
UPP (EXETER) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

UPP (EXETER) LIMITED

COMPANY INFORMATION

Directors	J Benkel S O'Shea R Bailey-Watts J Wakeford R Bienfait
Company secretary	J Benkel
Registered number	06885967
Registered office	40 Gracechurch Street London EC3V 0BT
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Milton Keynes

UPP (EXETER) LIMITED

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UPP (EXETER) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 AUGUST 2016

Business review

The company's principal activity is the development, funding, and construction of student accommodation under the University Partnerships Programme (UPP).

The project comprises the estate transfer of 621 current University rooms and the new build of a further 1,948 rooms within the University of Exeter main campus.

Toward the end of the financial year, the impact of the referendum decision to leave the European Union (EU) has also been the focus of much attention across the Higher Education (HE) sector. Following the result, the Government has committed to continue current funding arrangements for EU students until the completion of the Article 50 negotiations. At this stage, therefore, it is unlikely that there will be any significant impact on demand from what is a relatively small proportion of the overall student population (i.e. circa 5%).

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

On 9 December 2014, and a fellow subsidiary of UPP Bond 1 Limited, UPP Bond 1 Issuer plc, issued £149,700,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent to UPP (Exeter) Limited, to enable the company to refinance its senior bank facilities and some associated costs.

The repayment of the previous short term banking facilities necessitated the terminating of the existing hedging arrangements held by this Company and gave rise to the payment of a £45.0 million termination fee included within the previous year's results. This fee and other associated costs of the transaction were funded through the Note issuance above and additional subordinated debt provided by UPP Group Limited.

UPP (EXETER) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2016

Principal risks and uncertainties

Financial risk management objectives and policies

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

Inflation risk

Growth in rental income is linked to the movement in RPI and the company manages the exposure to this index through the issue of inflation linked debt on-lent from a fellow group undertaking.

Interest rate risk

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

On 9 December 2014 the company terminated the interest rate swaps previously in place and the cost of terminating these interest rate swaps was taken to the profit and loss account on the date of termination.

Liquidity risk

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

The maturity of borrowings is set out in note 15 to the financial statements.

Demand risk

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

Portfolio risk

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

UPP (EXETER) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2016

Key performance indicators

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

	2015/16	2014/15
Average Applications : Acceptance ratio	6.83:1	5.79:1
Average core demand pool (no. of students)	16,661	14,077

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

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

	2015/16	2014/15
Average occupancy across the facilities	100.0%	100.0%

The target occupancy level is 98-99%, as such the directors are satisfied that occupancy levels are within tolerable limits for the recovery of credit extended to the company. In addition, the company met its on-loan obligations in the period.

Other financial key performance indicators, such as debt service cover ratio, relate to financial covenants on the associated senior debt financial instruments. All of the financial covenants have been met during the financial year.

This report was approved by the board on 12 December 2016 and signed on its behalf.



R Bienfait
Director

UPP (EXETER) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2016

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

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Principal activity of the business

The company's principal activity is the development, funding, and construction of student accommodation under the University Partnerships Programme ('UPP').

Results and dividends

The profit for the year, after taxation, amounted to £1,716k (2015 - loss £40,542k).

The directors do not propose the payment of a dividend (2015: £Nil).

Going concern

The directors have reviewed the Company projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Company finances, contracts and likely future demand trends. The Company has a net liability position and has received confirmation from its immediate parent undertaking, UPP Bond 1 Limited that it will provide the necessary financial support to ensure it can meet its liabilities as they fall due. Accordingly the financial statements have been prepared on a going concern basis.

UPP (EXETER) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2016**

Directors

The directors who served during the year were:

J Benkel
S O'Shea
R Bailey-Watts
J Wakeford (appointed 27 July 2016)
G Behr (resigned 10 May 2016)

The following director was appointed following the year end:
R Bienfait (appointed 11 October 2016)

Financial risk management objectives and policies

The company's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on page 2.

Disclosure of information to auditor

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

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

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 12 December 2016 and signed on its behalf.



