Registered number: 06885967

UPP (EXETER) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

COMPANY INFORMATION

Directors	J Benkel S O'Shea R Bailey-Watts J Wakeford R Bienfait
Company secretary	J Benkel
Registered number	06885967
Registered office	40 Gracechurch Street London EC3V 0BT
Independent auditor	Grant Thornton UK LLP Chartered Accountants and Statutory Auditor Victoria House 199 Avebury Boulevard Milton Keynes MK9 1AU

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 AUGUST 2018

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 Exeter.

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

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

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.

During the prior year the Company successfully reached agreement with the contractor that built the accommodation, in relation to a latent defect identified in its newly built accommodation during the year ended 31 August 2015. A programme of remediation works to rectify the latent defect is currently underway and will continue over the next three financial years, with no financial impact on the performance of the Company.

With effect from 1 March 2018, UPP REIT Holdings Limited, the ultimate parent company of the Company has elected for Real Estate Investment Trust ("REIT") status to apply to the Company. As a result, the Company will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Non-qualifying profits and gains continue to be subject to income tax as normal.

As a result subordinated loan notes in the Company have been waived by its parent company, resulting in a capital contribution of £23,889k

The impending exit of the United Kingdom from the European Union (EU) continues to cast uncertainty across numerous sectors of the economy. Brexit is due to occur in March 2019 and Brexit negotiations are split into two parts. The first part relating to the past relationship (the "Divorce settlement") and the second related to future trading relationship. The intention is that both the Divorce settlement and a declaration of political intent in relation to the future trading relationship will be agreed before December 2018. The current Government remains committed to continue current funding and immigration arrangements for EU students until 31 December 2020. Whilst there have been some concerns in relation to how these changes might impact EU and International student enrolment post-Brexit, demand modelling by the Higher Education Policy Institute and London Economics suggests any fall in EU numbers will be largely offset by an increase in the population of International students; an estimated net fall in the full time student population of less than 1 per cent.

In 2016/17 Higher Education Statistics Agency (HESA) data, there were over 404,225 full-time international Higher Education (HE) students at UK HE institutions out of a total of nearly 1.8 million full-time students, representing 22 per cent of all full-time HE students. This comprises 284,000 non-EU students and 120,225 EU-domiciled students.

Despite some uncertainty, the Universities and Colleges Admissions Service (UCAS) published data at the 30 June 2018 deadline, indicating that following UK's vote to leave the EU the number of applicants from the EU increased by 2 per cent. The number of non-EU applicants reported a remarkable increase of 6 per cent, the highest number of applicants for this group. This steady growth in international student numbers proves that demand for UK HE courses remains unaffected by the UK's changing political and economic landscape.

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

Inflation risk

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

Interest rate risk

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

Liquidity risk

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

The maturity of borrowings is set out in note 14 to the financial statements.

Demand risk

The Company is subjected to risks arising from occupancy voids and lack of nominations by the university partner which can lead to uncertain revenues. This risk is managed by maintaining strong 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.

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.

	2017/18	2016/17
Average applications : Acceptance ratio	6.8:1	7.1:1
Average core demand pool (no. of students)	17,510	16,650

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.

	2017/18	2016/17
Average occupancy across the facilities	100.0%	100.0%

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

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 7 December 2018 and signed on its behalf.

R Bienfait
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2018

The directors present their report and the financial statements for the year ended 31 August 2018.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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.

Results and dividends

The loss for the year, after taxation, amounted to £976k *(2017 - £1,105k)*.

The directors do not propose the payment of a dividend (2017: £nil).

Going concern

The directors have reviewed the Company'a 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 current 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.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2018

Directors

The directors who served during the year were:

J Benkel
S O'Shea
R Bailey-Watts
J Wakeford
R Bienfait

Future developments

Occupancy for the 2018/19 financial year has been secured at 100% which has exceeded the directors' expectations.

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 1 and 2.

Disclosure of information to auditor

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

- so far as is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the 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 7 December 2018 and signed on its behalf.

R Bienfait
Director

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

Opinion

We have audited the financial statements of UPP (Exeter) Limited (the "Company") for the year ended 31 August 2018, 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 2018 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 Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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 (EXETER) 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 Companies 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 (EXETER) LIMITED (CONTINUED)

Responsibilities of directors for the finanical statements

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.

