are:

G S Behr (resigned 10.05.2016)

J C W Benkel

S O'Shea

SFM Directors Limited

R Bienfait (appointed 23.11.2016)

Directors' report for the year ended 31 August 2016 (continued)

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). 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 for the year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the 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 auditors are aware of that information.

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

Directors' report for the year ended 31 August 2016 (continued)

Independent auditors

UHY Hacker Young LLP were appointed auditor during the period to fill a casual vacancy in accordance with section 485(3) of the Companies Act 2006. The auditors have expressed their willingness to continue in office, and a resolution for their appointment will be proposed at the next Annual General Meeting.

On behalf of the Board



R A Bienfait

Director

7 December 2016

Strategic report for the year ended 31 August 2016

Results and review of the business

The company was incorporated on 16 October 2012 and 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, 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 refinance their senior bank facilities and associated costs.

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, ranking pari-passu with the initial senior notes. The proceeds of this issuance were on-lent to a sister company, UPP (Exeter) Limited, to enable that company to refinance its senior bank facilities and some associated costs, see note 11.

During the year, the seven fellow group companies have continued to meet their obligations under the on-loan agreements.

The directors of the company have chosen to adopt Financial Reporting Standard 102 – 'The financial reporting standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102') from incorporation and these financial statements have been produced on that basis.

The company loss for the year is £99,000 (2015: £63,000). It is not expected that the role of the company will change in the foreseeable future.

Financial risk management objectives and policies

The company uses various financial instruments including equity, fixed rate and index linked bonds, derivatives and cash. The main purpose of these financial instruments is to raise finance for the fellow group undertakings. All of the company's financial instruments are of sterling denomination and the company does not trade in financial instruments or derivatives.

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

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and by investing cash assets safely and profitably.

The maturity of borrowings is set out in note 13 to the financial statements.

Interest rate risk

The company finances its operations through a mixture of equity and fixed rate and index-linked secured senior notes. Through the issue of fixed rate notes the company has mitigated its exposure to interest rate fluctuations on that portion of its borrowings. The index-linked notes have a nominal fixed rate that is linked to RPI (see below). The funds raised from these instruments have been on-lent to fellow group undertakings under the same terms.

Strategic report for the year ended 31 August 2016 (continued)

Inflation rate risk

The company is financed through a mixture of fixed rate and index linked bonds which in turn have been on-lent to fellow group undertakings.

These fellow group undertakings all provide student accommodation and use rental income received to service the cost of these on-loans. Growth in rental income is linked to the movement in RPI and the fellow group undertakings manage the exposure to this index through a mix of inflation linked debt on-lent from this company and the use of RPI swaps to hedge a portion of the fixed rate debt servicing costs. This company also has back to back external swaps which materially offset in fair value terms with the swaps with fellow group undertakings.

Principal risks and uncertainties

Demand risk

The company is subjected to the risk of one or more of the fellow group undertakings not being able to service the cost of their on-loan arrangement and consequently the company defaulting on its own borrowings. These fellow group undertakings are subjected to risks arising from occupancy voids and no nominations by the university partners that can lead to uncertain revenues. This risk is managed by cementing relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income. Additionally, there is a cross collateralisation arrangement in place allowing the pooling of each of the bond participants' surplus cash, which can then be used to support any underperforming bond participants.

Portfolio risk

The assets of the fellow group undertakings are in the student market and reduced student numbers could impact upon financial performance and consequently the ability of these companies to repay loans made by this company. These fellow group undertakings seek to mitigate this risk by building excellent long term relationships with its university partner and ensuring up to date in depth market analysis is completed each year to enable each company to review its strategic position.

Key performance indicators

The company's principal activity is that of a financing company providing funding to seven fellow group undertakings by way of on-loan arrangements. The performance of these group undertakings is critical to the ability of this company to service its own debt commitments.

These fellow group undertakings all provide student accommodation and use rental income received to service the cost of these on-loans.