R Bienfait
Director

UPP (EXETER) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (EXETER) LIMITED

We have audited the financial statements of UPP (Exeter) Limited for the year ended 31 August 2016, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity 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 on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 profit 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 matter prescribed by the Companies Act 2006

In our opinion 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 those financial statements.

UPP (EXETER) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (EXETER) LIMITED
(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.



Giles Mullins (Senior Statutory Auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

Milton Keynes

12 December 2016

UPP (EXETER) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2016**

	Note	2016 £000	2015 £000
Turnover	4	13,672	13,358
Cost of sales		(3,819)	(3,769)
Gross profit		9,853	9,589
Administrative expenses		(1,835)	(1,338)
Operating profit	5	8,018	8,251
Interest receivable and similar income	8	63	48
Interest payable and similar charges	9	(6,365)	(49,479)
Profit/(loss) on ordinary activities before tax		1,716	(41,180)
Tax on profit/(loss) on ordinary activities	10	-	638
Profit/(loss) for the year		1,716	(40,542)

The notes on pages 13 to 32 form part of these financial statements.

The above results all relate to continuing operations.

UPP (EXETER) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2016**

	Note	2016 £000	2015 £000
Profit/(loss) for the financial year		1,716	(40,542)
Other comprehensive income			
Surplus on revaluation of tangible fixed assets	11	2,494	(446)
Deferred tax on revaluation of tangible fixed assets	17	646	186
Other comprehensive income for the year		3,140	(260)
Total comprehensive income for the year		4,856	(40,802)
The notes on pages 13 to 32 form part of these financial statements.			

UPP (EXETER) LIMITED
REGISTERED NUMBER: 06885967

BALANCE SHEET
AS AT 31 AUGUST 2016

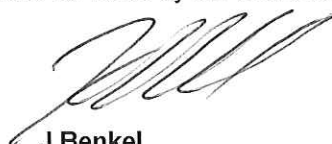
	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Tangible fixed assets	11		134,900		132,900
			<u>134,900</u>		<u>132,900</u>
Current assets					
Debtors: amounts falling due within one year	12	7,935		6,641	
		<u>7,935</u>		<u>6,641</u>	
Creditors: amounts falling due within one year	13	(5,582)		(4,893)	
		<u>(5,582)</u>		<u>(4,893)</u>	
Net current assets			2,353		1,748
Total assets less current liabilities			<u>137,253</u>		<u>134,648</u>
Creditors: amounts falling due after more than one year	14		(156,554)		(158,159)
Provisions for liabilities					
Deferred tax	17	(7,427)		(8,073)	
		<u>(7,427)</u>		<u>(8,073)</u>	
Net liabilities			<u>(26,728)</u>		<u>(31,584)</u>
Capital and reserves					
Called up share capital	18		650		650
Revaluation reserve	19		15,607		12,544
Profit and loss account	19		(42,985)		(44,778)
			<u>(26,728)</u>		<u>(31,584)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 12 December 2016.



R Bienfait

Director



J Benkel

Director

The notes on pages 13 to 32 form part of these financial statements.

UPP (EXETER) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2016**

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2015	650	12,544	(44,778)	(31,584)
Profit for the year	-	-	1,716	1,716
Transfer to profit and loss account	-	-	77	77
Profit and loss account	-	3,140	-	3,140
Transfer from revaluation reserve	-	(77)	-	(77)
At 31 August 2016	650	15,607	(42,985)	(26,728)

The notes on pages 13 to 32 form part of these financial statements.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2016 was £77k.

UPP (EXETER) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2015**

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2014	650	12,876	(4,308)	9,218
Loss for the year	-	-	(40,542)	(40,542)
Transfer to profit and loss account	-	-	72	72
Deficit on revaluation of leasehold property	-	(260)	-	(260)
Transfer from revaluation reserve	-	(72)	-	(72)
At 31 August 2015	650	12,544	(44,778)	(31,584)

The notes on pages 13 to 32 form part of these financial statements.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2015 was £72k.

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

1. General information

UPP (Exeter) Limited is a private limited company incorporated in England. The company number is 06885967. The registered office is 40 Gracechurch Street, London, EC3V 0BT.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fair value basis for all derivative instruments and revaluation of fixed assets, and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 21.

