Registered number: 06077462

# UPP (ALCUIN) LIMITED

## ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 AUGUST 2020

## UPP (ALCUIN) LIMITED

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | H Gervaise-Jones<br>M Swindlehurst |
| **Registered number** | 06077462 |
| **Registered office** | First Floor<br>12 Arthur Street<br>London<br>EC4R 9AB |
| **Independent auditor** | KPMG LLP<br>Chartered Accountants and Statutory Auditor<br>15 Canada Square<br>London<br>E14 5GL |

## CONTENTS

# STRATEGIC REPORT
# FOR THE YEAR ENDED 31 AUGUST 2020

**Business Review**

The Group and Company’s principal activity is the operation of student accommodation and the provision of related facilities management services under the University Partnerships Programme, in partnership with the University of York.

The project comprises 1,039 student residential accommodation bedrooms within the University of York main campus.

The principal activities of the Company during the year continued to be the operation of student accommodation.

The level of business, achieving budgeted 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.

Despite the considerable impact on UK higher education ('HE') wrought by the COVID-19 pandemic and the impact of Brexit, the sector has maintained its position as the leading global destination for students after the USA. UCAS applicant data issued following the 30 June 2020 main scheme deadline identifies continued growth in demand of 2% overall or the equivalent of more than 14,000 extra applicants on the previous cycle.

This deadline saw applications from approximately 653,000 prospective students. Applicant numbers from the UK were up by 2%, a 7,980 increase on the 2019/20 cycle, however there was a decline in applicants from EU countries of 2%, the equivalent of 1,000 students. The number of applicants from outside the EU witnessed strong growth at 10%, an increase of 7,790 new prospective international students. The data also identified the continuing increase in the rate of application from 18-year-olds. This cohort has seen year on year increases over the last decade from 34.7% in 2012 to 38.9% in 2019. This figure increased again during the 2020 cycle to 40.5% of the 18-year-old population. This is positive news for the Company as this is by far the largest demand cohort for its accommodation.

With the deadline for Brexit extended until 31 January 2020, the exit of the United Kingdom from the European Union (EU) continues to cast uncertainty across numerous sectors of the economy. Whilst there have been some concerns how this 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 0.6 per cent.

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

**Principal risks and uncertainties**

Financial risk management objectives and policies

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

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

Interest rate risk

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

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

Inflation risk

Growth in rental income received at UPP (Alcuin) Limited is linked to the movement in RPI and the Company and Group manage the exposure to this index through a mix of inflation linked debt on-lent from the fellow group undertaking and the use of RPI swaps to hedge a portion of the fixed rate on-loan servicing costs.

Liquidity risk

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

The maturity of borrowings is set out in note 17 to the financial statements.

Demand risk

The Company and Group are 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 cementing relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income.

Portfolio risk

The assets of the Company and Group are in the student market and reduced student numbers could impact upon financial performance. The Company and Group 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.

### Financial key performance indicators

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

| | 2019/20 | 2018/19 |
|---|---|---|
| Average Applications : Acceptance ratio | 6.8:1 | 6.8:1 |
| Average core demand pool (no. of students) | 15,305 | 14,640 |

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

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

| | 2019/20 | 2018/19 |
|---|---|---|
| Average occupancy across the facilities | 100.0% | 100.0% |

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

The Group 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 14 December 2020 and signed on its behalf.

**H Gervaise-Jones**
Director

# DIRECTORS' REPORT
# FOR THE YEAR ENDED 31 AUGUST 2020

The directors present their report and the consolidated financial statements for the year ended 31 August 2020.

**Directors' responsibilities statement**

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

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law the directors have elected to prepare the consolidated 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 consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make 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;
- assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Financial risk management objectives and policies**

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

## Going concern

The directors have prepared cashflow forecasts, which are based on detailed financial models and reflect contractual commitments, estimated future demand trends and the expected cashflows which show that the Company is able to meet its liabilities as they fall due.

In preparing these financial statements, the Directors have also considered the impacts of the Covid-19 pandemic on the ability of the Company to continue as a going concern. Whilst this situation is likely to generate continued uncertainty, the Directors are confident that the robust nature of the business model and its many credit-positive features will enable the Company to mitigate many of the risks arising. Notwithstanding this they recognise that the situation may give rise to as yet unidentified and unquantifiable risks.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements, and therefore continue to adopt the going concern basis in preparing these financial statements. For more information refer to Basis of preparation note in Financial Statements.

