Registered number: 05991255

UPP (KENT STUDENT ACCOMMODATION) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2017

UPP (KENT STUDENT ACCOMMODATION) LIMITED

COMPANY INFORMATION

Directors	J Benkel R Bailey-Watts S O'Shea J Wakeford R Bienfait
Company secretary	J Benkel
Registered number	05991255
Registered office	40 Gracechurch Street London EC3V 0BT
Independent auditor	Grant Thornton UK LLP Chartered Accountants and Statutory Auditor Victoria House 199 Avebury Boulevard Milton Keynes MK 9 1AU

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 AUGUST 2017

Business review

The Company's principal activity is the development, funding, and construction of student accommodation under the University Partnerships Programme (UPP), in partnership with the University of Kent.

The building has achieved full occupancy of the 544 available rooms during the academic year. The year end financial position was in accordance with the directors' expectations. The directors anticipate that the future level of activity will be in accordance with their expectations and consider that the project will yield returns in line with current forecasts.

The directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis'.

The impact of this change in accounting policy to prior period amounts is a change in opening reserves to £2,537k from £1,962k in 2016.

The robust characteristics of this market remain; with strong levels of student demand resulting from greater institutional autonomy and a recognition of the importance of high quality facilities as a central element of improving the experience of students.

The impact of the referendum decision to leave the European Union (EU) continues to be the focus of much attention across the Higher Education sector and whilst the current Government remains committed to continue current funding arrangements for EU students until the completion of the Article 50 negotiations, some uncertainty remains with regard to tuition fees for EU students studying in England. Properly contextualised, the risk that a potential fall in EU student numbers would impact on academic and residential demand appears low.

Applicant data to UCAS by Domicile identifies, since the introduction of the current tuition fee cap EU applicant numbers had increased year on year until the academic year 2017/18 when uncertainty relating to the UK referendum decision to leave the European Union impacted on applicant numbers. In real terms EU applicant numbers had increased by 10,370 students over the period, an increase of 25%. However, applicant numbers for 2017/18 decreased by 5.0%, albeit that subsequent data for the UCAS 15 October 2017 deadline suggests this may prove a one year effect.

Currently, HESA data identifies that only one in twenty full time undergraduates (5%) are from the EU (excluding UK) and just 12% of full time postgraduates. It also identifies that enrolment from the EU has continued to increase, from 124,575 in 2014/15 to 127,440 in 2015/16, despite this recruitment proving both more costly and less enticing than international students The Minister for Universities and Skills has confirmed that there would be "no immediate changes" for EU nationals. DBEIS also reaffirmed the continuation of funding for EU students beginning in 2016/17, 2017/18 and 2018/19.

The Board remain cognisant of the attendant risks relating to this process and will continue to actively manage these where they arise.

Principal risks and uncertainties

Financial risk management objectives and policies

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

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

Interest rate risk

The Company finances its operations through a mixture of retained profits, related party borrowings and fixed rate and inflation linked on-loans from a fellow group undertaking.

Through the use of the fixed rate tranche of the on-loan the company has mitigated its negative exposure to interest rate fluctuations on that portion of its borrowings. The index-linked tranche of the on-loan has a nominal fixed rate that is linked to RPI (see below).

Inflation Risk

Growth in rental income is linked to the movement in RPI and the Company manages the exposure to this index through a mix of inflation linked debt on-lent from the fellow group undertaking and the use of RPI swaps to hedge a portion of the fixed rate on-loan servicing costs.

Liquidity risk

The Company seek 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.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2017

Other 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.

	2016/17	2015/16
Average Applications : Acceptance ratio	5.6:1	5.2:1
Average core demand pool (no. of students)	12,900	12,786

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.

	2016/17	2015/16
Average occupancy across the facilities	100.0%	100.0%

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

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

This report was approved by the board on 8 December 2017 and signed on its behalf.

R Bienfait
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2017

The directors present their report and the financial statements for the year ended 31 August 2017.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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'. 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 to 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.

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.

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.

Results and dividends

The loss for the year, after taxation, amounted to £1,184 thousand *(2016 - profit £511 thousand)*.