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

The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 September 2014 and this is the first period in which the financial statements have been prepared under FRS 102. The transition to FRS 102 has resulted in a number of changes in accounting policies to those used previously. The nature of these changes and their impact on opening equity and loss for the comparative period are explained in note 21.

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

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

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of UPP Group Holdings Limited as at 31 August 2016 and these financial statements may be obtained from Companies House, Cardiff CF14 3UZ, once they have been filed.

The following principal accounting policies have been applied:

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

2. Accounting policies (continued)

2.3 Going concern

The directors have reviewed the Company projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Company finances, contracts and likely future demand trends. The Company has a net liability position and has received confirmation from its immediate parent undertaking, UPP Bond 1 Limited that it will provide the necessary financial support to ensure it can meet its liabilities as they fall due. Accordingly the financial statements have been prepared on a going concern basis.

2.4 Turnover

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

2.5 Derivatives instruments

Derivatives which include inflation swaps and interest rate swaps are not basic financial instruments. To mitigate the impact of inflation movements on future rental income and the Company's ability to service the fixed rate senior loan notes, the company has entered into inflation swaps ('RPI' swaps) and interest rate swaps ('IR swaps') with external parties to manage its exposure to changes in inflation. All derivative instruments are initially measured at fair value on the date the contract is entered into and subsequently re-measured to fair value at each reporting date. The gain or loss on re-measurement is taken to the Profit and Loss statement in finance cost or finance income as appropriate.

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

On 9 December 2014 the company terminated the interest rate and RPI swaps previously in place and the cost of terminating these swaps has been taken to the profit and loss account on the date of termination.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

2. Accounting policies (continued)

2.6 Tangible fixed assets

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

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

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

The Company has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The movement in fair value is recognised in other comprehensive income and accumulated in equity in a revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

2.7 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.

2.8 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.

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

2. Accounting policies (continued)

2.9 Finance costs

Financing costs, comprising interest payable on loans and subordinated loan notes and the costs incurred in connection with the arrangement of borrowings are recognised in the income statement using the effective interest method. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument unless the capital instrument is subsequently carried at fair value in which case the initial issue costs are expensed in the profit and loss account.

2.10 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.

2.11 Debt issue costs

The debt issue costs incurred have been offset against the related debt and will be charged to finance costs at a constant rate on the carrying value of the debt. If it becomes clear that the related debt will be redeemed early then the charge to finance costs will be accelerated. Where there is an early repayment clause within the debt instrument, costs incurred are amortised to the profit and loss account to the earliest opportunity the debt could be repaid.

2.12 Pensions

Defined contribution pension plan

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

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

2.13 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

2. Accounting policies (continued)

2.14 Interest bearing loans and borrowings

Index linked senior secured notes and subordinated loan notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method. Refer to section 3 for details on why the instruments are considered to be basic.

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

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

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax liability is recognised on any tangible fixed assets revaluations. The corresponding movements in deferred tax are recognised in the same component of income as the transaction it relates to.

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

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

2. Accounting policies (continued)

2.16 Related party transactions

The company is a wholly owned subsidiary of UPP Bond 1 Limited which is a wholly owned subsidiary of the ultimate parent company UPP Group Holdings Limited and as such the company has taken advantage of the terms of FRS 102.33.1A not to disclose related party transactions which are eliminated on consolidation.

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

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

The preparation of financial statements requires management to exercise judgement in applying the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and assumptions are reviewed on an on-going basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below:

Revaluation of the principal assets

The company 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 company engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the principal assets are further explained in note 11 on page 25.

Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company 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 revalued 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.

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

Rent receivable is generated from the company's interests in university accommodation. These interests fall within the scope of Section 34 of FRS 102, however, due to the transitional relief adopted in relation to service concession arrangements, the company continues to account for all its principal assets applying the policies under the extant UK GAAP, FRS 5 (Application Note F).

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

The directors consider the balance of the risks and rewards lies with the company due to the Company

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

3. **Judgments in applying accounting policies (continued)**

taking the key demand risk and therefore the assets are treated as tangible fixed asset.

