UPP REIT Holdings Limited

Condensed consolidated interim financial statements for the six months ended 28 February 2019

FINANCIAL STATEMENTS

Directors	Richard Bienfait Michael Bryan Irina Frolova Henry Gervaise-Jones Hendrik Huizing Robert McClatchey Andrew Wilkie
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Secretary	Sanne Secretaries Limited
–	–
Registered office	IFC 5 St. Helier Jersey JE1 1ST

Strategic report

The Directors present their report and financial statements for the six months ended 28 February 2019.

Principal activity and business review

UPP REIT Holdings Limited ('the Company') (ISIN – JE00BF5PSP50) is a close-ended UK REIT and the Parent of the UPP REIT Holdings Group ('the Group'). The Company was incorporated on 18 April 2017 and admitted to the Official List of The International Stock Exchange (TISE) on 28 February 2018. As a result of the Group restructuring in February 2018, the Company became a parent company of UPP Group Holdings Limited, trading as University Partnerships Programme ('UPP').

The Company's principal activities are those of an investment holding company and the provision of treasury management facilities. The principal activity of its subsidiary undertakings is the development, funding, construction and operation, including facilities management of residential student and academic accommodation under the University Partnerships Programme.

For the six months ended 28 February 2019, Group turnover was 11.2% higher year-on-year at £123.9 million. Operating profit for the period was 1.3% higher at £25.4 million. The period also saw the Group reach financial close on a further scheme with the University of Exeter and continue to progress in construction activities relating to schemes with the University of Hull and the University of London.

In January 2019, the Group reached financial close on the East Park project as part of its ongoing partnership with the University of Exeter, a 1,182-bed scheme on the University's Streatham Campus. The Group procured a total of £139.7 million of senior debt, subordinated debt and equity. Pension Insurance Corporation plc (PIC) provided £125.1 million of index-linked debt financing with a tenor of circa 48 years, with £14.6 million of subordinated debt and equity provided by UPP Group and its Shareholders.

Construction has now commenced on the East Park scheme. UPP has appointed Vinci Construction UK Limited to deliver the development. The development is set to become operational over two phases in September 2020 and September 2021 and, when complete, the Group will be operating 4,156 rooms on campus.

In terms of other ongoing development work, the Group has approximately 1,200 further rooms under construction. These schemes – with the University of Hull and the University of London – remain on programme to reach practical completion as planned.

At the University of Hull, Phase One of the £155 million Westfield Court development was completed for the start of the academic year during September 2018. Construction began in May 2017, with the first phase delivering 478 high-quality bedrooms on the University campus. Phase Two – a further 124 bedrooms – became operational as planned for January

2019, with the final phase on target for completion in August 2019.

In total the nine-block development will feature 1,462 single rooms and one-bedroom apartments. Alongside this development, an urban green and avenue will offer a range of facilities including laundry facilities and formal and informal outdoor areas. UPP has also assumed the operation of the existing 288 rooms at the University's Taylor Court residences.

In partnership with the University of London, the Group remains on programme to deliver a further 511 rooms at the Eleanor Rosa House scheme in Stratford, East London. The scheme will provide a mixed-use, 33-storey landmark building delivering over 18,000 square metres of new student accommodation. On completion, in August 2019, the Group will operate all study bedrooms and associated communal space.

Eleanor Rosa House is the Group's second transaction with the University of London, reinforcing UPP's bespoke, long-term partnership with the University which is enhancing and increasing the accommodation available to students at the University and its affiliated institutions.

The Board remains confident both in the robust nature of domestic and international demand for UK higher education, the Group pipeline and the capacity of the Group to secure and deliver transactions coming to market on the basis of its unique selective approach to partnerships. The Group's Board remains cognisant of the attendant risks relating to this approach and will continue to actively manage these where they arise.

Photo credit: Robert Greshoff

Condensed consolidated statement of profit or loss

For the six months ended 28 February 2019

	Notes	**Six months ended 28 February 2019 £'000**	Six months ended 28 February 2018 £'000
Rental and other income	6	123,853	111,334
Cost of sales		(62,712)	(59,357)
Gross profit		**61,141**	**51,977**
Operating expenses		(35,783)	(26,937)
Operating profit		**25,358**	**25,040**
Finance income		**2,687**	**1,371**
Senior financing interest	7	(37,311)	(71,305)
Other interest payable and similar charges	7	(2,127)	(1,960)
Finance cost total		**(39,438)**	**(73,265)**
Loss on ordinary activities before taxation		**(11,393)**	**(46,854)**
Tax on loss on ordinary activities		–	110
Loss for the financial year		**(11,393)**	**(46,744)**
Loss for the financial year attributable to:			
Non-controlling interests		(228)	-
Owners of the Parent		(11,165)	(46,744)
Loss for the financial year		**(11,393)**	**(46,744)**

The above results all relate to continuing operations.

The notes on pages 13 to 34 form part of these financial statements.