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

	2015/16	2014/15
Average Applications : Acceptance ratio	5.69:1	5.79:1
Average core demand pool (no. of students)	14,093	14,077

Strategic report for the year ended 31 August 2016 (continued)

Key performance indicators (continued)

The indicators above are directly related to performance of the relevant university partners of these fellow group undertakings and any changes in these statistics may potentially affect the performance of that company and in turn, the economic viability of this company.

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

	2015/16	2014/15
Average occupancy across the facilities	99.91%	99.7%

The target occupancy level across the facilities is 98-99%. As such, the directors are satisfied that the movements noted above are within tolerable limits for the recovery of credit extended to these group undertakings. In addition, all of the seven group undertakings met their on-loan obligations in the period.

Other financial key performance indicators relate to financial covenants relating to the listed debt instruments. The financial covenants are monitored by the Board and none of those have been breached during the financial year.

On behalf of the Board



R A Bienfait

Director

7 December 2016

Independent auditor's report to the members of UPP Bond 1 Issuer plc

We have audited the financial statements of UPP Bond 1 Issuer plc for the year ended 31 August 2016 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2016 and of its 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

Matters on which we are required to report by exception

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

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



Subarna Banerjee (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young LLP,
Statutory Auditor, Chartered Accountants

8/12/16

UPP Bond 1 Issuer plc

Statement of Comprehensive Income for year ended 31 August 2016

		Year ended 31 August 2016	Year ended 31 August 2015
	Notes	£'000	£'000
Interest receivable and similar income	4	26,066	28,403
Interest payable and similar charges	5	(26,166)	(28,467)
Other operating income		1	1
Operating loss		(99)	(63)
Loss on ordinary activities before taxation		(99)	(63)
Tax on loss on ordinary activities	6	-	-
Loss for the year attributable to owners of the parent		(99)	(63)
Total comprehensive loss for the year attributable to owners of the parent		(99)	(63)

The above results all relate to continuing operations.

UPP Bond 1 Issuer plc

Statement of financial position as at 31 August 2016

	Notes	31 August 2016 £'000	31 August 2015 £'000
Current assets			
Debtors: due within one year	7	7,641	6,595
Debtors: due after more than one year	8	502,318	510,524
Cash		14,421	13,974
		524,380	531,093
Creditors: amounts falling due within one year	9	(15,844)	(14,252)
Net current assets		508,536	516,841
Creditors: amounts falling due after more than one year	10	(502,318)	(510,524)
		6,218	6,317
Share capital and reserves			
Called up share capital	12	50	50
Capital contributions		6,580	6,580
Retained earnings		(412)	(313)
		6,218	6,317

The financial statements were approved by the board on 7 December 2016 and were signed on its behalf by:



R A Bienfait

Director

Registered no: 08255980



J C W Benkel

Director

UPP Bond 1 Issuer plc

Statement of changes in equity as at 31 August 2016

Attributable to owners of the parent

	Share Capital	Capital contributions	Retained earnings	Total
		£'000	£'000	£'000
At 1 September 2015	50	6,580	(313)	6,317
Loss for the financial year	-	-	(99)	(99)
Total comprehensive income for the year	-	-	(99)	(99)
Balance at 31 August 2016	50	6,580	(412)	6,218

UPP Bond 1 Issuer plc

Statement of cash flows For the year ended 31 August 2016

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Cash flows from operating activities		
Loss for the year	(99)	(63)
Adjustments for:		
Interest expense included in profit or loss, not paid	99	63
Interest income included in profit or loss, not received	(14)	17
Net cash (outflow) / generated from operating activities	(14)	17
Cash flows from investing activities		
Loans made to fellow group undertakings	-	(149,700)
Issue costs on new loans to fellow group undertakings	-	6,327
Scheduled repayments of loans to fellow group undertakings	7,394	10,293
Net cash generated / (used) in investing activities	7,394	(133,080)
Cash flows from financing activities		
Proceeds from issuance of senior secured notes	-	149,700
Issue costs on new senior secured notes	-	(6,327)
Scheduled repayment of senior secured notes	(7,394)	(6,915)
Proceeds of loans from fellow group undertakings	461	-
Net cash flow (used) in / generated from financing activities	(6,933)	136,458
Net increase in cash and cash equivalents	447	3,395
Cash and cash equivalents at beginning of year	13,974	10,579
Cash and cash equivalents at the end of the year	14,421	13,974

Notes to the financial statements for the year ended 31 August 2016

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

In order to align the accounting policies of the company with those of the rest of the Group, as at 1 September 2014 the company has changed its accounting policy in respect of financial instruments from IAS 39 '*Financial instruments: recognition and measurement*' to Sections 11 and 12 of FRS 102. The change in accounting policy has no effect on the financial position or performance of the company.

