
UPP (NOTTINGHAM) LTD

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2016

UPP (NOTTINGHAM) LTD

COMPANY INFORMATION

Directors	R Bailey-Watts J Benkel R Bienfait J Wakeford S O'Shea S Denton
Company secretary	J Benkel
Registered number	04288837
Registered office	40 Gracechurch Street London EC3V 0BT
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Milton Keynes

UPP (NOTTINGHAM) LTD

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UPP (NOTTINGHAM) LTD

STRATEGIC REPORT FOR THE YEAR ENDED 31 AUGUST 2016

Business review

The principal activity of the group is the development, funding, construction and operation of university accommodation under the University Partnerships Programme.

The project comprises new build and estate transfer of 2,768 student residential accommodation bedrooms for Nottingham Trent University both within the city centre and at out of town locations.

The properties have achieved full occupancy during the financial 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.

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 it is unlikely that there will be any significant impact on demand from what is a relatively small proportion of the overall student population (circa 5%). However, the Board remain cognisant of the attendant risks relating to this process and will continue to actively manage these where they arise.

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.

UPP (NOTTINGHAM) LTD

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

Principal risks and uncertainties

Financial risk management objectives and policies

The Company and Group use 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 and Group's operations. All of the Company's and Group's financial instruments are of sterling denomination and the Company and Group do 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. These policies have remained unchanged from the previous year.

Interest rate risk

The Company and Group 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 and group 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 and Group manage 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 and Group 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 20 to the financial statements.

Demand risk

The Company and Group are subjected to risks arising from occupancy voids and nominations by the university partners, which can lead to uncertain revenues. This risk is managed by maintaining 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 and group are in the student market and reduced student numbers could impact upon financial performance. The Company and Group seek to mitigate this risk by building excellent long term relationships with their university partner and ensuring up to date in-depth market analysis is completed each year to enable the company and group to review their strategic position.

UPP (NOTTINGHAM) LTD

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 Group 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
Applications : Acceptance ratio	4.64:1	4.64:1
Core demand pool (no. of students)	15,230	15,230

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 the occupancies noted above are within tolerable limits for the recovery of credit extended to the company. In addition, the Group 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 (NOTTINGHAM) LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2016

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

Directors' responsibilities statement

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

Company law requires the directors to prepare consolidated 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 the Group and of the profit or loss of the Group for that period. In preparing these consolidated 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 consolidated 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 the Group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity of the business

The Group's principal activity is the development, funding, construction and operation of university accommodation under the University Partnerships Programme.

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 and Group's projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Company and Group's finances, contracts and likely future demand trends. The Company and Group have a net liability position and have 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 (NOTTINGHAM) LTD

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

Results and dividends

The loss for the year, after taxation, amounted to £2,823k (2015 - £2,373k).

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

Directors

The directors who served during the year were:

R Bailey-Watts
G Behr (resigned 10 May 2016)
J Benkel
J Wakeford (appointed 27 July 2016)
S O'Shea
S Denton (appointed 22 April 2016)
J Jackson (resigned 25 May 2016)

The following director was appointed following the year end:

R Bienfait (appointed 11 October 2016)

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 and the Group'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 and the Group's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Group 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 (NOTTINGHAM) LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (NOTTINGHAM) LTD

We have audited the financial statements of UPP (Nottingham) Ltd for the year ended 31 August 2016, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Change in equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is the 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 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.

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 Standard 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 parent Company's affairs and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 (NOTTINGHAM) LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (NOTTINGHAM) LTD
(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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Giles Mullins (Senior Statutory Auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

Milton Keynes

12 December 2016

UPP (NOTTINGHAM) LTD

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

	Note	2016 £000	2015 £000
Turnover	4	13,715	13,211
Cost of sales		(5,508)	(5,400)
Gross profit		8,207	7,811
Administrative expenses		(2,395)	(2,002)
Operating profit	5	5,812	5,809
Interest receivable and similar income	8	82	70
Interest payable and similar charges	9	(8,657)	(8,264)
Other finance costs	10	(48)	4
Loss before tax		(2,811)	(2,381)
Tax on loss on ordinary activities	11	(12)	8
Loss for the year		(2,823)	(2,373)
Loss for the year attributable to:			
Owners of the parent		(2,823)	(2,373)
		(2,823)	(2,373)

The notes on pages 18 to 48 form part of these financial statements.