Condensed consolidated statement of other comprehensive income

For the six months ended 28 February 2019

	Six months ended 28 February 2019	Six months ended 28 February 2018
	£'000	£'000
Loss for the financial period	**(11,393)**	**(46,744)**
Items that will not be reclassified to profit and loss		
Reversal of deferred tax on revaluation of principal assets	-	11,613
	-	**11,613**
Items that are or may be reclassified subsequently to profit and loss		
Fair value movements on swaps	(4,162)	7,768
Deferred tax on fair value of swaps	-	(24,049)
	(4,162)	**(16,281)**
Total other comprehensive income for the period	**(4,162)**	**(4,668)**
Total comprehensive loss for the period	**(15,555)**	**(51,412)**
Other comprehensive income for the year attributable to:		
Non-controlling interests	(19)	501
Owners of the Parent	(4,143)	(5,169)
Total	**(4,162)**	**(4,668)**
Total other comprehensive income for the period attributable to:		
Non-controlling interests	(246)	501
Owners of the Parent	(15,309)	(51,913)
Total	**(15,555)**	**(51,412)**

The notes on pages 13 to 34 form part of these financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 28 February 2019

	Attributable to equity holders of the Parent Company									
	Share capital	Share premium	Capital reserve	Other reserve	Cash flow hedge reserve	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2017	**1**	**-**	**23,142**	**(28,642)**	**(116,019)**	**36,196**	**(372,735)**	**(458,057)**	**(3,950)**	**(462,007)**
Loss for the financial period	-	-	-	-	-	-	(46,744)	**(46,744)**	-	**(46,744)**
Other comprehensive income	-	-	-	-	(16,281)	11,613	-	**(4,668)**	-	**(4,668)**
Total comprehensive income	-	-	-	**-**	**(16,281)**	**11,613**	**(46,744)**	**(51,412)**	**-**	**(51,412)**
New shares issued	999	458,767	-	-	-	-	-	459,766	-	**459,766**
Reclassification	-	-	-	28,642	-	(28,642)	-	-	-	**-**
Capital contributions	-	-	143	-	-	-	179,462	179,605	-	**179,605**
At 28 February 2018	**1,000**	**458,767**	**23,285**	**-**	**(132,300)**	**19,167**	**(240,017)**	**129,902**	**(3,950)**	**125,952**
At 1 September 2018	**1,000**	**458,767**	**23,285**	**-**	**(105,987)**	**19,167**	**(244,421)**	**151,811**	**(12,377)**	**139,434**
Loss for the financial period	-	-	-	-	-	**-**	(11,165)	**(11,165)**	(228)	**(11,393)**
Other comprehensive income	-	-	-	-	(4,143)	**-**	-	**(4,143)**	(19)	**(4,162)**
Total comprehensive income	-	-	-	-	**(4,143)**	**-**	**(11,165)**	**(15,308)**	**(247)**	**(15,555)**
New shares issued	32	14,718	-	-	-	**-**	-	**14,750**	**-**	**14,750**
Capital contributions	-	-	-	-	-	**–**	-	-	**-**	**-**
Equity-settled share-based payments	-	-	-	-	-	**–**	38	38	**-**	**38**
Transactions with owners										
Dividends paid	-	-	-	-	-	**-**	(8,000)	**(8,000)**	**-**	**(8,000)**
At 28 February 2019	**1,032**	**473,485**	**23,285**	**-**	**(110,130)**	**19,167**	**(263,548)**	**143,291**	**(12,624)**	**130,667**

The notes on pages 13 to 34 form part of these financial statements.

Condensed consolidated statement of financial position

As at 28 February 2019

		28 February 2019	31 August 2018
	Notes	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment		2,460	1,522
Service concession arrangements – intangible assets	10	1,541,922	1,492,771
Other intangible assets		110,048	111,566
Derivative financial assets		26,293	33,524
Total non-current assets		**1,680,723**	**1,639,383**
Current assets			
Trade and other receivables	11	13,102	13,141
Service concession arrangements – financial assets		103,076	103,261
Cash at bank and in hand	21	224,394	207,781
Total current assets		**340,572**	**324,183**
Total assets		**2,021,295**	**1,963,566**
Equity and liabilities			
Liabilities			
Non-current liabilities			
Borrowings	14	1,652,344	1,599,773
Derivative financial instruments	14	130,703	133,122
Employee benefit obligations		1,495	1,495
Total non-current liabilities		**1,784,542**	**1,734,390**

Condensed consolidated statement of financial position (continued)