The directors did not declare any dividends for the year (2016 - £Nil).

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2017

Directors

The directors who served during the year were:

J Benkel
R Bailey-Watts
S O'Shea
J Wakeford
R Bienfait (appointed 11 October 2016)

Future developments

Occupancy for the 2017/18 financial year has been secured at 100% which has exceed the directors expectations.

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.

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

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 8 December 2017 and signed on its behalf.

R Bienfait
Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (KENT STUDENT ACCOMMODATION) LIMITED

Opinion

We have audited the financial statements of UPP (Kent Student Accommodation) Limited for the year ended 31 August 2017, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2017 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.

Basis for opinion

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the applicable law. 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.

Conclusions relating to going concern

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (KENT STUDENT ACCOMMODATION) LIMITED (CONTINUED)

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by the Compsnies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (KENT STUDENT ACCOMMODATION) LIMITED (CONTINUED)

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Laura Brierley

Laura Brierley (Senior Statutory Auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

Milton Keynes

8 December 2017

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2017

	Note	2017 £000	*As restated* *2016* *£000*
Turnover	4	**3,622**	*3,503*
Cost of sales		**(1,037)**	*(1,019)*
Gross profit		**2,585**	*2,484*
Administrative expenses		**(519)**	*(408)*
Operating profit	5	**2,066**	*2,076*
Interest receivable and similar income	8	**24**	*26*
Interest payable and similar expenses	9	**(3,480)**	*(1,459)*
(Loss)/profit before tax		**(1,390)**	*643*
Tax on (loss)/profit	10	**206**	*(132)*
(Loss)/profit for the financial year		**(1,184)**	*511*

The notes on pages 14 to 32 form part of these financial statements.

The above results all relate to continuing operations.

The 2016 prior year adjustments are further explained in note 20.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2017

	Note	2017 £000	*As restated* *2016* *£000*
(Loss)/profit for the financial year		**(1,184)**	*511*
Other comprehensive income			
Unrealised surplus on revaluation of tangible fixed assets		**-**	*2,090*
Deferred tax on revaluation of tangible fixed assets		**310**	*249*
Other comprehensive income for the year		**310**	*2,339*
Total comprehensive income for the year		**(874)**	*2,850*

The notes on pages 14 to 32 form part of these financial statements.

The 2016 prior year adjustments are further explained in note 20.

BALANCE SHEET
AS AT 31 AUGUST 2017

	Note		2017 £000		2016 £000
Fixed assets					
Tangible fixed assets	11		**34,287**		*34,400*
			34,287		*34,400*
Current assets					
Debtors	12	**2,763**		*4,129*	
		2,763		*4,129*	
Creditors: amounts falling due within one year	13	**(683)**		*(513)*	
Net current assets			**2,080**		*3,616*
Total assets less current liabilities			**36,367**		*38,016*
Creditors: amounts falling due after more than one year	14		**(37,096)**		*(37,356)*
Provisions for liabilities					
Deferred tax	17	**(5,326)**		*(5,841)*	
			(5,326)		*(5,841)*
Net liabilities			**(6,055)**		*(5,181)*
Capital and reserves					
Called up share capital	18		**1,381**		*1,381*
Revaluation reserve	19		**2,810**		*2,524*
Profit and loss account	19		**(10,246)**		*(9,086)*
			(6,055)		*(5,181)*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 8 December 2017.

R Bienfait
Director

J Benkel
Director

The notes on pages 14 to 32 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2017

	Called up share capital	Revaluation reserve	Profit and Loss account	Total equity
	£000	£000	£000	£000
At 1 September 2016 (as previously stated)	1,381	2,524	(11,623)	(7,718)
Prior year adjustment	-	-	2,537	2,537
At 1 September 2016 (as restated)	1,381	2,524	(9,086)	(5,181)
Loss for the year	-	-	(1,184)	(1,184)
Transfer to profit and loss account	-	-	24	24
Deferred tax movement on revaluation of leasehold property	-	310	-	310
Transfer from revaluation reserve	-	(24)	-	(24)
At 31 August 2017	1,381	2,810	(10,246)	(6,055)

The notes on pages 14 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 in reserves. The transfer for 2017 was £24k.