The above results all relate to continuing operations.

UPP (NOTTINGHAM) LTD

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

	Note	2016 £000	2015 £000
Loss for the financial year		(2,823)	(2,373)
Other comprehensive income			
Unrealised deficit on revaluation of tangible fixed assets		(3,058)	-
Actuarial gain on defined benefit schemes		(822)	19
Deferred tax on actuarial gain on defined benefit schemes		147	6
Fair value movement on swaps		952	2,124
Deferred tax on movement on swaps		(220)	(425)
Other comprehensive income for the year		(3,001)	1,724
Total comprehensive income for the year		(5,824)	(649)
Total comprehensive income attributable to:			
Owners of the parent company		(5,824)	(649)
		(5,824)	(649)

The notes on pages 18 to 48 form part of these financial statements.

UPP (NOTTINGHAM) LTD
REGISTERED NUMBER: 04288837

**CONSOLIDATED BALANCE SHEET
AS AT 31 AUGUST 2016**

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Intangible assets	13		273		282
Tangible fixed assets	14		97,500		101,356
			<u>97,773</u>		<u>101,638</u>
Current assets					
Debtors	16	8,555		7,673	
Cash at bank and in hand	17	335		246	
		<u>8,890</u>		<u>7,919</u>	
Creditors: amounts falling due within one year	18	(6,129)		(4,935)	
Net current assets			<u>2,761</u>		<u>2,984</u>
Total assets less current liabilities			<u>100,534</u>		<u>104,622</u>
Creditors: amounts falling due after more than one year	19		(141,285)		(140,445)
Provisions for liabilities					
Net assets excluding pension liability			<u>(40,751)</u>		<u>(35,823)</u>
Pension liability	25		(2,172)		(1,276)
Net liabilities			<u>(42,923)</u>		<u>(37,099)</u>
Capital and reserves					
Called up share capital	23		5,597		5,597
Revaluation reserve	24		7,006		10,147
Other reserves	24		3,395		2,663
Profit and loss account	24		(58,921)		(55,506)
Equity attributable to owners of the parent Company			<u>(42,923)</u>		<u>(37,099)</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 18 to 48 form part of these financial statements.

UPP (NOTTINGHAM) LTD
REGISTERED NUMBER: 04288837

COMPANY BALANCE SHEET
AS AT 31 AUGUST 2016

	Note	2016 £000	2016 £000	2015 £000
Fixed assets				
Intangible assets	13	408		417
Tangible fixed assets	14	97,500		101,356
Investments	15	-		-
		<u>97,908</u>		<u>101,773</u>
Current assets				
Debtors	16	8,420	7,538	
Cash at bank and in hand	17	335	246	
		<u>8,755</u>	<u>7,784</u>	
Creditors: amounts falling due within one year	18	(6,132)	(4,935)	
Net current assets		<u>2,623</u>		<u>2,849</u>
Total assets less current liabilities		<u>100,531</u>		<u>104,622</u>
Creditors: amounts falling due after more than one year	19	(141,285)		(140,445)
Net assets excluding pension liability		<u>(40,754)</u>		<u>(35,823)</u>
Pension liability	25	(2,170)		(1,276)
Net liabilities		<u>(42,924)</u>		<u>(37,099)</u>
Capital and reserves				
Called up share capital	23	5,597		5,597
Revaluation reserve	24	7,006		10,147
Cash flow hedge reserve	24	3,395		2,663
Profit and loss account	24	(58,922)		(55,506)
		<u>(42,924)</u>		<u>(37,099)</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

UPP (NOTTINGHAM) LTD
REGISTERED NUMBER: 04288837

COMPANY BALANCE SHEET (CONTINUED)
AS AT 31 AUGUST 2016

The notes on pages 17 to 47 form part of these financial statements.

UPP (NOTTINGHAM) LTD

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

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 September 2015	5,597	10,147	2,663	(55,506)	(37,099)
Loss for the year	-	-	-	(2,823)	(2,823)
Actuarial losses on pension scheme	-	-	-	(822)	(822)
Transfer to profit and loss account	-	-	-	83	83
Deficit on revaluation of leasehold property	-	(3,058)	-	-	(3,058)
Other comprehensive income for the year	-	-	732	147	879
Transfer from revaluation reserve	-	(83)	-	-	(83)
At 31 August 2016	5,597	7,006	3,395	(58,921)	(42,923)

The notes on pages 17 to 47 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 £83k.