	Notes	28 February 2019 £'000	31 August 2018 £'000
Current liabilities			
Borrowings	14	37,671	30,749
Trade and other payables	12	15,451	19,679
Accrual and deferred income		52,830	39,188
Provisions		134	126
Total current liabilities		**106,086**	**89,742**
Total liabilities		**1,890,628**	**1,824,132**
Equity			
Called-up share capital		1,032	1,000
Share premium account		473,485	458,767
Capital reserves		23,285	23,285
Cash flow hedge reserve		(110,130)	(105,987)
Revaluation reserve		19,167	19,167
Retained earnings		(263,548)	(244,421)
Equity attributable to owners of the Parent Company		**143,291**	**151,811**
Non-controlling interest		(12,624)	(12,377)
Total equity		**130,667**	**139,434**

The notes on pages 13 to 34 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 14 June 2019 and were signed on its behalf by:

Henry Gervaise-Jones
Director

Condensed consolidated statement of cash flows

For the six months ended 28 February 2019

	Six months ended 28 February 2019	Six months ended 28 February 2018
	£'000	£'000
Loss for the financial year	**(11,393)**	**(46,744)**
Adjustments for:		
Tax on loss on ordinary activities	-	(110)
Net interest expense	36,751	71,895
Operating profit	**25,358**	**25,041**
Depreciation	22,611	15,586
Goodwill impairment	998	998
Amortisation of computer software	500	236
Increase/(decrease) in provisions for dilapidations	8	8
Increase/(decrease) in debtors due within one year	4,743	3,016
Increase/(decrease) in creditors due within one year	9,414	9,624
Net cash inflow from operating activities	**63,632**	**54,509**
Investing activities		
Interest received	964	1,371
Payments for intangible fixed assets	(365)	(56)
Payments for concession arrangements	(75,754)	(55,695)
Acquisition of subsidiary, net of cash acquired	-	(65,024)
Payments to acquire tangible fixed assets	(139)	(1,400)
Net cash flow used in investing activities	**(75,294)**	**(120,804)**

Condensed consolidated statement of cash flows (continued)

	Six months ended 28 February 2019	Six months ended 28 February 2018
	£'000	£'000
Financing activities		
New debt drawn	65,372	85,419
Interest paid	(30,856)	(26,341)
Senior debt repayments	(10,611)	(13,244)
Dividends paid	(8,000)	-
Finance lease payments	(2,380)	-
Capital contributions	14,750	33,000
Net cash flow from/(used in) financing activities	**28,275**	**78,834**
Increase/(decrease) in cash and cash equivalents	**16,613**	**12,539**
Cash and cash equivalents at 1 September	**207,781**	**203,132**
Cash and cash equivalents at 31 August	**224,394**	**215,671**

The notes on pages 13 to 34 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 14 June 2019 and were signed on its behalf by:

Henry Gervaise-Jones
Director

Notes to the condensed consolidated interim financial statements

For the six months ended 28 February 2019

1. General information

UPP REIT Holdings Limited ('the Company') is a close-ended UK REIT and the Parent of the UPP REIT Holdings Group ('the Group').

UPP REIT Holdings Limited is a private company limited by shares and incorporated on 18 April 2017 in Jersey, with company number 123688. The registered office is IFC 5, St. Helier, Jersey, JE1 1ST. This condensed consolidated interim financial statement ('interim financial statements') for the six months ended 28 February 2019 comprise the Company and its subsidiaries (together referred to as 'the Group').

The Company's principal activities are those of an investment holding company and the provision of treasury management facilities. The principal activity of its subsidiary undertakings is the development, funding, construction and operation – including facilities management – of student accommodation, under the University Partnerships Programme.

UPP REIT Holdings Limited is listed on The International Stock Exchange (TISE). UPP REIT Holdings Limited is UK tax resident.

2. Basis of preparation

These interim financial statements of the Group have been prepared in accordance with IAS 34 'Interim Financial Reporting' and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 August 2018 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant with regard to any changes in the Group's financial position and performance since the last annual financial statements.

Except as described below, the accounting policies and methods of computation applied in this interim financial statement are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 August 2018.

These interim financial statements for the six months ended 28 February 2019 were authorised for issue by the Company's Board of Directors on 14 June 2019.

On 7 February 2019, the Group introduced a new, long-term incentive plan that covers share-based payments as well as cash benefits. Accounting policies in relation to the incentive plan are summarised below.

2.1. Share based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service requirement is expected to be met.

2.2. Long-term incentive cash payments

The Group's obligation with respect to long-term employee benefits is calculated as the amount of future benefits that employees have earned in return for their service. This amount is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

3. Impact of new accounting standards and changes in accounting policies

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers both became effective on 1 January 2018.

IFRS 9

The Group adopted IFRS 9 in its last annual financial statements for the year ended 31 August 2018.

IFRS 15

The application of IFRS 15 did not result in a significant impact on revenue recognition within the consolidated financial statements.

The Group earns revenue from the following activities:

- Student accommodation rental income
- Construction services fees
- Management and development services
- Facilities management services
- Finance receivable assets

IFRS 16

Management is performing the impact assessment of IFRS 16 to determine any material differences that might arise from its adoption.

4. Judgements and key sources of estimation uncertainty

The preparation of interim 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.

The significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

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

Valuation of retail price index (RPI) and interest rate (IR) swaps

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

Impairment of non-financial assets

At each reporting date, the Group assesses 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 cost generating unit (CGU) to which the asset belongs. The recoverable amount of an asset or CGU 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 revalued asset is a revaluation decrease.

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

Capitalisation of costs and construction margin

During the period of construction, all costs incurred as a direct result of financing, designing and constructing the student accommodation, including finance costs, have been capitalised.

Revenue on construction is recognised at cost with no margin as profitability is considered negligible with no interim services provided during construction and the risk fully passing down to the building contractor.

Hedge accounting for inflation swaps

The Group has chosen to apply hedge accounting for all hedging instruments. 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. This 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 IFRS.

Taxation

The Group is a Real Estate Investment Trust (REIT). As a result, the Group does not pay UK corporation tax on its profits and gains from the qualifying rental business in the UK. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal. In order to maintain Group REIT status, certain ongoing criteria must be met. The main criteria are as follows:

- At the start of each accounting period, the assets of the tax-exempt business must be at least 75% of the total value of the Group’s assets;
- At least 75% of the Group’s total profits must arise from the tax-exempt business; and
- At least 90% of the notional taxable profit of the property rental business must be distributed

The Directors confirm that these criteria will be met for the qualifying accounting period and intend that the Group should continue as a REIT for the foreseeable future.

Deferred tax assets and liabilities require management judgement in determining the amounts, if any, to be recognised. In particular, judgement is required when assessing the extent to which deferred tax assets should be recognised, taking into account the expected timing and level of future taxable income. Deferred tax assets are only recognised when management believe they will be recovered against future taxable profits.

5. Segment information

The Group is organised into business units based on their services and has three reportable segments as follows:

- Special Purpose Vehicles (SPVs) – performing development, funding, construction and operation of student accommodation under the University Partnerships Programme
- UPP Residential Services Limited (URSL) – providing facilities management services to SPVs
- UPP Projects Limited (UPL) – securing long-term, bespoke partnership agreements to design, build and finance student accommodation and related academic infrastructure

The Group's management monitors the operating results of its segments separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the condensed consolidated interim financial statements.

Transfer prices between operating segments are set on an arm's length basis.

All segments operate and perform all transactions in the UK.

Other operations include financing and general Group management, which are not considered by management as a separate reporting segment.

Segment information (continued)

		SPVs	URSL	UPL	Total segments	Adjustments and eliminations	Consolidated
Six months ended 28 February 2019	Note	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Rental and other income – external		118,656	1,641	3,556	123,853	-	123,853
Rental and other income – internal	A	-	10,122	4,681	14,803	(14,803)	-
Cost of sales	B	(60,228)	(8,281)	(4,462)	(72,971)	10,259	(62,712)
Gross profit		**58,428**	**3,482**	**3,775**	**65,685**	**(4,544)**	**61,141**
Operating expenses	B	(9,014)	(794)	(1,096)	(10,904)	(24,879)	(35,783)
Operating profit		**49,414**	**2,688**	**2,679**	**54,781**	**(29,423)**	**25,358**
Finance income		**2,644**	**-**	**-**	**2,644**	**43**	**2,687**
Senior financing interest		(37,689)	-	-	(37,689)	378	(37,311)
Other interest payable and similar charges	C	(11,027)	-	-	(11,027)	8,900	(2,127)
Finance cost total		**(48,716)**	**-**	**-**	**(48,716)**	**9,278**	**(39,438)**
Segment profit/(loss) on ordinary activities before taxation		**3,342**	**2,688**	**2,679**	**8,709**	**(20,102)**	**(11,393)**
Tax on loss on ordinary activities		-	-	-	-	-	-
Segment profit/loss for the financial year		**3,342**	**2,688**	**2,679**	**8,709**	**(20,102)**	**(11,393)**
Total assets	D	1,936,777	28,157	1,697	**1,966,631**	54,664	**2,021,295**
Total liabilities	D	2,116,259	7,341	7,194	**2,130,794**	(240,166)	**1,890,628**

Segment information (continued)