The 2016 prior year adjustments are further explained in note 20.

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 (as previously stated)	1,381	201	(11,575)	(9,993)
Prior year adjustment	-	-	1,962	1,962
At 1 September 2015 (as restated)	1,381	201	(9,613)	(8,031)
Profit for the year	-	-	511	511
Transfer to profit and loss account	-	-	16	16
Surplus on revaluation of principal asset	-	2,339	-	2,339
Transfer from revaluation reserve	-	(16)	-	(16)
At 31 August 2016	1,381	2,524	(9,086)	(5,181)

The notes on pages 14 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 £16k.

The 2016 prior year adjustments are further explained in note 20.

1. General information

UPP (Kent Student Accommodation) Limited is a private company limited by shares and incorporated in England, with company number 05991255. 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 unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

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

Change in accounting policy

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

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

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

The following principal accounting policies have been applied:

2.2 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's 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.

2.3 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. Accounting policies (continued)

2.4 Tangible fixed assets

Tangible fixed assets are stated at cost or 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 company'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 represent 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.

2.5 Derivatives financial instruments

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

To mitigate its exposure to changes in inflation, the Group has entered into inflation-linked swaps ('RPI swaps') with external counterparties. 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 income statement in finance cost or finance income as appropriate, unless they are included in a hedging arrangement.

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

The gain or loss on re-measurement is taken to the Profit and Loss in finance cost or finance income as appropriate.

2. Accounting policies (continued)

2.6 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 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- 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 2017 and these financial statements may be obtained from Companies House, Cardiff CF14 3UZ.

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 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Interest bearing loans and borrowings

Fixed rate senior secured notes, 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. Accounting policies (continued)

2.10 Creditors

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

2.11 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.

2.12 Pensions

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 payments obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due.

2.13 Interest income

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

2.14 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. Accounting policies (continued)

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 charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax 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.

The Company has decided to make the election to be taxed under Regulation 9 in relation to derivative financial instruments and as a result a deferred tax asset or liability is recognised on the carrying value of any derivative instruments. Any deferred tax movements are recognised in other comprehensive income, where hedge accounting is applied for the underlying derivative instrument or in the profit and loss account where hedge accounting is not applied.

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

2.16 Related party transactions

The group is a wholly owned subsidiary of 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.

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.

Valuation of RPI swaps (Note 16)

The Directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis', which is further explained in Note 20. A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness.

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

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 profit or loss.

3. Judgements in applying accounting policies (continued)

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 is reversed for all assets and 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. Where it does, the asset is treated as a tangible fixed asset.

The directors consider the balance of the risks and rewards lies with the Company due to the Company taking the key demand risk and therefore the assets are treated as tangible fixed asset.

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 index linked financial instruments are classified as basic and carried at amortised cost.

4. Turnover

Turnover represents income, on the basis of accounting policy 2.3, excluding VAT, attributed to the provision of student accommodation.

	2017 £000	2016 £000
Provision of student accommodation	3,622	3,503
	3,622	3,503

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2017 £000	2016 £000
Depreciation of tangible fixed assets	113	99

6. Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	11	10
Fees payable to the Company's auditor in respect of:		
Taxation compliance services	4	5
	4	5

7. Employees

Staff costs were as follows:

	2017 **£000**	*2016* *£000*
Wages and salaries	**125**	*162*
Social security costs	**10**	*15*
Cost of defined contribution scheme	**1**	*2*
	136	*179*

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

	2017 **No.**	*2016* *No.*
Site managers (full time)	**1**	*1*
Administration, maintenance and cleaning (full and part time)	**5**	*6*
	6	*7*

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Company are considered to be key management personnel. Total remuneration with respect of these individuals is £nil (2016: £nil).