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

(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.

Credit risk

To mitigate the risk of inflation movements impacting on the company's ability to service the fixed rate secured senior notes the company has entered into RPI swaps that rank ahead of payments to the bond holders.

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.

Notes to the financial statements for the year ended 31 August 2016

1. Principal accounting policies (continued)

(c) Significant judgements and estimations (continued)

Credit risk (continued)

A key assumption used in the valuation of the onward RPI swaps to fellow group undertakings is credit risk. Based on the above terms, management consider that the aggregate credit risk of the underlying participants in the bond approximates to the credit risk of the Company bond and therefore the RPI swaps to fellow group undertakings have been fair valued on this basis. Management regularly model and monitor the credit risk of the company and that of the underlying participants in the bond to ensure they do not materially differ. Details of the amounts included in the financial statements are disclosed in notes 10 and 13.

(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.

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

(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 year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter year, 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 change in RPI is charged to the profit and loss in the period to which it relates.

Notes to the financial statements for the year ended 31 August 2016

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 profit or loss.

(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 internal swaps which materially offset in fair value terms with the external swaps.

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 fair value of RPI swaps where the counterparties are with financial institutions are based on mark to market valuations adjusted for credit risk. The swaps where the counter party is a group company are fair valued using a model based on data for similar instruments that are actively traded. The key assumptions underpinning these models are credit risk and the expectation of future RPI movements.

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

(i) Current and deferred tax

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

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 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.

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 year.

Notes to the financial statements for the year ended 31 August 2016

1. Principal accounting policies (continued)

(j) Equity and reserves

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

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.

Retained earnings include 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.

(l) Segment information

FRS 102 requires operating segments to be determined based on the Company's internal reporting to the Chief Operating Decision Maker ('CODM') as they are primarily responsible for the allocation of resources to segments and the assessment of the performance of each segment.

The principal activity of the company is that of a financing company. Management consider that there is only one operating segment, as this is the lowest level at which discrete financial information is available. All of the company's income is generated from UK operations.

The measurement policies the company uses for segment reporting under FRS 102 are the same as those used in its financial statements.

2. Directors' remuneration

The immediate parent company, UPP Bond 1 Limited, paid a fee of £6,000 (2015: £10,000) to SFM Directors Limited in respect of services performed in connection with the management of the affairs of the company for the year ended to 31 August 2016.

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 year ended 31 August 2016

3. Auditor's remuneration

The following amounts have been paid to the auditor of the company in respect of the services provided to the company:

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
Fees payable to the Company's auditor for the audit of the company's annual accounts	14	5
Fees payable to the Company's auditor and its associates for other services:		
Tax services	-	5
	<u>14</u>	<u>10</u>

These fees have been borne by its immediate parent company, UPP Bond 1 Limited, and included in the results of that company for the year.

4. Finance income

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
<i>Finance assets held at amortised cost</i>		
Interest from on-loan agreements with fellow group undertakings calculated using the effective interest rate method	19,169	18,983
Indexation of index-linked on-loans	3,096	1,143
Total effective interest receivable from on-loans	<u>22,265</u>	<u>20,126</u>
Bank interest receivable	163	122
Finance assets held at amortised cost	<u>22,428</u>	<u>20,248</u>
<i>Held at fair value through profit or loss</i>		
Fair value movement on derivative financial instruments	3,638	8,155
	<u>26,066</u>	<u>28,403</u>