## Results and dividends

The profit for the year, after taxation, amounted to £2,246k *(2019 - £981k)*.

The directors are unable to propose the payment of dividend (2019 - £nil).

## Directors

The directors who served during the year were:

H Gervaise-Jones
M Swindlehurst
R Bienfait (resigned 31 January 2020)

## Future developments

Occupancy for the 2020/21 financial year has been secured at 100% which has exceeded the directors' expectations.

## Qualifying third party indemnity provisions

During the year and up to the date of this report, the Company maintained liability insurance and third-party indemnification provisions for its directors, under which the Company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities of the Company.

**DIRECTORS' REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 AUGUST 2020**

## Disclosure of information to auditor

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

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

The directors are now responsible 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 legislation in other jurisdictions.

## Post balance sheet events

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

## Auditor

KPMG LLP was appointed in the year as auditor of the company in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 14 December 2020 and signed on its behalf.

**H Gervaise-Jones**
Director

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UPP (ALCUIN) LIMITED

## Opinion

We have audited the financial statements of UPP (Alcuin) Limited ("the company") for the year ended 31 August 2020, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UPP (ALCUIN) LIMITED

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UPP (ALCUIN) LIMITED

**The purpose of our audit work and to whom we owe our responsibilities**

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.

Craig Steven-Jennings (Senior statutory auditor)

for and on behalf of

**KPMG LLP**

Chartered Accountants
Statutory Auditor

15 Canada Square
London
E14 5GL
15 December 2020

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 AUGUST 2020

| | Note | 2020 £000 | *2019 £000* |
|---|---|---|---|
| Turnover | 4 | **6,852** | *6,635* |
| Cost of sales | | **(1,555)** | *(1,472)* |
| **Gross profit** | | **5,297** | *5,163* |
| Administrative expenses | | **(698)** | *(1,538)* |
| **Operating profit** | 5 | **4,599** | *3,625* |
| Interest receivable and similar income | 8 | **64** | *53* |
| Interest payable and similar expenses | 9 | **(2,417)** | *(2,697)* |
| **Profit before tax** | | **2,246** | *981* |
| **Profit for the financial year** | | **2,246** | *981* |
| **Profit for the year attributable to:** | | | |
| Owners of the parent | | **2,246** | *981* |
| | | **2,246** | *981* |

The notes on pages 20 to 44 form part of these financial statements.

The above results all relate to continuing operations.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 AUGUST 2020

| | Note | 2020<br>£000 | *Restated*<br>*2019*<br>*£000* |
|---|---|---|---|
| Profit for the financial year | | **2,246** | *981* |
| **Other comprehensive income** | | | |
| Unrealised surplus on revaluation of tangible fixed assets | 13 | **3,019** | *200* |
| Fair value movement on swaps | 19,22 | **1,459** | *(1,062)* |
| **Other comprehensive income for the year** | | **4,478** | *(862)* |
| **Total comprehensive income for the year** | | **6,724** | *119* |
| **Profit for the year attributable to:** | | | |
| Owners of the Parent Company | | **2,246** | *981* |
| | | **2,246** | *981* |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Parent Company | | **6,724** | *119* |
| | | **6,724** | *119* |

The notes on pages 20 to 44 form part of these financial statements.

Prior year restatement is disclosed in note 22.

# CONSOLIDATED BALANCE SHEET
# AS AT 31 AUGUST 2020

| | Note | | 2020 £000 | | *Restated 2019 £000* |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 12 | | **3,480** | | *3,574* |
| Tangible assets | 13 | | **68,900** | | *66,100* |
| | | | **72,380** | | *69,674* |
| **Current assets** | | | | | |
| Debtors | 15,22 | **6,782** | | *5,295* | |
| | | **6,782** | | *5,295* | |
| Creditors: amounts falling due within one year | 16 | **(2,941)** | | *(2,989)* | |
| **Net current assets** | | | **3,841** | | *2,306* |
| **Total assets less current liabilities** | | | **76,221** | | *71,980* |
| Creditors: amounts falling due after more than one year | 17,22 | | **(48,738)** | | *(51,221)* |
| **Net assets** | | | **27,483** | | *20,759* |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | | **440** | | *440* |
| Revaluation reserve | 21 | | **31,930** | | *29,007* |
| Cash flow hedge reserve | 21,22 | | **(1,420)** | | *(2,879)* |
| Profit and loss account | 21 | | **(3,467)** | | *(5,809)* |
| | | | **27,483** | | *20,759* |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 14 December 2020.