8. Interest receivable

	2017 **£000**	*2016* *£000*
Interest receivable from group companies	**12**	*25*
Bank interest receivable	**12**	*1*
	24	*26*

9. Interest payable and similar charges

	2017 £000	*As restated 2016 £000*
Fixed rate interest due to group undertaking	**1,260**	*1,130*
Subordinated loan note interest payable	**962**	*1,010*
Fair value movement on RPI swaps	**1,057**	*(926)*
Index-linked interest due to group undertaking	**201**	*245*
	3,480	*1,459*

Interest payable to group undertakings is payable to UPP Bond Issuer plc.

Subordinated loan interest is payable to UPP Bond 1 Limited.

10. Taxation

	2017 £000	*2016 £000*
Total current tax	**-**	*-*
Deferred tax		
Current year - Profit and Loss	**(207)**	*186*
Rate difference	**1**	*(54)*
Total deferred tax	**(206)**	*132*
Taxation on (loss)/profit on ordinary activities	**(206)**	*132*

10. Taxation (continued)

Factors affecting tax (credit) / charge for the year

The tax assessed for the year is lower than *(2016 - lower than)* the standard rate of corporation tax in the UK of 19.58% *(2016 - 20%)*. The differences are explained below:

	2017 **£000**	*2016* *£000*
Profit on ordinary activities before tax	**(1,389)**	*645*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.58% (2016 - 20%)	**(272)**	*1*
Effects of:		
Expenses disallowable for tax purposes	**19**	*136*
Rate change	**1**	*9*
Movement in deferred tax not recognised	**46**	*(14)*
Total tax charge for the year	**(206)**	*132*

Factors that may affect future tax charges

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

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

A deferred tax asset of £1,592k (2016: £1,593k) in respect of available tax losses has not been recognised at 31 August 2017. 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 2016	**34,400**
At 31 August 2017	**34,400**
Depreciation	
Charge for the year on owned assets	**113**
At 31 August 2017	**113**
Net book value	
At 31 August 2017	**34,287**
At 31 August 2016	*34,400*

11. Tangible fixed assets (continued)

Fixed assets include borrowing costs of £991k (2016: £991k).

Assets used in operating leases were independently valued by Jones Lang LaSalle Limited ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2016. JLL have confirmed that the value as at that date was £34,400k.

Following an internal review of the assets used in operating leases, the directors have concluded there is no impairment to the value as determined by JLL in 2016.

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

	2017	2016
Discount rates	8.50%	8.50%
Occupancy rates	99%	99%
Long term annual rental growth	3.0%	3.0%

Book value or valuation at 31 August 2017 is as follows:

	Assets for use in operating leases £000
At cost	**27,123**
At valuation:	
Revaluation as at 31 August 2016	**7,277**
	34,400

If the land and buildings had not been included at valuation they would have been included under the historical cost convention as follows:

	2017 £000	*2016 £000*
Cost	**27,123**	*27,123*
Accumulated depreciation	**(605)**	*(516)*
Net book value	**26,518**	*26,607*

12. Debtors

	2017 £000	*As restated* *2016* *£000*
Due after more than one year		
Financial instruments	**1,588**	*2,645*
	1,588	*2,645*
Due within one year		
Trade debtors	**6**	-
Amounts owed by group undertakings	**1,164**	*1,481*
Prepayments and accrued income	**5**	*3*
	2,763	*4,129*

Included within amounts owed by group undertaking is a balance of £550k (2016 - £527k) 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

	2017 £000	*2016* *£000*
Fixed rate on loan	**370**	*343*
Trade creditors	**110**	*9*
Amounts owed to group undertakings	**73**	*67*
Other taxation and social security	**2**	*1*
Accruals and deferred income	**128**	*93*
	683	*513*

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

	2017 £000	*As restated 2016 £000*
Fixed rate on loans	**20,810**	*21,148*
Index linked on loans	**5,367**	*5,167*
Unsecured subordinated loan	**10,919**	*11,041*
	37,096	*37,356*

15. Loans

Senior secured on loan notes

On 5 March 2013, 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 £382.1 million Senior Secured Notes. The proceeds of this bond issuance were on lent to UPP (Broadgate Park) Limited and five other subsidiary undertakings of UPP Bond 1 Limited, to enable the companies to repay their existing senior bank debt funding.