Auditor's 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 (Senior Statutory Auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

Milton Keynes

7 December 2018

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £000	*2017* *£000*
Turnover	4	**14,308**	*14,046*
Cost of sales		**(4,142)**	*(4,048)*
Gross profit		**10,166**	*9,998*
Administrative expenses		**(2,273)**	*(1,965)*
Operating profit		**7,893**	*8,033*
Interest receivable	7	**91**	*49*
Interest payable and similar expenses	8	**(8,960)**	*(9,187)*
Loss before tax		**(976)**	*(1,105)*
Tax on loss	9	**-**	*-*
Loss for the financial year		**(976)**	*(1,105)*

The notes on pages 14 to 30 form part of these financial statements.

The above results all relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £000	*2017 £000*
Loss for the financial year		**(976)**	*(1,105)*
Other comprehensive income			
Revaluation of tangible fixed assets	10	**2,898**	-
Deferred tax on revaluation of tangible fixed assets	16	**6,610**	*817*
Capital contribution	18	**23,889**	-
Other comprehensive income for the year		**33,397**	*817*
Total comprehensive income for the year		**32,421**	*(288)*

The notes on pages 14 to 30 form part of these financial statements.

BALANCE SHEET
AS AT 31 AUGUST 2018

	Note		2018 £000		2017 £000
Fixed assets					
Tangible fixed assets	10		**134,900**		*134,351*
			134,900		*134,351*
Current assets					
Debtors: amounts falling due within one year	11	**8,660**		*6,930*	
		8,660		*6,930*	
Creditors: amounts falling due within one year	12	**(6,171)**		*(6,571)*	
Net current assets			**2,489**		*359*
Total assets less current liabilities			**137,389**		*134,710*
Creditors: amounts falling due after more than one year	13		**(133,735)**		*(155,116)*
Provisions for liabilities					
Deferred tax	16	**-**		*(6,610)*	
			-		*(6,610)*
Net assets/(liabilities)			**3,654**		*(27,016)*
Capital and reserves					
Called up share capital	17		**650**		*650*
Revaluation reserve	18		**23,982**		*16,329*
Profit and loss account	18		**(20,978)**		*(43,995)*
			3,654		*(27,016)*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 7 December 2018.

R Bienfait
Director

The notes on pages 14 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2018

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2017	650	16,329	(43,995)	(27,016)
Loss for the year	-	-	(976)	(976)
Transfer to profit and loss account	-	-	104	104
Surplus on revaluation of leasehold property	-	7,757	-	7,757
Capital contribution	-	-	23,889	23,889
Transfer from revaluation reserve	-	(104)	-	(104)
At 31 August 2018	650	23,982	(20,978)	3,654

The notes on pages 14 to 30 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 2018 was £104k.

Profit and loss account includes capital contribution made in 2018 of £23,889k is in relation to the waiver of subordinated loan notes by UPP (Bond 1) Limited, the Company's Parent entity.

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	650	15,607	(42,985)	(26,728)
Loss for the year	-	-	(1,105)	(1,105)
Transfer to profit and loss account	-	-	95	95
Surplus on revaluation of leasehold property	-	817	-	817
Transfer from revaluation reserve	-	(95)	-	(95)
At 31 August 2017	650	16,329	(43,995)	(27,016)

The notes on pages 14 to 30 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 2017 was £95k.

1. General information

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

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

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

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

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 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 2018 and these financial statements may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

2. Accounting policies (continued)

2.3 Going concern

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

2.4 Turnover

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

2.5 Tangible fixed assets

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

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

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

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

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

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

2. Accounting policies (continued)

2.6 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.

2.7 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.

2.8 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 Profit and Loss Account 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.

2.9 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.

2.10 Debt issue costs

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

2.11 Pensions

Defined contribution pension plan

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

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

2. Accounting policies (continued)

2.12 Interest income

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

2.13 Interest bearing loans and borrowings

Index linked senior secured notes and subordinated loan notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method. Refer to note 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 year to which it relates.

2. Accounting policies (continued)

2.14 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.

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.

With effect from 1 March 2018, UPP REIT Holdings Limited, the ultimate parent company of the Company has elected for Real Estate Investment Trust ("REIT") status to apply to the Company. As a result, the Company will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business will no longer be provided for as the relevant temporary differences will no longer be taxable on reversal.