**H Gervaise-Jones**
Director

The notes on pages 20 to 44 form part of these financial statements.

Prior year restatement is disclosed in note 22.

# COMPANY BALANCE SHEET
# AS AT 31 AUGUST 2020

| | Note | | 2020 £000 | | *Restated 2019 £000* |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 12 | | **(11,447)** | | *(11,764)* |
| Tangible assets | 13 | | **68,900** | | *66,100* |
| | | | **57,453** | | *54,336* |
| **Current assets** | | | | | |
| Debtors | 15 | **6,781** | | *5,294* | |
| | | **6,781** | | *5,294* | |
| Creditors: amounts falling due within one year | 16 | **(2,940)** | | *(2,989)* | |
| **Net current assets** | | | **3,841** | | *2,305* |
| **Total assets less current liabilities** | | | **61,294** | | *56,641* |
| Creditors: amounts falling due after more than one year | 17 | | **(48,738)** | | *(51,221)* |
| **Net assets** | | | **12,556** | | *5,420* |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | | **440** | | *440* |
| Revaluation reserve | 21 | | **8,150** | | *5,227* |
| Cash flow hedge reserve | 21 | | **(1,420)** | | *(2,879)* |
| Profit and loss account brought forward | | **2,632** | | *1,160* | |
| Profit for the year | | **2,658** | | *1,385* | |
| Other changes in the profit and loss account | | **96** | | *87* | |
| Profit and loss account carried forward | | | **5,386** | | *2,632* |
| | | | **12,556** | | *5,420* |

## COMPANY BALANCE SHEET (CONTINUED)
## AS AT 31 AUGUST 2020

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

**H Gervaise-Jones**
Director

Date: 14 December 2020

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The profit after tax of the parent Company for the year was £2,741k (2019 - £1,385k).

The notes on pages 20 to 44 form part of these financial statements.

Prior year restatement is disclosed in note 22.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2020

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2019 | 440 | 29,007 | (2,879) | (5,809) | 20,759 |
| **Comprehensive income for the year** | | | | | |
| Profit for the year | - | - | - | 2,246 | 2,246 |
| Transfer from revaluation reserve | - | - | - | 96 | 96 |
| Movement on revaluation of principal assets | - | 3,019 | - | - | 3,019 |
| Fair value movement of swaps | - | - | 1,459 | - | 1,459 |
| Transfer to profit and loss account | - | (96) | - | - | (96) |
| **At 31 August 2020** | 440 | 31,930 | (1,420) | (3,467) | 27,483 |

The notes on pages 20 to 44 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 2020 was £96k.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2019

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2018 (as previously stated) | 440 | 28,894 | 2,717 | (6,877) | 25,174 |
| Prior year adjustment | - | - | (4,534) | - | (4,534) |
| At 1 September 2018 (as restated) | 440 | 28,894 | (1,817) | (6,877) | 20,640 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | - | - | 981 | 981 |
| Transfer from revaluation reserve | - | - | - | 87 | 87 |
| Movement on revaluation of principal assets | - | 200 | - | - | 200 |
| Restated fair value of swaps | - | - | (1,062) | - | (1,062) |
| Transfer to profit and loss account | - | (87) | - | - | (87) |
| **At 31 August 2019** | 440 | 29,007 | (2,879) | (5,809) | 20,759 |

The notes on pages 20 to 44 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 2019 was £87k.

Prior year restatement is disclosed in note 22.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2020

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2019 | **440** | **5,227** | **(2,879)** | **2,632** | **5,420** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | - | - | - | **2,658** | **2,658** |
| Transfer from revaluation reserve | - | - | - | **96** | **96** |
| Movement on revaluation of principal assets | - | **3,019** | - | - | **3,019** |
| Fair value of swaps | - | - | **1,459** | - | **1,459** |
| Transfer to profit and loss account | - | **(96)** | - | - | **(96)** |
| **At 31 August 2020** | **440** | **8,150** | **(1,420)** | **5,386** | **12,556** |

The notes on pages 20 to 44 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 2020 was £96k.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2019

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2018 (as previously stated) | **440** | **5,114** | **2,717** | **1,160** | **9,431** |
| Prior year adjustment | **-** | **-** | **(4,534)** | **-** | **(4,534)** |
| At 1 September 2018 (as restated) | **440** | **5,114** | **(1,817)** | **1,160** | **4,897** |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | **-** | **-** | **-** | **1,385** | **1,385** |
| Transfer from revaluation reserve | **-** | **-** | **-** | **87** | **87** |
| Movement on revaluation of principal assets | **-** | **200** | **-** | **-** | **200** |
| Fair value of swaps | **-** | **-** | **(1,062)** | **-** | **(1,062)** |
| Transfer to profit and loss account | **-** | **(87)** | **-** | **-** | **(87)** |
| **At 31 August 2019** | **440** | **5,227** | **(2,879)** | **2,632** | **5,420** |

The notes on pages 20 to 44 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 2019 was £87k.