		SPVs	URSL	UPL	Total segments	Adjustments and eliminations	Consolidated
Six months ended 28 February 2018	Note	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Rental and other income – external		105,243	2,169	1,982	109,394	1,940	111,334
Rental and other income – internal	A	-	9,700	489	10,188	(10,188)	-
Cost of sales	B	(55,690)	(8,330)	(3,384)	(67,404)	8,047	(59,357)
Gross profit		**49,553**	**3,539**	**(913)**	**52,178**	**(201)**	**51,977**
Operating expenses	B	(7,591)	(790)	(1,265)	(9,646)	(17,291)	(26,937)
Operating profit		**41,962**	**2,749**	**(2,178)**	**42,532**	**(17,492)**	**25,040**
Finance income		**1,310**	**-**	**-**	**1,310**	**61**	**1,371**
Senior financing interest		(35,116)	-	-	(35,116)	(36,189)	(71,305)
Other interest payable and similar charges	C	(17,462)	-	-	(17,462)	15,502	(1,960)
Finance cost total		**(52,578)**	**-**	**-**	**(52,578)**	**(20,687)**	**(73,265)**
Loss on ordinary activities before taxation		**(9,306)**	**2,749**	**(2,178)**	**(8,736)**	**(38,118)**	**(46,854)**
Tax on loss on ordinary activities		2,312	(578)	(1,242)	492	(382)	110
Loss for the financial year		**(6,994)**	**2,171**	**(3,420)**	**(8,244)**	**(38,500)**	**(46,744)**
As at 31 August 2018							
Total assets	D	1,866,869	29,336	4,659	**1,900,863**	62,702	**1,963,566**
Total liabilities	D	2,029,115	11,207	13,930	**2,054,253**	(230,121)	**1,824,132**

Notes to the segment information:

A. Rental and other income

Adjustments and eliminations represent intercompany transactions that are eliminated on consolidation. Those transactions are mainly held between URSL and each SPV. There is also an elimination of UPL income that represents internal revenue from any new development projects. This income is eliminated against the SPV's assets.

B. Cost of sales and operating expenses

Adjustments and eliminations represent intercompany transactions that are eliminated on consolidation. Those transactions are mainly transactions held between URSL and each SPV. The adjustments and eliminations line also represents administrative costs that are not allocated to any of the segments.

C. Other interest payable and similar charges

Adjustments and eliminations mainly represent financing costs payable to Shareholders that are not allocated to any of the segments.

D. Total assets and total liabilities

Adjustments and eliminations related to total assets mainly represent assets related to the Group management companies (such as UPP Group Limited) and represent goodwill and cash allocated to those companies. Adjustments and eliminations related to total liabilities represent mainly UPP Bond I Issuer PLC liabilities and accruals and trade creditors related to Group management activities.


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6. Turnover

The Group's operations and main revenue streams are those described in the last annual financial statements. Turnover represents the amounts derived from the provision of services, which fall within the Group's ordinary activities, stated net of value added tax (VAT).

Group turnover arises wholly in the UK and is split as below:

	Six months ended 28 February 2019	Six months ended 28 February 2018
	£'000	£'000
Student accommodation rental income	80,691	76,203
Construction services	33,096	30,467
Management and development services	3,555	1,982
Facilities management services	2,668	2,169
Finance receivable assets	3,843	512
	123,853	**111,334**

7. Interest and similar expense

	Six months ended 28 February 2019	Six months ended 28 February 2018
	£'000	£'000
Financial liabilities measured at amortised cost		
Bank loan interest	12,694	14,014
Interest payable on senior secured notes	18,037	16,073
Interest payable on index-linked facilities	6,580	5,975
Subordinated loan note interest	1,459	1,818
Interest due on loan from parent company	-	35,243
Financial liabilities measured at fair value		
Fair value movements on swaps	668	142
	39,438	**73,265**

8. Long-term incentive plan

On 7 February 2019, the Group introduced a new share-based payment scheme for the Executive Leadership Team as a part of its remuneration package. This programme was introduced by UPP Group Holdings Limited. Under the programme, new shares in UPP Group Holdings Limited will vest if certain conditions are met. At the end of the long-term incentive plan term, each participant will have the option to sell their vested shares at a price based upon the valuation of the business at that time.

The key terms and conditions related to the grant under this programme are as follows:

Grant date:	7 February 2019
LTIP start date:	1 December 2018
End date:	31 August 2021
Employees entitled:	Executive Leadership Team
Instruments granted:	845 shares of UPP Group Holdings Limited
Fair value at grant date:	£523.9 per share
Expected volatility:	58%
Expected life:	2.75 years
Expected dividends:	nil

Vesting date	Amount	Conditions
1 September 2019	10% of shares vesting	Service until 1 September 2019
1 September 2020	15% of shares vesting	Service until 1 September 2020
1 September 2021	75% of shares vesting	Service until 1 September 2021

On 7 February 2019, each participant in the scheme purchased shares based on the market value price calculated as at 1 December 2018. There were 845 shares issued at a nominal value of £1 each and an unrestricted market value of £524 per share (the total value of shares issued was £443k). Each participant also received an interest-free loan of the amount equal to the value of the shares bought. The loans are repayable when the participant sell their shares or earlier if a participant ceases employment with the business.

The long-term incentive plan covers three financial years and will end at 31 August 2021.

Measurement of fair value

The fair value of the long-term incentive plan has been measured using a probability-weighted expected-returns methodology. Additional discounts for any lack of control over shares and lack of marketability (recognising the non-marketable uninfluential minority nature of the shares) were applied. The valuation estimate is based on three long cash flow forecasts (base, low and high scenarios). Cash flow forecasts have been developed for each component of the business, taking into account a range of value drivers including:

- Individual occupancy
- RPI
- Rent levels
- Other revenue and operating costs assumptions

These forecasts have been discounted at the Group's estimated cost of equity.