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 and therefore the conditions in paragraphs 11.9(a) and (aA) of FRS 102 are met and the company's index linked financial instruments are classified as basic and carried at amortised cost.

4. **Turnover**

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

	2016 £000	2015 £000
Provision of student accommodation	13,672	13,358
	<u>13,672</u>	<u>13,358</u>

All turnover arose within the United Kingdom.

5. **Operating profit**

The operating profit is stated after charging:

	2016 £000	2015 £000
Depreciation of tangible fixed assets	493	453
Auditors' remuneration	25	14
	<u>518</u>	<u>467</u>

During the year, no director received any emoluments (2015 - £NIL).

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

6. Auditor's remuneration

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	18	10
	<u>18</u>	<u>10</u>
Fees payable to the Company's auditor and its associates in respect of non audit services:		
Taxation compliance services	7	4
	<u>7</u>	<u>4</u>
	<u><u>7</u></u>	<u><u>4</u></u>

7. Employee information

Staff costs were as follows:

	2016 £000	2015 £000
Wages and salaries	980	976
Social security costs	55	57
Cost of defined contribution scheme	35	34
	<u>1,070</u>	<u>1,067</u>
	<u><u>1,070</u></u>	<u><u>1,067</u></u>

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

	2016 No.	2015 No.
Site managers	1	1
Adminstration, maintenance and cleaning	68	66
	<u>69</u>	<u>67</u>
	<u><u>69</u></u>	<u><u>67</u></u>

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

8. Interest receivable

	2016 £000	2015 £000
Interest receivable from group companies	63	37
Other interest receivable	-	11
	<u>63</u>	<u>48</u>

9. Interest payable and similar charges

	2016 £000	2015 £000
Bank interest payable	-	1,656
Other loan interest payable	-	1,222
Subordinated loan notes	2,846	(78)
Termination of swaps	-	45,015
Index linked on loan	3,519	1,664
	<u>6,365</u>	<u>49,479</u>

Subordinated loan interest is payable to UPP Bond 1 Limited.

Index linked on loan interest is payable to UPP Bond Issuer plc.

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

10. Taxation

	2016 £000	2015 £000
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	-	730
Changes to tax rates	-	19
Current year	-	(1,387)
Total deferred tax	-	(638)
Taxation on profit/(loss) on ordinary activities	-	(638)

Factors affecting tax charge/ (credit) for the year

The tax assessed for the year is lower than (2015 - *higher than*) the standard rate of corporation tax in the UK of 20% (2015 - 21%). The differences are explained below:

	2016 £000	2015 £000
Profit/ (Loss) on ordinary activities before tax	1,716	(41,180)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 21%)	343	(8,648)
Effects of:		
Expenses disallowable for tax purposes	70	204
Movement in deferred tax not recognised	(413)	7,806
Total tax charge/ (credit) for the year	-	(638)

Factors that may affect future tax charges

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

10. Taxation (continued)

The deferred tax has been recognised at a rate of 18% which was substantively enacted in Finance Bill 2015.

There will be a reduction in corporation tax rate from the current 20% rate to 19% from 1 April 2017 and then to 18% from 1 April 2020.

A deferred tax asset of £5,668k (2015: £6,761k) in respect of available tax losses has not been recognised at 31 August 2016. This is due to there being no persuasive and reliable evidence available at this time of suitable profits to offset these losses.

11. Tangible fixed assets

	Assets for use in operating leases £000
Cost or valuation	
At 1 September 2015	132,900
Revaluations	2,000
	<hr/>
At 31 August 2016	134,900
	<hr/>
Charge for period on owned assets	493
On revalued assets	(493)
	<hr/>
At 31 August 2016	-
	<hr/>
Net book value	
At 31 August 2016	134,900
	<hr/> <hr/>
At 31 August 2015	132,900
	<hr/> <hr/>

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

11. Tangible fixed assets (continued)

Fixed assets include borrowing costs up to the date of completion of £4,654k (2015: £4,654k).