Notes to the financial statements for the year ended 31 August 2016

5. Finance costs

	Year ended 31 August 2016 £'000	Year ended 31 August 2015 £'000
<i>Financial liabilities measured at amortised cost</i>		
Interest on secured bond notes, calculated using the effective interest rate method	19,169	18,983
Indexation of index-linked bonds	3,096	1,143
Total effective interest payable on bond notes	22,265	20,126
Interest paid on cash balances held on behalf of fellow group undertakings	163	122
Imputed interest on fair value of loans to fellow group undertakings, calculated using the effective interest method	100	64
Financial liabilities measured at amortised cost	22,528	20,312
<i>Financial liabilities measured at fair value through profit or loss</i>		
Fair value movement on derivative financial instruments	3,638	8,155
	26,166	28,467

6. Tax on loss on ordinary activities

Taxation

(a) Recognised in the income statement

	Year ended 31 August 2016 £000	Year ended 31 August 2015 £000
<i>Current tax expense</i>		
Current year	-	-
Total current tax	-	-
<i>Deferred tax expense</i>		
Current year	-	-
Total deferred tax	-	-
Total tax in income statement	-	-

Notes to the financial statements for the year ended 31 August 2016

6. Tax on loss on ordinary activities (continued)

b) Reconciliation of effective tax rate

	Year ended 31 August 2016 £000	Year ended 31 August 2015 £000
Loss on ordinary activities before tax for the year	(99)	(63)
Tax on loss on ordinary activities using the UK corporation tax rate of 19% (2015: 20%)	(19)	(13)
<i>Effects of:</i>		
Permanent differences relating to the application of the taxation of securitisation companies regulation	19	13
Total tax in income statement	-	-

7. Debtors: amounts falling due within one year

	31 August 2016 £'000	31 August 2015 £'000
Loans to fellow group undertakings, net of transaction costs	7,591	6,545
Amounts owed by parent company	50	50
	<u>7,641</u>	<u>6,595</u>

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

	31 August 2016 £'000	31 August 2015 £'000
Derivative financial instruments	5,659	9,296
Loans to fellow group undertakings, net of transaction costs	496,659	501,228
	<u>502,318</u>	<u>510,524</u>

The loans to 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. An additional £149,700,000 was made on 9 December 2014 from the proceeds of issuance by the company of fully amortising RPI index-linked senior secured notes. The proceeds of these loans enabled these fellow group companies to refinance their previous bank facilities and associated costs.

Notes to the financial statements for the year ended 31 August 2016

8. Debtors: amounts falling due after more than one year (continued)

On 5 March 2013 the company entered into RPI swaps with these fellow group companies, and the amount above reflects the fair value of these instruments at the year-end date.

These loans bear the same terms and conditions as the secured notes, see note 11.

9. Creditors: amounts falling due within one year

	31 August 2016 £'000	31 August 2015 £'000
Fixed rate senior secured notes, net of transaction costs	3,252	2,690
Index linked senior secured notes, net of transaction costs	4,340	3,855
Loans from fellow group undertakings (note 13)	8,252	7,691
Accruals	-	16
	15,844	14,252

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

	31 August 2016 £'000	31 August 2015 as restated £'000
Fixed rate senior secured notes, net of transaction costs	285,962	289,727
Index linked senior secured notes, net of transaction costs	210,697	211,501
Derivative financial instruments	5,659	9,296
	502,318	510,524

Debt issue costs have been split between fixed rate and index linked senior secured notes to better reflect the nature of these transactions. The balances for the year ended 31 August 2015 have also been reclassified to reflect this change.

11. 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 13.

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.

Notes to the financial statements for the year ended 31 August 2016

11. Borrowings (continued)

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

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

On the same day 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 13.

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.

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, ranking pari-passu with the initial senior notes. The proceeds of this issuance were on-lent to a sister company, UPP (Exeter) Limited, to enable that company to refinance its senior bank facilities and some associated costs.

These index-linked senior secured notes are fully amortising by 2049 with a real interest rate of 1.037% increasing semi-annually by RPI. The principal amounts repayable increase semi-annually by RPI with repayments commencing in August 2015.