The spread of outcomes of the base, low and high scenarios have been weighted by probability, which management believes reflects potential variations in future performance.

9. Tax on loss on ordinary activities and factors that may affect future tax charges

With effect from 1 March 2018, UPP REIT Holdings Limited, the ultimate parent company of the Group, has elected for Real Estate Investment Trust ('REIT') status to apply to the Group. As a result, the Group will no longer pay income tax on profits and gains from qualifying property rental business, providing it meets certain conditions. There will be a reduction in the corporation tax rate from the current rate of 19% to 17% with effect from 1 April 2020.

In the six months ended 28 February 2019, there was a tax credit of £nil (six months ended 28 February 2018: £110k) as a result of movements in deferred tax.

Photo credit: Robert Greshoff

10. Intangible assets – service concession arrangements

	Service concession arrangements	Assets in the course of construction	Total
Cost	**£'000**	**£'000**	**£'000**
At 1 September 2018	1,382,152	171,293	1,553,445
Additions	-	71,929	71,929
At 28 February 2019	**1,382,152**	**243,222**	**1,625,374**
Amortisation			
At 1 September 2018	60,674	-	60,674
Charge during the year	22,778	-	22,778
At 28 February 2019	**83,452**	**-**	**83,452**
Net book value			
At 28 February 2019	**1,298,700**	**243,222**	**1,541,922**
At 1 September 2018	1,321,478	171,293	1,492,771
Cost			
At 1 September 2017	1,305,026	88,860	1,393,886
Additions	-	30,354	30,354
At 28 February 2018	**1,305,026**	**119,214**	**1,424,240**
Amortisation			
At 1 September 2017	29,443	-	29,443
Charge during the year	15,147	-	15,147
At 28 February 2018	**44,590**	**-**	**44,590**
Net book value			
At 28 February 2018	**1,260,436**	**119,214**	**1,379,650**
At 1 September 2017	1,275,583	88,860	1,364,443

Included in intangible assets are properties being managed under service concession arrangements. Assets under construction are scheduled to become operational in September 2019.

11. Current trade and other receivables

	28 February 2019	31 August 2018
	£'000	**£'000**
Trade debtors	3,251	5,406
VAT recoverable	3,842	4,109
Prepayments and accrued income	6,009	3,626
	13,103	**13,141**

12. Current trade and other payables

	28 February 2019	31 August 2018
	£'000	**£'000**
Trade creditors	13,485	18,070
Amounts owed to related parties	-	733
Other taxes and social security	244	876
VAT Payable	1,722	-
Accruals and deferred income	52,830	39,188
	68,281	**58,867**

13. Financial assets

	28 February 2019	31 August 2018
	£'000	**£'000**
Derivatives designated as hedging instruments		
RPI swaps	19,686	26,248
Derivatives not designated as hedging instruments		
RPI swaps	6,607	7,276
Financial assets at amortised cost		
Financial receivables – service concession arrangements	103,076	103,261
Trade and other receivables	3,251	4,388
Cash at bank and in hand	224,394	207,781
	357,014	**348,954**
Total current	227,645	213,187
Total non-current	129,369	136,785

Derivatives designated as hedging instruments reflect the fair value of swap contracts designated as cash flow hedges. Those hedges are used to hedge highly-probable revenue changes due to RPI or interest rate changes.

Derivatives not designated as hedging instruments reflect the fair value of those RPI swap contracts, which are not designated in a hedge relationship, but are nevertheless intended to reduce the level of revenue changes due to RPI changes.

The terms of the finance agreement provide that the lender will seek repayment of the finance only to the extent that sufficient funds are generated by specific assets financed and will not seek recourse to the Company in any other form.

14. Financial liabilities

	28 February 2019	31 August 2018
	£'000	**£'000**
Borrowings		
Senior secured notes	501,400	512,469
Senior debt	577,443	557,584
Senior index-linked debt	496,967	450,571
Non-recourse bank debt finance	79,876	81,086
Secured subordinated loan notes	29,229	23,712
Secured bridge funding loan notes	5,100	5,100
Derivatives designated as hedging instruments		
Interest rate swaps	129,892	133,122
RPI swaps	811	-
Financial liabilities at amortised cost		
Trade and other payables	13,485	18,803
	1,834,202	**1,782,447**
Total current	51,157	49,552
Total non-current	1,783,045	1,732,895

Non-recourse finance facilities

In January 2019, the Group reached financial close on a £139.7 million deal to deliver 1,182 bedrooms at the University of Exeter. A new SPV, UPP (East Park) LLP, has been set up and a new finance facility has been provided.