Prior year restatement is disclosed in note 22.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 AUGUST 2020

| | 2020<br>£000 | *2019*<br>*£000* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the financial year | **2,246** | *981* |
| **Adjustments for:** | | |
| Amortisation of intangible assets | **94** | *94* |
| Depreciation of tangible assets | **219** | *214* |
| Interest paid | **2,417** | *2,697* |
| Interest received | **(64)** | *(53)* |
| Decrease in debtors | **-** | *4* |
| (Increase) in amounts owed by groups | **(1,487)** | *(1,061)* |
| Increase in creditors | **427** | *86* |
| (Decrease)/increase in amounts owed to groups | **(431)** | *372* |
| **Net cash generated from operating activities** | **3,421** | *3,334* |
| **Cash flows from investing activities** | | |
| Interest received | **64** | *53* |
| **Net cash from investing activities** | **64** | *53* |
| **Cash flows from financing activities** | | |
| Repayment of loans | **(1,235)** | *(1,155)* |
| Interest paid | **(2,250)** | *(2,232)* |
| **Net cash used in financing activities** | **(3,485)** | *(3,387)* |
| **Net increase in cash and cash equivalents** | **-** | *-* |
| **Cash and cash equivalents at the end of year** | **-** | *-* |
| **Cash and cash equivalents at the end of year comprise:** | | |
| | **-** | *-* |

The notes on pages 20 to 44 form part of these financial statements.

## 1. General information

UPP (Alcuin) Limited is a private company limited by shares incorporated in England. The Company number is 06077462. The registered office is First Floor, 12 Arthur Street, London, EC4R 9AB.

## 2. Accounting policies

### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland FRS 102 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 Group management to exercise judgment in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements.

The following principal accounting policies have been applied:

### 2.2 Basis of consolidation

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

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

## 2. Accounting policies (continued)

### 2.3 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

In preparing these financial statements, the Directors have considered the impacts of the Covid-19 pandemic on the ability of the Company to continue as a going concern by preparing a cash flow forecast through to 31 August 2022, modelling a severe but plausible downside scenario which demonstrates that the Company is expected to have sufficient funds to meet its liabilities as they fall due over the period of 12 months from the date of approval of the financial statements.

A key feature of the Company’s contractual arrangements is that university counterparty bears the risk on in-year rental income once students have contracted for the rooms. The effectiveness of this contractual protection was confirmed through the challenging circumstances that arose during the third term when the university counterparty chose to waive rents for students that departed early but continued to meet its payment obligations to the Company.

For the 2020/21 academic year the Company has secured sufficient lettings to remain compliant with funding covenants. The Directors anticipate that the Company’s university counterparty will meet its payment obligations as they fall due even in the severe plausible downside and, as a result, revenue risk for the 2020/21 year remains low. The Directors consider that the Company’s costs are reasonably controllable and while there are likely to be increased costs arising from changes to the operating practices to respond to Covid-19, these may be offset by cost savings elsewhere and are not sufficient to threaten the viability of the business.

The Directors believe that the fundamentals of the market for student accommodation remain supportive to the long-term success of the business and while Covid-19 and similar risks have the potential to impact upon future years, the Company, universities, the Government and the public are likely to be better prepared for such events such that the impact is less severe than it was in 2020.

On this basis, the Directors are confident that the Company will have sufficient funds to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements, and therefore have prepared the financial statements 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 rental period. Amounts received in advance are included within deferred income.

## 2. Accounting policies (continued)

### 2.5 Derivatives instruments

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

To mitigate its exposure to changes in inflation, the company has entered into inflation-linked swaps (‘RPI swaps’) with external counterparties. All derivative instruments are initially measured at fair value on the date the contract is entered into and subsequently re measured to fair value at each reporting date. The gain or loss on re measurement is taken to the income statement in finance cost or finance income as appropriate, unless they are included in a hedging arrangement.

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

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income.