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

12. Called up share capital

	31 August 2016 £'000	31 August 2015 £'000
Issued, allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50	50

Notes to the financial statements for the year ended 31 August 2016

13. 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 year 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 year 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:

	31 August 2016 £'000	31 August 2015 £'000
Within one year	7,778	6,996
Between one and two years	9,242	7,778
Between two and five years	34,802	31,788
After more than five years	452,429	461,211
	504,251	507,773

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 fixed rate on-loan arrangements to six 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.

Notes to the financial statements for the year ended 31 August 2016

13. Financial risk management (continued)

Inflation rate risk (continued)

To mitigate the risk of inflation movements impacting on the company's ability to service 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 on-loan arrangements with the company.

As at 31 August 2016, 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
- a 27 year RPI swap with Barclays Bank plc commencing in February 2014 and finishing in February 2040

The notional amounts swapped for each year have been determined with reference to a percentage of the fixed rate bond servicing costs, and split equally over the 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 2040
- a 27 year RPI swap with UPP (Broadgate Park) Holdings Limited commencing in February 2015 and finishing in February 2042
- a 27 year RPI swap with UPP (Kent Student Accommodation) Limited commencing in February 2015 and finishing in February 2042
- a 27 year RPI swap with UPP (Nottingham) Limited commencing in February 2015 and finishing in February 2042
- a 26 year RPI swap with UPP (Oxford Brookes) Limited commencing in February 2014 and finishing in August 2039
- a 27 year RPI swap with UPP (Plymouth Three) Limited commencing in February 2015 and finishing in February 2042

The notional amounts swapped for each year have been determined with reference to a percentage of the debt servicing costs of the fixed rate tranche of the relevant 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 year ended 31 August 2016

13. 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	Nominal interest rate (%)	Year of maturity	Book value 2016 £'000
Fixed rate senior secured notes	£	4.9023%	2040	289,214
Index linked senior secured notes	£	2.9105%	2047	77,945
Index linked senior secured notes	£	1.0520%	2049	137,092
Loans from fellow group undertakings	£	4.9023%	2047	8,252
				<u>512,503</u>

The loans from fellow group companies are to fund a debt service reserve account that is sized to be adequate to cover the next six months of service costs of both tranches of the senior secured notes. This amount is reviewed every six months and increased or decreased accordingly. Interest on these loans is paid at the rate at which the company earns interest on the cash balances it holds.

Capital risk management

The Company maintains a debt service reserve account to cover the next six months of service costs of both tranches of the senior secured notes. The Company manages its capital to ensure it will be able to continue as a going concern.

Notes to the financial statements for the year ended 31 August 2016

13. Financial risk management (continued)

Capital risk management (continued)

The Company's capital structure is as follows:

	31 August 2016 £'000	31 August 2015 £'000
Capital contributions	6,580	6,580
Equity	50	50
	<u>6,630</u>	<u>6,630</u>

Foreign currency risk

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

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 2016 £000	Carrying amount 2015 £000
Financial assets		
<i>Financial assets held at amortised cost</i>		
Cash at bank and in hand	14,421	13,974
Loans to fellow group undertakings (note 7/8)	504,250	507,773
Amounts owed by parent company	50	50
<i>Total financial assets held at amortised cost</i>	<u>518,721</u>	<u>521,797</u>
<i>Measured at fair value through profit and loss</i>		
Derivative financial instruments assets (note 8)	<u>5,659</u>	<u>9,296</u>
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Fixed rate senior secured noted (notes 9/10)	289,214	279,513
Loans from fellow group undertakings (notes 9/10)	8,252	7,691
Index linked senior secured notes (notes 9/10)	215,037	228,260
Accruals	-	-
<i>Total financial liabilities measured at amortised cost:</i>	<u>512,503</u>	<u>515,464</u>
<i>Financial liabilities measured at fair value through profit or loss</i>		
Derivative financial instruments liabilities (note 10)	<u>5,659</u>	<u>9,296</u>

Notes to the financial statements for the year ended 31 August 2016

14. 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.

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

Copies of the accounts can be obtained from Companies House, Cardiff CF4 3UZ.