These notes are listed on the Irish Stock Exchange. The 4.9023% fixed rate loan notes are due to be fully repaid by 2040, with repayments having begun in August 2013.The 2.7291% index linked loan notes are due to be fully repaid by 2047, with repayments starting in August 2038.

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	74,726,000	Fixed rate at 4.9023%	28 February 2040
Tranche B	17,391,000	Index-linked at 2.7291%	31 August 2047

The on-loan facilities above are 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 Company by way of fixed and floating charges.

Unsecured subordinated loan notes

On 5 March 2013, UPP Bond 1 Limited provided unsecured subordinated loan notes of £32,039,000 to the Company. These loan notes bear interest at 14% and are repayable by 2048.

15. Loans (continued)

Analysis of the maturity of loans is given below:

	2017 £000	2016 £000
Amounts falling due within one year		
Fixed rate on loans	**370**	*343*
	370	*343*
Amounts falling due 1-2 years		
Fixed rate on loans	**422**	*370*
	422	*370*
Amounts falling due 2-5 years		
Fixed rate on loans	**1,371**	*1,304*
	1,371	*1,304*
Amounts falling due after more than 5 years		
Fixed rate on loans	**19,017**	*19,475*
Index-linked on loans	**5,367**	*5,167*
Unsecured subordinated loan	**10,919**	*11,041*
	35,303	*35,683*
	37,466	*37,700*

16. Financial instruments

	2017 £000	*As restated 2016 £000*
Financial assets		
Derivitave financial instruments measured at fair value	**1,588**	*2,645*
Financial assets measured at amortised cost	**1,166**	*1,481*
	2,754	*4,126*
Financial liabilities		
Financial liabilities measured at amortised cost	**(37,649)**	*(37,775)*
	(37,649)	*(37,775)*

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

Financial assets measured at amortised cost comprise cash 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, fixed rate senior secured notes, index linked senior secured notes, unsecured subordinated loan notes.

Derivative financial instruments measured at fair value through profit or loss comprise an RPI swap.

To mitigate the risks of inflation movements in the underlying income generation of the Company impacting on the Company's ability to service the fixed rate senior on loans, the Company has entered into an RPI swap with UPP Bond 1 Issuer plc, a fellow group company, which has entered into on loan arrangements with the Company. The notional amounts swapped for each year has been determined with reference to a percentage of the fixed rate on loan servicing costs.

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

The Company entered into the RPI swap on 5 March 2013, fixing a portion of the underlying rental income stream to 2.7%. The RPI swap is for a period of 27 years from March 2013, commencing in February 2015 and finishing in February 2040.

The Company does not apply hedge accounting for its derivative instrument as the criteria are not met under section 12 FRS 102. A hedging gain net of deferred tax of £866k arose during the year (2016: £794k loss) and was recognised in the Profit and Loss Account, reflecting the change in fair value of this RPI swap.

17. Deferred taxation

	2017 £000	2016 £000
At beginning of year	(5,842)	(5,958)
Charged to profit or loss	206	(132)
Charged to other comprehensive income	310	249
At end of year	(5,326)	(5,841)

The provision for deferred taxation is made up as follows:

	2017 £000	2016 £000
Deferred tax on fair value of swaps	(270)	(476)
Deferred tax on revaluation of tangible fixed asset	(5,056)	(5,365)
	(5,326)	(5,841)

18. Share capital

	2017 £000	2016 £000
Shares classified as equity		
Authorised		
1,396,153 A Ordinary shares of £1 each	1,396	1,396
Allotted, called up and fully paid		
1,380,953 A Ordinary shares of £1 each	1,381	1,381

The Ordinary shares have the rights and restrictions as set out in the amended Articles of Association of the Company.

19. Reserves

Revaluation reserve

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

Profit and loss account

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

20. Prior year adjustment

The Directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis'.

A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness (see also note 3 valuation of RPI swaps for further details on the transfer value measurement basis).

The impact of this change in accounting policy to prior period amounts is a change in opening reserves to £2,537k from £1,962k in 2016.

21. 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 ultimately 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.