### 2.6 Investments

Fixed asset investments are carried at cost less any provision for impairment in value.

### 2.7 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:

## 2. Accounting policies (continued)

### 2.7 Tangible fixed assets (continued)

The estimated useful lives range as follows:

| | |
|---|---|
| Assets for use in operating leases | - annuity method over the term of the lease |
| Computer equipment | - straight line over 5 years |

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

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

### 2.8 Intangible assets

Goodwill arising on acquisition of subsidiary undertakings is the difference between the fair value of consideration paid and the fair value of the net assets acquired from the date that control passes.

Goodwill arose on the acquisition of the subsidiary undertakings during the year ended 31 August 2007. Negative goodwill arose on the hive up of subsidiary undertakings during the year ended 31 August 2013.

Goodwill attributed to subsidiary undertakings is amortised on a straight line basis over the remaining lease period on the principal asset held by the subsidiary which expires in 2057. This period of amortisation is greater than 20 years but represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows.

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

Negative goodwill
Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

### 2.9 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.

### 2.10 Interest bearing loans and borrowings

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

## 2. Accounting policies (continued)

### 2.11 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated Profit and Loss Account for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Balance Sheet date. Gains and losses on remeasurement are recognised in profit or loss for the period.

### 2.12 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.

### 2.13 Hedge accounting

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

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

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

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

It is considered that the criteria to apply hedge account have been met.

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

## 2. Accounting policies (continued)

### 2.14 Finance costs

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

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

### 2.15 Borrowing 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.

### 2.16 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.

### 2.17 Pensions

**Defined contribution pension plan**

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

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

### 2.18 Interest income

Interest income is recognised in profit or loss using the effective interest method.

## 2. Accounting policies (continued)

### 2.19 Taxation

Tax is recognised in profit or loss 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 and the Group operate and generate income.

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

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

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

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

### 2.20 Related party transactions

The company is a wholly owned subsidiary of UPP Bond 1 Limited which is a wholly owned subsidiary of the 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 Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

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

Revaluation of the principal assets

The Group has adopted a policy to revalue the principal 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 Group engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the principal assets are further explained in note 12.

Valuation of RPI swaps (Note 19)

In estimating the fair value of the RPI swaps, the Company/Group incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements, which are subjective in nature and require significant judgement. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Goodwill useful economic life

The Group establishes a reliable estimate of the useful economic life of goodwill arising on business combinations. Goodwill attributed to subsidiary undertakings is amortised on a straight line basis over the remaining lease period on the principal asset held by each subsidiary. This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows. This amortisation is also applicable to negative goodwill with any excess recognised in the profit and loss for the period expected to benefit. For further details refer to note 12.

Impairment of non-financial assets

The Group assesses at each reporting date whether an asset may be impaired. If any such indication exists the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the 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.

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

An impairment loss recognised is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply. There has been no impairment in the current year or in the prior year.

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 13)

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

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

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

Classification of index-linked financial instruments (Note 19)

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

Hedge accounting for inflation swaps

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

## 4. Turnover

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

An analysis of turnover by class of business is as follows:

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Provision of student accommodation | **6,852** | *6,635* |
| | **6,852** | *6,635* |

All turnover arose within the United Kingdom.

## 5. Operating profit

The operating profit is stated after charging:

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Depreciation of tangible fixed assets | **219** | *214* |
| Amortisation of intangible assets, including goodwill | **94** | *94* |

## 6. Auditor's remuneration

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements | **14** | *8* |

## 7. Employee and Director information

Staff costs were as follows:

| | Group 2020 £000 | *Group 2019 £000* | Company 2020 £000 | *Company 2019 £000* |
|---|---|---|---|---|
| Wages and salaries | **145** | *133* | **145** | *133* |
| Social security costs | **10** | *11* | **10** | *11* |
| Cost of defined contribution scheme | **6** | *12* | **6** | *12* |
| | **161** | *156* | **161** | *156* |

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 (2019: £nil).

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

| | 2020 No. | *2019 No.* |
|---|---|---|
| Site managers | **2** | *1* |
| Administration, maintenance and cleaning | **4** | *5* |
| | **6** | *6* |

The Company has no employees other than the directors, who did not receive any remuneration *(2019 - £NIL)*

## 8. Interest receivable

| | 2020 £000 | *2019 £000* |
|---|---|---|
| Interest receivable from group companies | **28** | *26* |
| Bank interest receivable | **36** | *27* |
| | **64** | *53* |

## 9. Interest payable and similar expenses

| | **2020** **£000** | *2019* *£000* |
|---|---|---|
| Fixed rate senior interest due to group undertaking | **1,877** | *1,930* |
| Index-linked interest due to group undertaking | **540** | *767* |
| | **2,417** | *2,697* |

Interest due to group undertaking is payable to UPP Bond 1 Issuer plc.