The key terms of the new facility are:

	Coupon rate	Final repayment dates
Inflation-linked loan	Real interest rate of 0.20% increasing semi-annually by RPI	August 2066

15. Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses RPI swaps to manage some of the inflation-related risk in relation to revenue. These contracts are not designated as cash flow hedges and are entered into for the period consistent with the length of the service concession arrangement contract.

Cash flow hedges

The Group uses RPI swaps and IR swaps to manage some of the inflation risk in relation to the Group's revenue and to manage interest rate risk in relation to the debt costs. The derivative contract lengths are aligned with the length of the service concession arrangement contract in relation to the RPI swaps and with the length of the debt contracts in relation to IR swaps.

	28 February 2019		**31 August 2018**	
	£'000		**£'000**	
	Assets	Liabilities	Assets	Liabilities
IR swaps designated as hedging instrument	-	(129,892)	-	(133,122)
RPI swaps designated as hedging instrument	19,686	(811)	26,248	-
RPI swaps not designated as hedging instruments	6,607	-	7,276	-
	26,293	**(130,703)**	**33,524**	**(133,122)**

The Group chooses to adopt hedge accounting for all its derivative financial instruments which meet the qualifying criteria for hedge accounting and reflect all movements in the fair value of these derivative financial instruments through the cash flow hedge reserve as follows:

	28 February 2019	31 August 2018	31 August 2017
	£'000	£'000	£'000
Fair value of derivatives used for hedging			
Creditors: amounts falling due after one year	(130,703)	(133,122)	(161,761)
Debtors: amounts falling due after one year	19,686	26,248	20,242
Movement in fair value of derivatives used for hedging			
Recognised profit/(loss) through other comprehensive income			
Owners of the Parent	(4,125)	34,144	10,403
Non-controlling interest	(19)	501	252
Fair value of derivatives not used for hedging			
Creditors: amounts falling due after more than one year	-	-	-
Debtors: amounts falling due after one year	6,607	7,276	6,778
Movement in fair value of derivatives not used for hedging			
Recognised profit through the income statement	(669)	498	(4,136)

16. Fair value measurement

The following table provides the fair-value measurement and hierarchy of the Group's financial assets and liabilities:

	28 February 2019		31 August 2018	
		£'000		**£'000**
	Book value	Significant observable inputs Level 2	Book value	Significant observable inputs Level 2
Financial assets				
Derivatives designated as hedging instruments				
RPI swaps	19,686	19,686	26,248	26,248
Derivatives not designated as hedging instruments				
RPI swaps	6,607	6,607	7,276	7,276
Financial assets at amortised cost				
Financial receivables – service concession arrangements	103,076	103,076	103,261	103,261
Trade and other receivables	3,251	*	4,388	*
Cash at bank and in hand	224,394	*	207,781	*
	357,014		**348,954**	
Financial liabilities				
Borrowings				
Senior secured notes	501,400	527,488	512,468	531,656
Senior debt	577,443	573,273	557,584	496,094
Senior index-linked debt	496,967	483,512	450,571	422,816
Non-recourse bank debt finance	79,876	63,658	81,086	64,186
Secured subordinated loan notes	29,229	17,277	23,712	17,281
Secured bridge funding loan notes	5,100	5,122	5,100	5,119
Derivatives designated as hedging instruments				
Interest rate swaps	129,892	129,892	133,122	133,122
RPI swaps	811	811	-	22,363
Financial liabilities at amortised cost				
Trade and other payables	13,485	*	18,803	*
	1,834,203		**1,782,447**	

*The Group has not disclosed the fair values for financial instruments, such as short-term trade receivables and payables, because their carrying amount is a reasonable approximation of fair value.

16. Valuation techniques and significant unobservable inputs

Type	Valuation technique
Derivative instruments	The fair values of the derivative IR swap contracts and RPI swap contracts are estimated by discounting expected future cash flows using market interest rates and market inflation rates
Financial receivables – service concession arrangements Trade and other receivables Cash at bank and in hand Trade and other payables	The fair values of the Company's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements due to the short-term nature of these instruments
Borrowings	The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate

17. Reserves

Revaluation reserve

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

Other reserve

Other reserve relates to deferred tax liability on fair-value adjustments arising on business combinations prior to transition to IFRS on 1 September 2016.

Capital reserve

The capital contributions relate to benefits assigned by The Alma Mater Fund LP, which retains the risks associated with the benefits. These have been received in cash and are non-refundable.

Cash flow hedge reserve

Cash flow hedge reserve record the fair-value movements on the derivative financial instruments and the deferred tax associated with these.

Profit and loss account

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

Dividends paid

The amount of £8,000k was declared and paid by the Group in November 2018. This was £8 per qualifying ordinary share paid.

18. Parent undertaking and controlling party

The Group and the Company is 60% owned by PGGM Vermogensbeheer BV ('PGGM'), on behalf of their pension fund clients. This entity is incorporated in The Netherlands.