UPP (NOTTINGHAM) LTD

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

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 September 2014	5,597	10,224	964	(53,235)	(36,450)
Loss for the year	-	-	-	(2,373)	(2,373)
Actuarial gains on pension scheme	-	-	-	19	19
Transfer to profit and loss account	-	-	-	77	77
Other comprehensive income for the year	-	-	1,699	6	1,705
Transfer from revaluation reserve	-	(77)	-	-	(77)
At 31 August 2015	5,597	10,147	2,663	(55,506)	(37,099)

The notes on pages 18 to 48 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 £77k.

UPP (NOTTINGHAM) LTD

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

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 September 2015	5,597	10,147	2,663	(55,506)	(37,099)
Loss for the year	-	-	-	(2,824)	(2,824)
Actuarial losses on pension scheme	-	-	-	(822)	(822)
Transfer to profit and loss account	-	-	-	83	83
Deficit on revaluation of leasehold property	-	(3,058)	-	-	(3,058)
Other comprehensive income for the year	-	-	732	147	879
Transfer from revaluation reserve	-	(83)	-	-	(83)
At 31 August 2016	5,597	7,006	3,395	(58,922)	(42,924)

The notes on pages 17 to 47 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 £83k.

UPP (NOTTINGHAM) LTD

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

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 September 2014	5,597	10,224	964	(53,235)	(36,450)
Loss for the year	-	-	-	(2,373)	(2,373)
Actuarial gains on pension scheme	-	-	-	19	19
Transfer to profit and loss account	-	-	-	77	77
Other comprehensive income for the year	-	-	1,699	6	1,705
Transfer from revaluation reserve	-	(77)	-	-	(77)
At 31 August 2015	5,597	10,147	2,663	(55,506)	(37,099)

The notes on pages 18 to 48 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 £77k.

UPP (NOTTINGHAM) LTD

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2016**

	2016 £000	2015 £000
Cash flows from operating activities		
Loss for the financial year	(2,823)	(2,373)
Adjustments for:		
Amortisation of intangible assets	9	9
Depreciation of tangible assets	798	744
Interest paid	8,625	8,213
Interest received	(82)	(70)
Taxation	12	(8)
(Increase)/decrease in debtors	(106)	45
Increase in amounts owed by group undertakings	(775)	(2,515)
Decrease in creditors	(957)	(2,914)
Increase in amounts owed to group undertakings	2,069	3,752
Net cash generated from operating activities	6,770	4,883
Cash flows from investing activities		
Interest received	82	70
Net cash from investing activities	82	70
Cash flows from financing activities		
Repayment of loans	(577)	(442)
Interest paid	(6,186)	(4,402)
Net cash used in financing activities	(6,763)	(4,844)
Net increase in cash and cash equivalents	89	109
Cash and cash equivalents at beginning of year	246	137
Cash and cash equivalents at the end of year	335	246
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	335	246
	335	246

The notes on pages 18 to 48 form part of these financial statements.

UPP (NOTTINGHAM) LTD

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

1. General information

UPP (Nottingham) Ltd is a private limited company incorporated in England, with company number 04288837. 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 tangible fixed assets and the modification to a fair value basis of all derivative financial instruments 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 27.

The Group has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting By Operators, and as a result its tangible 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 Group 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 27.

The Company has taken advantage of the disclosure exemption allowed under FRS 102 not to comply with Section 7 Statement of Cash Flows and it has not presented its own Statement of Cash Flows in these financial statements.

The financial statements are presented in Sterling (£), which is the Group'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 Group management to exercise judgement in applying the Group's accounting policies (see note 3).

The following principal accounting policies have been applied:

UPP (NOTTINGHAM) LTD

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

2. Accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements present the results of the Group and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Consolidated Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Profit and Loss Account from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 01 September 2014.

2.3 Going concern

The directors have reviewed the Company and Group's projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Company and Group's finances, contracts and likely future demand trends. The Company and Group have a net liability position and have 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 Intangible fixed assets

Goodwill arose on the acquisition of a subsidiary undertaking during the year ended 31 August 2008.