## 10. Taxation

| | **2020** **£000** | *2019* *£000* |
|---|---|---|
| **Total current tax** | **-** | *-* |

### Factors affecting tax charge for the year

The tax assessed for the year is lower than *(2019 - lower than)* the standard rate of corporation tax in the UK of 19% *(2019 - 19%)*. The differences are explained below:

| | **2020** **£000** | *2019* *£000* |
|---|---|---|
| Profit on ordinary activities before tax | **2,656** | *982* |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%) | **504** | *187* |
| **Effects of:** | | |
| Expenses disallowable for tax purposes | **-** | *18* |
| Amortisation of goodwill | **(60)** | *-* |
| Brought forward losses utilised in the year | **(7)** | *(6)* |
| Exempt property rental (profits) / losses in the year | **(432)** | *(199)* |
| FRS102 adjustments | **(5)** | *-* |
| **Total tax charge for the year** | **-** | *-* |

## 10. Taxation (continued)

### Factors that may affect future tax charges

UPP REIT Holdings Limited is Real Estate Investment Trust ("REIT"). As a result the Group and the Company no longer pays UK corporation 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 UK corporation tax as normal.

A deferred tax asset of £3,044k (2019: £3,044k) in respect of available tax losses and other timing differences has not been recognised at 31 August 2020.

## 11. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The profit after tax of the parent Company for the year was £2,658k *(2019 - £1,385k)*.

## 12. Intangible assets

### Group

| | Positive Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 September 2019 | **4,703** |
| At 31 August 2020 | **4,703** |
| **Amortisation** | |
| At 1 September 2019 | **1,129** |
| Charge for the year on owned assets | **94** |
| At 31 August 2020 | **1,223** |
| **Net book value** | |
| At 31 August 2020 | **3,480** |
| *At 31 August 2019* | *3,574* |

## 12. Intangible assets (continued)

Goodwill arose on the acquisition of the subsidiary undertakings during the year ended 31 August 2007 and it is amortised on a straight line basis over the remaining lease period.

Negative goodwill, related to the Company only, arose on the hive up of subsidiary undertakings during the year ended 31 August 2013 and it is amortised on a straight line basis over the remaining lease period.

**Company**

| | Negative Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 September 2019 | **(13,970)** |
| At 31 August 2020 | **(13,970)** |
| **Amortisation** | |
| At 1 September 2019 | **(2,206)** |
| Charge for the year | **(318)** |
| At 31 August 2020 | **(2,524)** |
| **Net book value** | |
| At 31 August 2020 | **(11,446)** |
| *At 31 August 2019* | *(11,764)* |

## 13. Tangible fixed assets

### Group and Company

| | Assets for use in operating leases £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|
| **Valuation** | | | |
| At 1 September 2019 | **66,100** | **71** | **66,171** |
| Revaluations | **2,800** | **-** | **2,800** |
| At 31 August 2020 | **68,900** | **71** | **68,971** |
| **Depreciation** | | | |
| At 1 September 2019 | **-** | **71** | **71** |
| Charge for the year on owned assets | **219** | **-** | **219** |
| On revalued assets | **(219)** | **-** | **(219)** |
| At 31 August 2020 | **-** | **71** | **71** |
| **Net book value** | | | |
| At 31 August 2020 | **68,900** | **-** | **68,900** |
| *At 31 August 2019* | *66,100* | *-* | *66,100* |

## 13. Tangible fixed assets (continued)

Fixed assets include borrowing costs of £1,195k (2019: £1,195k) of which 100% have been capitalised.

The on-loan facility 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.

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2020. JLL have confirmed that the value as at that date was £68,900k.

In 2019, following an internal review of the assets used in operating leases, the directors' have decided to revalue the assets to the value as determined by JLL in 2018.