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

19. Related party transactions

As at 28 February 2019, the Directors consider that, during the year, Nottingham Trent University, the University of Reading, the University of London and the University of Hull are the only related parties of the Group by virtue of their shareholdings in the Company: UPP (Clifton) Holdings Limited, UPP (Byron House) Holdings Limited, UPP (Reading 1) Holdings Limited, UPP (Cartwright Gardens) Holdings Limited, UPP (Duncan House) Holdings Limited and UPP (Hull) Holdings Limited respectively.

During the period, the Group has received a capital injection from its Shareholders to the amount of £14,750k. This has been exchanged for 32,065 ordinary shares at the nominal value of £1.

During the six months ended 28 February 2019, the Group received an income of £5,358k (six months ended 28 February 2018: £4,422k) from Nottingham Trent University in respect of services provided by UPP (Clifton) Holdings Limited and UPP (Byron House) Holdings Limited.

During the six months ended 28 February 2019, the Group incurred costs of £1,639k (six months ended 28 February 2018: £1,107k) in respect of services provided by the University of Reading and received income of £14,705k (six months ended 28 February 2018: £14,265k) in respect of services provided to the University.

During the six months ended 28 February 2019, the Group incurred costs of £67k (six months ended 28 February 2018: £65k) in respect of services provided by the University of London and received income of £5,099k (six months ended 28 February 2018: £4,844k) in respect of services provided to the University.

During the six months ended 28 February 2019, the Group received income of £2,100k (six months ended 28 February 2018: £721k) in respect of services provided to the University of Hull.

During the six months ended 28 February 2019, the Group granted interest-free loans to the Group's key management personnel to the total amount of £443k (six months ended 28 February 2018: nil). This relates to the introduction of the new long-term incentive scheme. Also during the period, 845 shares at a nominal value of £1 were granted to the key management personnel. A cost of £38k was recognised in relation to the new long-term incentive plan in the six months ended 28 February 2019 (six months ended 28 February 2018: £nil). For further information, refer to note 8.

20. Investments

The Company owns 100% of the issued share capital in UPP Group Holdings Limited, which itself owns 100% of the issued share capital of UPP Group Limited.

Details of subsidiaries in which UPP Group Limited holds 20% or more of the nominal value of any class of share capital (or effective interest in), and which are included within the consolidated results of these financial statements, are as follows:

Entity	Proportion	Shares held Class	Nature of Business
UPP (Alcuin) Limited	100%	Ordinary	Student accommodation
UPP (Lancaster) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Broadgate Park) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Nottingham) Limited	100%	Ordinary	Student accommodation
UPP (Plymouth Three) Limited	100%	Ordinary	Student accommodation
UPP (Kent Student Accommodation) Limited	100%	Ordinary	Student accommodation
UPP (Loughborough Student Accommodation) Holdings Limited	100%	Ordinary	Student accommodation
UPP Leeds Metropolitan II Limited	100%	Ordinary	Student accommodation
UPP Loring Hall Limited	100%	Ordinary	Student accommodation
UPP (Oxford Brookes) Limited	100%	Ordinary	Student accommodation
UPP (Reading 1) Holdings Limited	80%	Ordinary	Student accommodation
UPP (Kent Student Accommodation II) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Clifton) Holdings Limited	80%	Ordinary	Student accommodation
UPP (Exeter) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Byron House) Holdings Limited	80%	Ordinary	Student accommodation
UPP (Kent Turing) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Cartwright Gardens) Holdings Limited	85%	Ordinary	Student accommodation
UPP (Duncan House) Holdings Limited	85%	Ordinary	Student accommodation
UPP (Hull) Holdings Limited	90%	Ordinary	Student accommodation
UPP (Swansea) Holdings Limited	100%	Ordinary	Student accommodation
UPP Bond 1 Holdings Limited	100%	Ordinary	Provision of senior secured bond funding

UPP Projects Limited	100%	Ordinary	Partnerships development for the provision of student accommodation
UPP Residential Services Limited	100%	Ordinary	Provision of facilities management services
UPP (Exeter 2) Holdings 1 Limited	100%	Ordinary	Student accommodation
UPP (Exeter 2) Holdings 2 Limited	100%	Ordinary	Student accommodation
UPP (East Park) Holdings 1 Limited	100%	Ordinary	Student accommodation
UPP (East Park) Holdings 2 Limited	100%	Ordinary	Student accommodation

The proportion of voting rights held is in line with the proportion of shares held.

21. Cash and cash equivalents

	28 February 2019	31 August 2018
	£'000	£'000
Cash at bank and in hand	169,123	160,849
Short-term deposits	55,271	46,932
Cash and cash equivalents	**224,394**	**207,781**

The cash and cash equivalents disclosed above and in the statement of cash flows include £216,458k as at 28 February 2019 (£191,742k as at 31 August 2018) of restricted cash. This cash is subject to be used only by SPVs in line with the service concession agreements and is therefore not available for general use by the other entities within the Group.

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