Goodwill attributed to the subsidiary undertaking is amortised on a straight line basis over the remaining lease period on the principal asset held by the Group. This period of amortisation is greater than 20 years but represents the period over which the subsidiary undertaking acquired will continue to generate operating cash flows.

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

UPP (NOTTINGHAM) LTD

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 Group 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. 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 Valuation of investments

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

2.8 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.

UPP (NOTTINGHAM) LTD

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

2. Accounting policies (continued)

2.9 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.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

2.10 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.

2.11 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.

2.12 Derivative financial instruments

Derivatives, include inflation swaps.

To mitigate the impact of inflation movements on future rental income and the Group's ability to service the fixed rate senior loan notes, the Group has entered into inflation linked swaps ('RPI swaps') with UPP Bond 1 Issuer Plc, a fellow group undertaking. All derivative financial 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 P&L 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.

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

2. Accounting policies (continued)

2.13 Hedge accounting

The Group applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. The Group designates all its derivative financial instruments, which meet the qualifying conditions for hedge accounting, as cash flow hedges.

Inflation linked swaps are held to manage the Group's exposure to changes in RPI. The Group's rental income from student accommodation is linked to RPI and the swap contracts manage the exposure to RPI by swapping RPI annual rate changes with a fixed rate.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income directly in the cash flow hedge reserve. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the profit and loss when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

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

2.14 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.

Financing costs also include losses or gains arising on any ineffective portion of fair value changes of designated for hedge accounting derivative instruments. Any movements in fair value of derivative instruments designated for hedge accounting that are effective are recognised in other comprehensive income as finance gains or losses.

2.15 Borrowing cost

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.

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

2. Accounting policies (continued)

2.16 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the Consolidated 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 Group in independently administered funds.

Defined benefit pension plan

The Group operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

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

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

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

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

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

UPP (NOTTINGHAM) LTD

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

2. Accounting policies (continued)

2.17 Interest income

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

2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated 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 and the Group operate and generate 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 Group 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 Group 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 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 (NOTTINGHAM) LTD

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

2. Accounting policies (continued)

2.19 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.

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 Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

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

Revaluation of the principal assets

The Group has adopted a policy to revalue the principal 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 Group engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the valuation of the principal assets are further explained in note 14 on page 34. JLL have confirmed that the value of the revalued assets as at the 31st of August 2016 was £97,500k.

Goodwill

The Group establishes a reliable estimate of the useful economic life of goodwill arising on business combinations. Goodwill attributed to subsidiary undertakings is amortised on a straight line basis over the remaining lease period on the principal asset held by each subsidiary. This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows. For further details refer to note 13.

Valuation of RPI swaps (note 21)

The Company entered into derivative financial instruments, being RPI swaps, to manage the Group's exposure to RPI. Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently re-measured at fair value at each reporting date. The fair values of the swaps are based on mark to market valuations adjusted for credit risk. 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 unless hedge accounting is applied, in which case, any portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income.

UPP (NOTTINGHAM) LTD

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

3. Judgments in applying accounting policies (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether an asset may be impaired. If any such indication exists the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the assets 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. There has been no impairment in the current year or in the prior year.

Pension liability

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds in the respective currency, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Please refer to note 25 for further details.

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

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

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

UPP (NOTTINGHAM) LTD

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

3. Judgments in applying accounting policies (continued)

Classification of index-linked financial instruments

The Group's index-linked senior secured notes are fully amortising with both principal repayments and real interest adjusted semi-annually by the change in the RPI index. Management have concluded that despite both principal and interest being linked to RPI, these links are not leveraged 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 Group's index linked financial instruments are classified as basic and carried at amortised cost.

Hedge accounting for inflation swaps

The Group has chosen to apply hedge accounting for all hedging instruments which are in a qualifying hedging relationship under FRS 102 Section 12. Significant judgement is exercised in concluding that future inflationary increases or decreases in rent receivable from university partners are separately identifiable and reliably measurable components of the rental income which ensures the inflation component of rental income and the related RPI swaps are in a hedging relationship which meets the qualifying criteria for hedge accounting under Section 12. It is considered that the criteria to apply hedge accounting have been met.