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

| | 2020 |
|---|---|
| Discount rates | 8.50% |
| Occupancy rates | 99% |
| Long term annual rental growth | 3.00% |

Cost or valuation at 31 August 2020 is as follows:

| | **Assets for use in operating leases £000** |
|---|---|
| **At cost** | **38,268** |
| **At valuation:** | |
| Valuation as at 31st August 2020 | **30,632** |
| | **68,900** |

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:

| | **2020 £000** | *2019 £000* |
|---|---|---|
| **Group** | | |
| Cost | **38,268** | *38,268* |
| Accumulated depreciation | **(1,238)** | *(1,115)* |
| **Net book value** | **37,030** | *37,153* |

## 14. Investments

**Subsidiary undertaking**

The following was a subsidiary undertaking of the Company:

| Name | Registered office | Class of shares | Holding |
|---|---|---|---|
| UPP (York) Limited | First Floor, 12 Arthur Street, London, EC4R 9AB | Ordinary | 100% |

The aggregate of the share capital and reserves as at 31 August 2020 and the profit or loss for the year ended on that date for the subsidiary undertaking was as follows:

| Name | Profit/(Loss) |
|---|---|
| UPP (York) Limited | - |

The aggregate of share capital and reserves for UPP (York) Limited are £nil (2019 - £nil).

## 15. Debtors

| | **Group 2020 £000** | *Group As restated 2019 £000* | **Company 2020 £000** | *Company As restated 2019 £000* |
|---|---|---|---|---|
| Amounts owed by group undertakings | **6,778** | *5,291* | **6,777** | *5,290* |
| Prepayments and accrued income | **4** | *4* | **4** | *4* |
| | **6,782** | *5,295* | **6,781** | *5,294* |

Included within amounts owed by group undertakings is a balance owed from UPP Bond 1 Issuer Plc of £1,268k (2019 - £1,221k) which is to fund a debt service reserve account held by UPP Bond 1 Issuer Plc that is sized to be adequate to cover the next six months of service costs of both tranches of the senior secured notes. This amount is reviewed every six months and increased or decreased accordingly. Interest receivable on these loans is calculated using the effective interest method which is different to the actual cash interest received at the rate the company earns interest on the cash balances it holds.

The remaining amounts owed by group undertakings is an amount owed by UPP Bond 1 Limited.

Prior year restatement is disclosed in note 22.

## 16. Creditors: Amounts falling due within one year

| | **Group 2020 £000** | *Group 2019 £000* | **Company 2020 £000** | *Company 2019 £000* |
|---|---|---|---|---|
| Fixed rate on loans | **1,262** | *1,306* | **1,262** | *1,306* |
| Trade creditors | **2** | *26* | **2** | *26* |
| Amounts owed to group undertakings | **108** | *539* | **108** | *539* |
| Accruals and deferred income | **1,569** | *1,118* | **1,568** | *1,118* |
| | **2,941** | *2,989* | **2,940** | *2,989* |

The amounts owed to group undertakings are amounts owed to UPP Residential Services Limited and are repayable on demand.

## 17. Creditors: Amounts falling due after more than one year

| | **Group 2020 £000** | *Group As restated 2019 £000* | **Company 2020 £000** | *Company As restated 2019 £000* |
|---|---|---|---|---|
| Fixed rate on loans | **33,855** | *35,046* | **33,855** | *35,046* |
| Index-linked on loans | **13,463** | *13,296* | **13,463** | *13,296* |
| Financial instruments | **1,420** | *2,879* | **1,420** | *2,879* |
| | **48,738** | *51,221* | **48,738** | *51,221* |

Prior year restatement is disclosed in note 22.

## 18. Loans

On-loans

On 5 March 2013, a fellow subsidiary of the Group's immediate parent UPP Bond 1 Limited, UPP Bond 1 Issuer plc, launched a Multicurrency Programme for the issuance of £382.1 million Senior Secured Notes. The proceeds of this bond issuance were on lent to UPP (Alcuin) Limited and five other subsidiary undertakings of UPP Bond 1 Limited, to enable the companies to repay their existing senior bank debt funding.

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

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

| | Amount | Interest rate | Maturity |
|---|---|---|---|
| Tranche A | 41,993,000 | Fixed rate at 4.9023% | 31 August 2038 |
| Tranche B | 11,539,000 | Index-linked at 2.7291% | 31 August 2047 |

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.