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2016 in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. JLL have confirmed that the value as at that date was £134,900k.

Following an internal review of the assets used in operating leases, the directors have decided to revalue the assets to the value as determined by JLL in 2016.

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

	2016	2015
Discount rates	8.35%	N/A
Occupancy rates	99.0%	N/A
Long term annual rental growth	3.0%	N/A

Cost or valuation at 31 August 2016 is as follows:

	Assets for use in operating leases £000
At cost	132,900
At valuation:	
Revaluation as at 31 August 2016	2,000
	134,900

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

	2016 £000	2015 £000
Cost	132,900	132,900
Accumulated depreciation	(493)	(416)
Net book value	132,407	132,484

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

12. Debtors

	2016	2015
	£000	£000
Trade debtors	60	13
Amounts owed by group undertakings	7,817	6,553
Prepayments and accrued income	58	75
	<u>7,935</u>	<u>6,641</u>

Included within amounts owed by group undertaking is a balance of £1,738k (2015: £1,726k) which is 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 receivable on these loans is calculated using the effective interest method which is different to the actual cash interest received at the rate the company earns interest on the cash balances it holds. The other amounts owed by group undertakings are repayable on demand and not subject to interest.

13. Creditors: Amounts falling due within one year

	2016	2015
	£000	£000
Current instalments due on loans	4,526	4,394
Trade creditors	148	19
Amounts owed to group undertakings	740	415
Taxation and social security	17	4
Accruals and deferred income	151	61
	<u>5,582</u>	<u>4,893</u>

The amounts owed to group undertakings are repayable on demand and not subject to interest.

14. Creditors: Amounts falling due after more than one year

	2016	2015
	£000	£000
Secured index linked on loans	132,566	134,980
Unsecured subordinated loan notes	23,988	23,179
	<u>156,554</u>	<u>158,159</u>

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

15. Loans

Senior debt

Secured index linked on loans

On 9 December 2014 a fellow subsidiary of the company's immediate parent UPP Bond 1 Limited, UPP Bond 1 Issuer plc, launched a Multicurrency Programme for the issuance of £149.9 million index linked loan notes. The proceeds of this bond issuance were on lent to UPP (Exeter) Limited to enable the company to repay its existing senior bank debt funding.

These notes are listed on the Irish Stock Exchange. The 1.037% index linked loan notes are due to be fully repaid by August 2049 with repayments starting in February 2015.

The company entered into on-loan arrangements with UPP Bond 1 Issuer plc the terms and conditions of which are laid out below:

	Amount	Interest rate	Maturity
Tranche A	£149,700,000	Index-linked at 1.037%	31 August 2049

The on-loan facility above is secured under a debenture deed. Under the terms of the debenture, the finance provider, UPP Bond 1 Issuer plc, has security by way of a first legal mortgage over all estates or interests in the leasehold properties and buildings and fixtures on those properties, as well as security over all other assets of the group by way of fixed and floating charges.

Unsecured subordinated loan notes

On 9 December 2014, UPP Bond 1 Limited provided unsecured subordinated loan notes of £21,308,000 to the company. These loan notes bear interest at 14% and are repayable by 2051.

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

15. (continued)

Analysis of the maturity of loans is given below:

	2016 £000	2015 £000
Amounts falling due within one year		
Current instalments due on loans	4,526	4,394
Amounts falling due 1-2 years		
Index linked on loans	4,794	4,526
Amounts falling due 2-5 years		
Index linked on loans	16,077	15,236
Amounts falling due after more than 5 years		
Index linked on loans	111,694	115,219
Subordinated loan notes	23,988	23,179
	<u>161,079</u>	<u>162,554</u>

16. Financial instruments

	2016 £000	2015 £000
Financial assets		
Financial assets that are debt instruments measured at amortised cost	7,877	6,566
	<u>7,877</u>	<u>6,566</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(161,968)	(162,987)
	<u>(161,968)</u>	<u>(162,987)</u>

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

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, debt issue costs, fixed rate senior secured notes, index linked senior secured notes, unsecured subordinated loan notes.