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	13,715	13,211
	<u>13,715</u>	<u>13,211</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	798	744
Amortisation of intangible assets, including goodwill	9	9
Auditor's remuneration	24	24
Defined contribution pension cost	80	109
Defined benefit pension cost	48	42
	<u> </u>	<u> </u>

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

UPP (NOTTINGHAM) LTD

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

6. Auditor's remuneration

	2016	2015
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's financial statements:	<u>19</u>	<u>20</u>
Fees payable to the Company's auditor and its associates in respect of non audit services:		
Taxation compliance services	<u>5</u>	<u>4</u>
	<u>5</u>	<u>4</u>

7. Employees

Staff costs were as follows:

	2016	2015
	£000	£000
Wages and salaries	1,876	1,784
Social security costs	138	129
Cost of defined benefit scheme	48	42
Cost of defined contribution scheme	80	109
	<u>2,142</u>	<u>2,064</u>

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

	2016	2015
	No.	No.
Site managers	3	3
Administration, maintenance and cleaning	98	98
	<u>101</u>	<u>101</u>

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total remuneration with respect of these individuals is £nil (2015: £nil).

UPP (NOTTINGHAM) LTD

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

8. Interest receivable

	2016 £000	2015 £000
Interest receivable from group companies	71	63
Bank interest receivable	11	7
	<u>82</u>	<u>70</u>

9. Interest payable and similar charges

	2016 £000	2015 £000
Interest payable on fixed rate senior secured notes	3,938	3,999
Subordinated loan interest payable	3,785	3,468
Interest payable on index-linked senior secured notes	934	797
	<u>8,657</u>	<u>8,264</u>

Subordinated loan interest is payable to UPP Bond 1 Limited.

10. Other finance costs

	2016 £000	2015 £000
Net interest on net defined benefit liability	(48)	4
	<u>(48)</u>	<u>4</u>

UPP (NOTTINGHAM) LTD

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

11. Taxation

	2016 £000	2015 £000
Total current tax	-	-
Deferred tax		
Current year - defined pension scheme	(15)	(8)
Rate difference - defined pension scheme	27	-
Total deferred tax	12	(8)
Taxation on profit/(loss) on ordinary activities	12	(8)

Factors affecting tax charge for the year

The tax assessed for the year is higher 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
Loss on ordinary activities before tax	(2,811)	(2,381)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 21%)	(562)	(500)
Effects of:		
Expenses disallowable for tax purposes	75	404
Rate change	27	-
Movement on deferred tax not recognised	472	88
Total tax charge for the year	12	(8)

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 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 £6,010k (2015: £6,199k) 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.

UPP (NOTTINGHAM) LTD

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

12. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The loss after tax of the Company for the year was £2,811k (2015 - loss £2,373k).

13. Intangible assets

Group and Company

	Goodwill £000
Cost	
At 1 September 2015	357
At 31 August 2016	<u>357</u>
Amortisation	
At 1 September 2015	75
Charge for the year	9
At 31 August 2016	<u>84</u>
Net book value	
At 31 August 2016	<u>273</u>
At 31 August 2015	<u>282</u>

Goodwill arose on the acquisition of a UPP (Gill Street) Limited during the year ended 31 August 2008.

UPP (NOTTINGHAM) LTD

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

14. Tangible fixed assets

Group and Company

	Assets for use in operating leases £000
Cost or valuation	
At 1 September 2015	102,100
Revaluations	(4,600)
	<hr/>
At 31 August 2016	97,500
	<hr/>
At 1 September 2015	744
Charge for period on owned assets	798
On revalued assets	(1,542)
	<hr/>
At 31 August 2016	-
	<hr/>
Net book value	
At 31 August 2016	97,500
	<hr/> <hr/>
At 31 August 2015	101,356
	<hr/> <hr/>

UPP (NOTTINGHAM) LTD

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

14. Tangible fixed assets (continued)

Fixed assets include borrowing cost up of £991k (2015: £991k).

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 £97,500k.