## 18. Loans (continued)

| | Group 2020 £000 | *Group 2019 £000* | Company 2020 £000 | *Company 2019 £000* |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Fixed rate on loans | **1,262** | *1,306* | **1,262** | *1,306* |
| | **1,262** | *1,306* | **1,262** | *1,306* |
| **Amounts falling due 1-2 years** | | | | |
| Fixed rate on loans | **1,432** | *1,262* | **1,432** | *1,262* |
| | **1,432** | *1,262* | **1,432** | *1,262* |
| **Amounts falling due 2-5 years** | | | | |
| Fixed rate on loans | **4,991** | *4,620* | **4,991** | *4,620* |
| | **4,991** | *4,620* | **4,991** | *4,620* |
| **Amounts falling due after more than 5 years** | | | | |
| Fixed rate on loans | **27,432** | *29,164* | **27,432** | *29,164* |
| Index-linked on loans | **13,463** | *13,296* | **13,463** | *13,296* |
| | **40,895** | *42,460* | **40,895** | *42,460* |
| | **48,580** | *49,648* | **48,580** | *49,648* |

## 19. Financial Instruments

| | **Group** | *Group As restated* | **Company** | *Company As restated* |
|---|---|---|---|---|
| | **2020** | *2019* | **2020** | *2019* |
| | **£000** | *£000* | **£000** | *£000* |
| **Financial assets** | | | | |
| Financial assets measured at amortised cost | **6,778** | *5,290* | **6,777** | *5,290* |
| **Financial liabilities** | | | | |
| Derivative financial instruments at fair value | **(1,420)** | *(2,879)* | **(1,420)** | *(2,879)* |
| Financial liabilities measured at amortised cost | **(48,690)** | *(50,212)* | **(48,690)** | *(50,212)* |
| | **(50,110)** | *(53,091)* | **(50,110)** | *(53,091)* |

Financial liabilities measured at amortised cost comprise, trade creditors, amounts owed to group undertakings, secured senior bank debt and secured subordinated loan notes.

## 19. Financial Instruments (continued)

Derivative financial instruments measured at fair value comprise an RPI swap.

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

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of these swaps is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, spot and forward rates, as well as option volatility.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

The Group entered into the RPI swap on 5 March 2013, fixing a portion of the underlying rental income stream to 2.7%. The RPI swap is for a period of 25 years from March 2013, commencing in February 2015 and finishing in February 2038.

The Group applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. There was a gain of £1,459k during the year (2019: £1,062k loss) and was recognised in the Statement of Other Comprehensive Income, reflecting the change in fair value of this RPI swap.

Prior year restatement is disclosed in note 22.

## 20. Share capital

| | **2020** | *2019* |
|---|---|---|
| | **£000** | *£000* |
| **Authorised** | | |
| 500,000 *(2019 - 500,000)* Ordinary shares of £1.00 each | **500** | *500* |
| **Allotted, called up and fully paid** | | |
| 440,001 *(2019 - 440,000)* Ordinary shares of £1.00 each | **440** | *440* |

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

## 21. 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 reserves**

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

**Profit and loss account**

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

## 22. Prior year adjustment

During the financial year the Directors identified that the fair value of derivatives in prior periods had not been adjusted for the effect of the entity's own non-performance risk and that of the respective counterparty's non-performance risk.

In prior periods the Company performed the calibration of standard valuation models on inception for each derivative to determine an initial spread that calibrated the model to zero on the trade date. The initial spread was held constant and added to market interest and inflation curves at each year end. This resulted in no changes since inception in the credit spread of the derivative counterparties or the entity's own credit spread being taken into account in the value of the derivatives.

In the current year the Company incorporates credit and debit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Company has considered any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

The impact of restating the fair value of derivatives on amounts reported in the prior-year statement of comprehensive income, balance sheet and statement of changes in equity is set out below:

As at 1 September 2018

- Decrease of £4,534k in the opening cash flow hedge reserves from £2,717k (positive) to £1,817k (negative).
- Decrease in debtors - financial instruments of £2,717k from £2,717k to £nil.
- Decrease in creditors: amounts falling due after more than one year - financial instruments from £nil to £1,817k.

As at 31 August 2019

- Decrease of £4,988k in the cash flow hedge reserves from £2,109k (positive) to £2,879k (negative) in year
- Decrease in debtors - financial instruments from £2,109k to £nil
- Decrease in creditors: amounts falling due after more than one year - financial instruments from £nil to £2,879k
- Decrease in total comprehensive loss for the year ended 31 August 2019 from £119k to £573k due to the fair value movement of swaps changing from £608k loss to £1,062k loss.

## 23. 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 largest group of which the Company is a member and for which group accounts are prepared is UPP REIT Holdings Limited.

The smalllest group of which the Company is a member and for which group accounts are prepared is UPP Group 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.