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

17. Deferred taxation

	2016 £000	2015 £000
At beginning of year	(8,073)	(8,897)
Charged to the profit or loss	-	638
Charged to other comprehensive income	646	186
At end of year	(7,427)	(8,073)

The provision for deferred taxation is made up as follows:

	2016 £000	2015 £000
Deferred tax on revaluation of tangible asset	(7,427)	(8,073)
	(7,427)	(8,073)

18. Share capital

	2016 £000	2015 £000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
650,051 Ordinary shares of £1 each	650	650

19. Reserves

Revaluation reserve

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

Profit and loss account

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

UPP (EXETER) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016**

20. Controlling party

The company is wholly owned by UPP Bond 1 Limited, a wholly owned subsidiary of UPP Bond 1 Holdings Limited, itself a wholly owned subsidiary of 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"), a company incorporated in The Netherlands.

It is the directors' opinion that PGGM is the ultimate controlling party.

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 CF14 3UZ, once they have been filed.

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

21. First time adoption of FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 September 2014. The impact of the transition to FRS 102 is as follows:

Reconciliation of equity at 1 September 2014

	Note	£000
Equity at 1 September 2014 under previous UK GAAP		17,489
Deferred tax on revaluation of tangible fixed assets	1	(8,259)
Holiday accrual	3	(12)
		<hr/>
Equity shareholders funds at 1 September 2014 under FRS 102		9,218
		<hr/> <hr/>

Reconciliation of equity at 31 August 2015

	Note	£000
Equity at 31 August 2015 under previous UK GAAP		(22,604)
Deferred tax on revaluation of tangible fixed assets	1	(8,072)
Subordinated loan notes at amortised cost	2	303
Holiday accrual	3	(9)
Fair value of debt service reserve account	2	(1,202)
		<hr/>
Equity shareholders funds at 31 August 2015 under FRS 102		(31,584)
		<hr/> <hr/>

Reconciliation of profit and loss account for the year ended 31 August 2015

		£000
Loss for the year under UK GAAP		(39,646)
Subordinated loan notes at amortised cost	2	303
Holiday accrual	3	3
Fair value of debt service reserve account	2	(1,202)
		<hr/>
Loss for the year ended 31 August 2015 under FRS 102		(40,542)
		<hr/> <hr/>

UPP (EXETER) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

21. First time adoption of FRS 102 (continued)

The following were changes in accounting policies arising from the transition to FRS 102:

1 Deferred tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach. Consequently deferred tax has been recognised on all fair value re-measurements and on all fair value adjustments arising on business combinations. There are no adjustments required on business combinations arising prior to transition.

A deferred tax liability of £10,132k was recognised on 1 September 2014 in relation to the revaluation of the tangible assets. The deferred tax asset provision as at 31 August 2015 had decreased to £9,933k.

2 Amortised cost for financial liabilities

Under FRS 102, basic financial instruments are measured at amortised cost using the effective interest method, with interest expense recognised on the basis of the effective interest method. Under the previous UK GAAP, UPP had a policy of amortising its long term debt instruments using a 'constant' rate method which resulted in different carrying values for the debt instruments.

Consequently, on adoption of FRS 102, the following adjustments were made to the carrying values of the company long term debt instruments:

- Unsecured loan notes - a decrease of the liability by £303k in year ended August 2015
- Debt service reserve loan balance - a decrease of the asset by an amount of £1,202k in year ended August 2015

3 Holiday pay accrual

Prior to the adoption of FRS 102, the company did not make provision for holiday pay earned but not taken before the year end. FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement. Consequently an additional accrual of £13k at 1 September 2014 has been made to reflect this. The provision at 31 August 2015 had decreased to £9k and the decrease in provision of £3k has been charged to profit and loss in the year ended 31 August 2015.

22. Transitional relief

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional relief as follows:

Service concession arrangements

The Company has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting by operators and as a result it shall account for all its tangible assets which meet the definition of service concession arrangements under Section 34 but where the contract was entered into before the date of transition, using the same accounting policies being applied at the date of transition to FRS 102. This transitional relief applies to all of the company's principal assets as at 31 August 2016.