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	9.25%	N/A
Occupancy rates	99%	N/A
Long term annual rental growth	3%	N/A

Cost or valuation at 31 August 2016 is as follows:

	Assets for use in operating leases £000
At cost	94,630
At valuation:	
Revaluation as at 31 August 2016	2,870
	97,500

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
Group		
Cost	94,630	94,630
Accumulated depreciation	(4,479)	(3,763)
Net book value	90,151	90,867

UPP (NOTTINGHAM) LTD

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

15. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
UPP (Gill Street) Limited	UK	Ordinary	100 %	Dormant

The aggregate of the share capital and reserves as at 31 August 2016 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Aggregate of share capital and reserves £000
UPP (Gill Street) Limited	135
	135

16. Debtors

	Group 2016 £000	<i>Group 2015 £000</i>	Company 2016 £000	<i>Company 2015 £000</i>
Due after more than one year				
Deferred tax asset	657	742	657	742
Due within one year				
Amounts owed by group undertakings	7,616	6,841	7,481	6,706
Prepayments and accrued income	282	90	282	90
	8,555	<i>7,673</i>	8,420	<i>7,538</i>

Included within amounts owed by group undertaking is a balance of £1,557k (2015 - £1,426k) 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 amounts owed by group undertakings are repayable on demand and not subject to interest.

UPP (NOTTINGHAM) LTD

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

17. Cash and cash equivalents

	Group 2016 £000	<i>Group 2015 £000</i>	Company 2016 £000	<i>Company 2015 £000</i>
Cash at bank and in hand	335	246	335	246
	<u>335</u>	<u>246</u>	<u>335</u>	<u>246</u>

18. Creditors: Amounts falling due within one year

	Group 2016 £000	<i>Group 2015 £000</i>	Company 2016 £000	<i>Company 2015 £000</i>
Current installments due on loans	680	577	680	577
Trade creditors	194	152	194	152
Amounts owed to group undertakings	2,862	2,776	2,862	2,776
Taxation and social security	2	2	2	2
Accruals and deferred income	2,391	1,428	2,394	1,428
	<u>6,129</u>	<u>4,935</u>	<u>6,132</u>	<u>4,935</u>

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

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

	Group 2016 £000	<i>Group 2015 £000</i>	Company 2016 £000	<i>Company 2015 £000</i>
Fixed rate on loans	74,688	75,247	74,688	75,247
Index linked on loans	20,397	20,029	20,397	20,029
Unsecured subordinated loan notes	44,717	42,734	44,717	42,734
Derivative financial instruments	1,483	2,435	1,483	2,435
	<u>141,285</u>	<u>140,445</u>	<u>141,285</u>	<u>140,445</u>

UPP (NOTTINGHAM) LTD

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

20. Loans

On loans

On 5 March 2013 a fellow subsidiary of the Group'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 (Nottingham) 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 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 group 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	79,425,000	Fixed rate at 4.9023%	28 February 2040
Tranche B	19,565,000	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 group 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 £37,137,000 to the group. These loan notes bear interest at 14% and are repayable by 2047.

Analysis of the maturity of loans is given below:

	Group 2016 £000	<i>Group 2015 £000</i>	Company 2016 £000	<i>Company 2015 £000</i>
Amounts falling due within one year				
Fixed rate on loans	680	577	680	577
	<u>680</u>	<u>577</u>	<u>680</u>	<u>577</u>
Amounts falling due 1-2 years				
Fixed rate on loans	1,102	680	1,102	680
	<u>1,102</u>	<u>680</u>	<u>1,102</u>	<u>680</u>

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20. Loans (continued)

Amounts falling due 2-5 years

Fixed rate on loans	5,509	4,604	5,509	4,604
	<u>5,509</u>	<u>4,604</u>	<u>5,509</u>	<u>4,604</u>

Amounts falling due after more than 5 years

Fixed rate on loans	68,076	69,962	68,076	69,962
Index-linked rate on loans	20,397	20,029	20,397	20,029
Subordinated loan notes	44,717	42,734	44,717	42,734
	<u>133,190</u>	<u>132,725</u>	<u>133,190</u>	<u>132,725</u>
	<u>140,481</u>	<u>138,586</u>	<u>140,481</u>	<u>138,586</u>

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21. Financial instruments

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Financial assets				
Financial assets that are debt instruments measured at amortised cost	7,481	6,841	7,481	6,706
	<u>7,481</u>	<u>6,841</u>	<u>7,481</u>	<u>6,706</u>
Financial liabilities				
Financial liabilities measured at amortised cost	(145,931)	(142,942)	(146,080)	(143,117)
Derivative financial instruments designated as hedges of variable interest rate risk	(1,483)	(2,435)	1,483	2,435
	<u>(147,414)</u>	<u>(145,377)</u>	<u>(144,597)</u>	<u>(140,682)</u>

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.