2.15 Related party transactions

The company is a wholly owned subsidiary of UPP Bond 1 Limited which is a wholly owned subsidiary of the ultimate parent company UPP REIT 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 10.

Impairment of non-financial assets

The Company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through impairment in profit and loss, unless the asset is carried at a revalued amount where the impairment loss of a re-valued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Presentation of the principal asset (Note 10)

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.

3. Judgements in applying accounting policies (continued)

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 (Note 14)

The Company's index-linked senior secured notes are fully amortising with both principal repayments and real interest adjusted semi-annually by the change in the RPI index. Management have concluded that despite both principal and interest being linked to RPI, these links are not leveraged and because both principal and interest repayment obligations change in the same proportion and therefore the conditions in paragraphs 11.9(a) and (aA) of FRS 102 are met and the Company's index linked financial instruments are classified as basic and carried at amortised cost.

4. Turnover

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

	2018	*2017*
	£000	*£000*
Provision of student accommodation	**14,308**	*14,046*
	14,308	*14,046*

All turnover arose within the United Kingdom.

5. Auditor's remuneration

	2018	*2017*
	£000	*£000*
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**14**	*15*
	14	*15*

Fees payable to the Company's auditor and its associates in respect of:

Taxation compliance services	**-**	*4*
	-	*4*

6. Employees and Director information

Staff costs were as follows:

	2018 £000	*2017 £000*
Wages and salaries	1,048	*1,009*
Social security costs	55	*55*
Cost of defined contribution scheme	35	*35*
	1,138	*1,099*

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

	2018 No.	*2017 No.*
Site managers	5	*1*
Adminstration, maintenance and cleaning	58	*69*
	63	*70*

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 (2017: £nil).

7. Interest receivable

	2018 £000	*2017 £000*
Interest receivable from group companies	91	*49*
	91	*49*

8. Interest payable and similar expenses

	2018 £000	2017 £000
Subordinated loan note interest payable	1,365	2,949
Index-linked interest due to group undertaking	7,595	6,238
	8,960	9,187

Subordinated loan interest is payable to UPP Bond 1 Limited; from 1 March 2018 the subordinated loan notes were waived.

Index-linked interest is payable to UPP Bond Issuer plc, included within this amount is £5,889k (2017 - £4,529k) that relates to the index-linked uplift on the outstanding loan.

9. Taxation

	2018 £000	2017 £000
Total current tax	-	-
Deferred tax		
Total deferred tax	-	-
Taxation on profit on ordinary activities	-	-

9. Taxation (continued)

Factors affecting tax charge/ (credit) for the year

The tax assessed for the year is higher than *(2017 - higher than)* the standard rate of corporation tax in the UK of 19.00% *(2017 - 19.58%)*. The differences are explained below:

	2018 £000	*2017* *£000*
Loss on ordinary activities before tax	(975)	*(1,105)*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.58%)	(185)	*(216)*
Effects of:		
Expenses disallowable for tax purposes	129	*211*
Non-taxable income	(22)	*-*
Movement in deferred tax not recognised	102	*5*
Exempt property rental (profits) / losses in the year	(24)	*-*
Total tax charge for the year	-	*-*

Factors that may affect future tax charges

With effect from 1 March 2018, UPP REIT Holdings Limited, the ultimate parent company of the Company has elected for Real Estate Investment Trust ("REIT") status to apply to the Company. As a result, the Company will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Non-qualifying profits and gains continue to be subject to income tax as normal.

There will be a reduction in corporation tax rate from 19% to 17% with effect from 1 April 2020.

A deferred tax asset of £7,193k (2017: £5,367k) in respect of available tax losses has not been recognised at 31 August 2018.

10. Tangible fixed assets

	Assets for use in operating leases £000
Valuation	
At 1 September 2017	134,900
At 31 August 2018	134,900
At 1 September 2017	549
Charge for the year on owned assets	599
On revalued assets	(1,148)
At 31 August 2018	-
Net book value	
At 31 August 2018	134,900
At 31 August 2017	*134,351*

10. Tangible fixed assets (continued)

Fixed assets include borrowing costs up to the date of completion of £4,654k (2017: £4,654k).

Assets used in operating leases were independently valued by Jones Lang LaSalle Limited ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2018. JLL have confirmed that the value as at that date was £136,650k.