To mitigate the risks of inflation movements in the underlying income generation of the Group impacting on the Group and Company's ability to service the fixed rate senior on loans, the Group 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 Group. The notional amounts swapped for each year has been determined with reference to a percentage of the fixed rate on loan servicing costs.

The fair value of this derivative instrument has been determined using yield curves derived from quoted RPI rates matching the maturity of the RPI swap. This fair value is based on a mark to market valuation adjusted for credit risk.

The Group 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 2042.

The Group applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A hedging gain of £952k arose during the year (2015 :£2,124k gain) and was recognised in the Statement of Comprehensive Income, reflecting the change in fair value of the RPI swap.

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**NOTES TO THE FINANCIAL STATEMENTS
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22. Deferred taxation

Group

	2016 £000	2015 £000
At beginning of year	742	912
Charged to the profit or loss	(12)	-
Charged to other comprehensive income	(73)	(170)
At end of year	657	742

The deferred tax asset is made up as follows:

	Group 2016 £000	<i>Group 2015 £000</i>	Company 2016 £000	<i>Company 2015 £000</i>
Deferred tax on fair value of RPI swaps	267	487	267	487
	267	487	267	487

23. Share capital

	2016 £000	2015 £000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
5,596,747 Ordinary shares of £1 each	5,597	5,597

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

24. 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.

Other reserves

Other reserves comprise of cash flow hedge reserve which includes the fair value movements on the derivatives financial instruments and the deferred tax associated with these.

Profit and loss account

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

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

25. Pension commitments

The Group operates a defined benefit pension scheme.

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The total cost charged to the profit and loss account of £80k (2015: credit of £109k) represents a pre-determined amount of the employee's salary paid into the scheme. As at 31 August 2016 £Nil (2015: £Nil) contributions remained outstanding.

Defined benefit scheme

Retirement benefits for 56 Group employees are provided by a defined benefit scheme which is funded by contributions by the employee and the Group. Payments are made to Nottinghamshire County Council Pension Fund ("NCCPF"). This is an independently administered scheme and contracted out of the State Earnings Related Pension Scheme.

Contributions are set every three years as a result of the actuarial valuation, the next being carried out at 31 March 2016 and will set contributions for the period from 1 April 2016 to 31 March 2020.

The material assumptions used by the Actuary at 31 August 2016 were:

	31 August 2016	31 August 2015
Rate of inflation	3.1%	3.4%
Rate of increase in salaries	4.0%	4.3%
Rate of increase in pensions	2.2%	2.5%
Discount rate for liabilities	2.1%	3.8%

Reconciliation of present value of plan liabilities:

	2016 £000	2015 £000
At the beginning of the year	3,818	3,688
Current service cost	79	107
Interest cost	142	141
Actuarial gains/losses	1,089	(70)
Contributions	16	22
Benefits paid	(174)	(70)
At the end of the year	4,970	3,818

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**NOTES TO THE FINANCIAL STATEMENTS
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25. Pension commitments (continued)

	2016 £000	2015 £000
Reconciliation of fair value of plan assets:		
At the beginning of the year	2,542	2,482
Interest on Assets	95	95
Return on assets less interest	267	(51)
Employer contributions	53	65
Employee contributions	16	22
Benefits paid	(174)	(70)
Admin expense	(1)	(1)
At the end of the year	2,798	2,542

	2016 £000	2015 £000
Fair value of plan assets	2,798	2,542
Present value of plan liabilities	(4,970)	(3,818)
Net pension scheme liability	(2,172)	(1,276)

The amounts recognised in profit or loss are as follows:

	2016 £000	2015 £000
Current service cost	79	107
Interest on obligation	48	(4)
Total	127	103

	2016 £000	2015 £000
Opening defined benefit obligation	15	-
Interest cost	48	(4)
Actuarial gains and (losses)	822	(19)
Closing defined benefit obligation	(759)	15

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25. Pension commitments (continued)

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income was £822,000 (2015 - £19,000).

The Group expects to contribute £53,000 to its defined benefit pension scheme in 2017.

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	2016 %	2015 %
Discount rate	2.1	3.8
Future salary increases	4.0	4.3
Future pension increases	2.2	2.5
Mortality rates		
- for a male aged 65 now	22.1	22.1
- at 65 for a male aged 45 now	24.4	24.2
- for a female aged 65 now	25.3	25.2
- at 65 for a female member aged 45 now	27.7	27.6

The most recent triennial valuation of the group's pension scheme for funding purposes has been performed as at 31 March 2013. The group will monitor funding levels annually and the funding schedule will be reviewed between the Group and the directors every three years, based on actuarial valuations. The next triennial valuation is due to be completed at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. The Group considers that the contribution rates agreed with the directors are sufficient to eliminate the current deficit over the agreed period.

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26. 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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27. First time adoption of FRS 102

The Group and 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	Group £000	Company £000
Equity at 1 September 2014 under previous UK GAAP		(34,376)	(34,376)
On loans at amortised cost	3	280	280
Subordinated loan notes at amortised cost	3	2,712	2,712
Fair value of RPI swap	1	(4,559)	(4,559)
Deferred tax on fair value of RPI swap	2	911	911
Holiday pay accrual	4	(34)	(34)
Fair value of debt service reserve account	3	(1,384)	(1,384)
Equity shareholders funds at 1 September 2014 under FRS 102		(36,450)	(36,450)

Reconciliation of equity at 31 August 2015

	Note	Group £000	Company £000
Equity at 31 August 2015 under previous UK GAAP		(38,515)	(38,515)
On loans at amortised cost	3	307	307
Subordinated loan notes at amortised cost	3	4,443	4,443
Fair value of RPI swap	1	(2,435)	(2,435)
Deferred tax on fair value of RPI swap	2	486	486
Holiday accrual	4	(34)	(34)
Fair value of debt service reserve account	3	(1,351)	(1,351)
Equity shareholders funds at 31 August 2015 under FRS 102		(37,099)	(37,099)

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

		Group £000	Company £000
Loss for the year under UK GAAP		(4,164)	(4,164)
On loans at amortised cost	3	27	27
Subordinated loan notes at amortised cost	3	1,731	1,731
Fair value of debt service reserve account	3	33	33
Loss for the year ended 31 August 2015 under FRS 102		(2,373)	(2,373)

NOTES TO THE FINANCIAL STATEMENTS
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27. First time adoption of FRS 102 (continued)

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

1 Derivative financial instruments

The Group was not previously required to recognise the RPI swaps on the balance sheet. Instead the effects of these derivative financial instruments were recognised in profit or loss on settlement and any net interest payable was accrued. Under FRS 102, derivative financial instruments are classified as other financial instruments and are recognised as a financial asset or a financial liability, at fair value, when an entity becomes party to the contractual provisions of the instrument.

On the adoption of the requirements of FRS 102 Section 11 and 12, derivative financial liabilities of £4,559k have been recognised in the balance sheet at the date of transition, 1 September 2014. At 31 August 2015, the fair values of the financial liabilities were £2,435k. In accordance with the accounting policy in note 2.12, the difference between the fair values has been recognised in other comprehensive income where a policy of hedge accounting is adopted.

2 Deferred tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach. A deferred tax asset of £911k was recognised on 1 September 2014 in relation to the fair value recognition of the RPI swaps. The deferred tax asset provision as at 31 August 2015 had decreased to £487k.

3 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 Group long term debt instruments as at 1 September 2014:

- On loan notes - a decrease of the liability by £280k with a decrease of £307k in year ended August 2015

- Unsecured loan notes - a decrease of the liability by £2,712k with a further decrease of £1,731k in year ended August 2015 to £4,443k

- Debt service reserve loan balance - a decrease of the asset by an amount of £1,384k with a increase of £2,735k in year ended August 2015

4 Holiday pay accrual

Prior to the adoption of FRS 102, the Group 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 £34k at 1 September 2014 has been made to reflect this. The provision at 31 August 2015 had increased to £34k and the increase in provision of £1k has been charged to profit and loss in the year ended 31 August 2015.

**NOTES TO THE FINANCIAL STATEMENTS
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28. Transitional relief

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

Service concession arrangements

The Group 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 Group's principal assets as at 31 August 2016.

Business combinations

The Group has elected not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets subsumed within goodwill have not been separately recognised.

Hedge accounting

UPP has adopted hedge accounting policies for all its hedging relationships existing on the date of transition which meet the qualifying criteria for hedge accounting to be applied under FRS 102 paragraph 12.18.