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

	2018	2017
Discount rates	8.35%	8.35%
Occupancy rates	99.0%	99.0%
Long term annual rental growth	3.0%	3.0%

Book value or valuation at 31 August 2018 is as follows:

	Assets for use in operating leases £000
At cost	**111,868**
At valuation:	
Revaluation as at 31 August 2018	**23,032**
	134,900

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

	2018 £000	*2017 £000*
Cost	**111,868**	*111,868*
Accumulated depreciation	**(2,805)**	*(2,310)*
Net book value	**109,063**	*109,558*

11. Debtors

	2018 £000	2017 £000
Trade debtors	72	320
Amounts owed by group undertakings	8,575	6,597
Prepayments and accrued income	13	13
	8,660	6,930

Included within amounts owed by group undertaking is a balance of £2,137k (2017: £1,985k) 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 rate 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.

12. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Bank loans	5,040	4,794
Trade creditors	12	324
Amounts owed to group undertakings	561	1,186
Other taxation and social security	13	17
Accruals and deferred income	545	250
	6,171	6,571

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

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

	2018 £000	*2017 £000*
Secured index-linked on loans	**133,735**	*132,592*
Unsecured subordinated loan notes	-	*22,524*
	133,735	*155,116*

Effective from 1 March 2018 subordinated loan notes were waived by UPP (Bond 1) Limited, resulting in a capital contribution of £23,889k.

14. Loans

Senior debt

Secured index linked on loans

On 9 December 2014 a fellow subsidiary of the company's immediate parent UPP Bond 1 Limited, UPP Bond 1 Issuer plc, launched a Multicurrency Programme for the issuance of £149.7 million index linked loan notes. The proceeds of this bond issuance were on lent to the Company to enable the company to repay its existing senior bank debt funding.

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

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

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

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

Unsecured subordinated loan notes

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

Effective from 1 March 2018 subordinated loan notes were waived by UPP (Bond 1) Limited, resulting in a capital contribution of £23,889k.

Analysis of the maturity of loans is given below:

	2018 **£000**	*2017* *£000*
Amounts falling due within one year		
Current instalments due on loans	**5,040**	*4,794*
Amounts falling due 1-2 years		
Index-linked on loans	**5,040**	*5,040*
Amounts falling due 2-5 years		
Index-linked on loans	**5,402**	*16,842*
Amounts falling due after more than 5 years		
Index-linked on loans	**123,294**	*110,709*
Subordinated loan notes	**-**	*22,524*
	138,776	*159,909*

15. Financial instruments

	2018 £000	*2017 £000*
Financial assets		
Financial assets that are debt instruments measured at amortised cost	**8,647**	*6,917*
Financial liabilities		
Financial liabilities measured at amortised cost	**(139,348)**	*(161,671)*

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

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

16. Deferred taxation

	2018 £000	*2017 £000*
At beginning of year	**(6,610)**	*(7,427)*
Charged to other comprehensive income	**6,610**	*817*
At end of year	**-**	*(6,610)*

The provision for deferred taxation is made up as follows:

	2018 £000	*2017 £000*
Deferred tax on revaluation of tangible asset	**-**	*(6,610)*
	-	*(6,610)*

As a result of electing into REIT, the deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business has been released due to the relevant temporary differences no longer being taxable on reversal.

17. Share capital

	2018 £000	*2017* *£000*
Authorised, allotted, called up and fully paid		
650,051 *(2017 - 650,051)* Ordinary shares of £1.00 each	**650**	*650*

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

18. Reserves

Revaluation reserve

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

Profit and loss account

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

Profit and loss account includes capital contribution made in 2018 of £23,889k is in relation to the waiver of subordinated loan notes by UPP (Bond 1) Limited, the Company's Parent entity.

19. Controlling party

The Company is wholly owned by UPP Bond 1 Limited, a wholly owned subsidiary of UPP Bond 1 Holdings Limited.

UPP Bond 1 Holdings Limited is a wholly owned subsidiary of UPP REIT Holdings Limited.

UPP REIT 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 group of which the Company is a member and for which group accounts are prepared is UPP Group Holdings Limited and UPP REIT Holdings Limited

Copies of the UPP Group Holdings Limited accounts can be obtained from Companies House, Crown House, Cardiff CF14 3UZ, once they have been filed.

Copies of the UPP REIT Holdings Limited accounts can be obtained from www.upp-ltd.com, once they have been published.