

Registered number: 07314955

## **PALIO (NO 5) LIMITED**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**



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**PALIO (NO 5) LIMITED**

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**COMPANY INFORMATION**

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|                            |                                                                            |
|----------------------------|----------------------------------------------------------------------------|
| <b>Directors</b>           | V L Everett<br>K O'Brien                                                   |
| <b>Registered number</b>   | 07314955                                                                   |
| <b>Registered office</b>   | 3rd Floor<br>South Building<br>200 Aldersgate Street<br>London<br>EC1A 4HD |
| <b>Independent auditor</b> | KPMG LLP<br>Chartered Accountants<br>15 Canada Square<br>London<br>E14 5GL |

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**PALIO (NO 5) LIMITED**

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## **PALIO (NO 5) LIMITED**

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### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **Principal activities**

The principal activity of Palio (No 5) Limited (the "Company") is to invest in PPP Infrastructure projects.

#### **Business review**

The Company currently holds a 100% interest in Regenter B3 Limited.

During the year, the Company received its revenue from its investment in the form of dividends and interest on subordinated debt loans. The Company reports a profit after tax for the period of £1,698,000 (2018: £1,077,000) including a positive movement in investments at fair value of £1,208,000 (2018: Negative £367,000).

The Company's investment is held at fair value in the statement of financial position with movement recorded through the Statement of Comprehensive Income as explained in note 2. In order to determine the fair value of the investment, the Company takes into consideration the fair value of the underlying asset and intermediate holding companies.

#### **Principal risks and uncertainties**

The principal risk faced by the Company is credit risk in relation to its investment. Credit risk is mitigated by the Company holding an investment in PPP projects, which are supported by central and local government bodies. Credit risk is subsumed within the overall Company's performance risk. Please refer to note 13 for further details on the Company's financial instruments and risks, including credit risk.

#### **Key performance indicators**

The key performance indicators for the Company are primarily client and financially focused; including those listed below:

- tracking the performance and delivery of the services in conjunction with the KPIs set by the local authorities;
- the progress of the individual project companies;
- the comparison of actual cash flow costs to those that have been forecast;
- the value of investments held in the company portfolio in association with the expected future cash flows; and
- that all operational projects are performing within restrictions of all project documentation.

The key performance indicator for the Company is the net assets attributable to shareholders, being £15,084,000 (2018: £13,875,000), as detailed on page 12 of the financial statements.

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**PALIO (NO 5) LIMITED**

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**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Future developments**

The directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease and remain committed to the business of holding investments and will continue to manage its existing and any new investments in the future.

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



**V L Everett**  
Director

Date: 4 December 2020

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## PALIO (NO 5) LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present their report and the financial statements for the year ended 31 December 2019.

#### Results and dividends

The profit for the year, after taxation, amounted to £1,698,000 (2018 - £1,077,000).

The Company declared dividends of £489,000 (2018: £1,444,000) during the period.

The Company's results for the period are set out on Page 11 of the financial statements.

#### Directors

The directors who served during the year were:

D M Hardy (resigned 30 April 2019)  
J Pritchard (resigned 1 May 2019)  
P Naylor (resigned 18 January 2019)  
K O'Brien (appointed 1 May 2019)  
V L Everett (appointed 1 May 2019)

#### Going concern

The cash flow forecasts and projections of the Company, taking account of reasonably possible changes in trading performance and committed investment capital, indicate that the Company should be able to operate within its current level of resources for the foreseeable future and for a period of at least 12 months from the date of these Financial Statements. The forecast are in part dependence on the parent entity, Fenton UK 3 Limited, not seeking repayment of the amounts currently from the Company, which at 31 December 2019 amount to £7,756k and providing additional financial support during that period. The Company has obtained letter of support from the Fenton UK 3 Limited.

The directors believe the Company is well placed to manage its risks successfully despite any current economic uncertainties and the economic outlook. Accordingly the going concern basis is adopted in preparing the annual report and Financial Statements.

The directors of the Company has also considered the impact of the Covid-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility and reduced asset prices in global equity and bond markets. The main risk resulting from Covid-19 for the Company is in respect of the impact on the valuation of investments held at fair value through profit and loss. The directors of the Company has considered the impact on the Company of potentially lower valuations and do not consider there to be any significant impact on the going concern basis of preparation as the Company's underlying investment is backed by a government counterparty. Furthermore, the directors have considered that no severe but plausible downside event would prevent the Company being able to meet its liabilities as they fall due. In conjunction with this assessment, the directors believe that the Company has sufficient reserves and business controls to address any financial impact and therefore the directors consider there is no significant impact on the going concern basis of preparation of these financial statements.

#### Financial risk management

The Company's management of financial risks including interest rate, credit, performance and liquidity risk during the period are detailed in note 13.

#### Cash flow statement

No cash flow statement is presented for the year ended 31 December 2019 (2018: none), as no cash flows have been paid or received by the Company.

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**PALIO (NO 5) LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Future developments**

Details of future developments are included in the Strategic Report.

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

**Auditor**

During the period, KPMG LLP were appointed as auditor to the Company.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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



**V. L. Everett**  
Director

Date: 4 December 2020

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**PALIO (NO 5) LIMITED**

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**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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The directors are responsible for preparing the strategic report, the directors' report and the financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs as adopted by the EU) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess 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 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's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PALIO (NO 5) LIMITED

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**Opinion**

We have audited the financial statements of Palio (No 5) Limited (the 'Company') for the year ended 31 December 2019 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes, including a summary of significant accounting policies set out in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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 company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 company or to cease its operations, and as they have concluded that 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 its 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.

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PALIO (NO 5) LIMITED**

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

We have nothing to report in these respects.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**PALIO (NO 5) LIMITED**

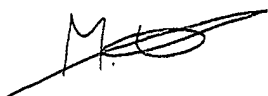
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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PALIO (NO 5) LIMITED**

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**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.



**Matthew Williams (Senior statutory auditor)**

**for and on behalf of KPMG LLP (Statutory auditor)**

Chartered Accountants

15 Canada Square  
London  
E14 5GL

4 December 2020

**PALIO (NO 5) LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

|                                       | <b>Note</b> | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|---------------------------------------|-------------|----------------------|----------------------|
| Investment income                     | 6           | <b>1,347</b>         | 2,313                |
| Fair value gain/(loss) on investments | 8           | <b>1,208</b>         | (367)                |
| <b>Operating profit</b>               | 4           | <b>2,555</b>         | 1,946                |
| Finance expense                       | 7           | <b>(857)</b>         | (869)                |
| <b>Profit before tax</b>              |             | <b>1,698</b>         | 1,077                |
| Tax                                   | 9           | -                    | -                    |
| <b>Profit for the year</b>            |             | <b>1,698</b>         | 1,077                |

The notes on pages 15 to 34 form part of these financial statements.

All the above items relate to continuing operations.

There are no other items of comprehensive income other than the profit for the year, therefore a separate Statement of Other Comprehensive Income has not been prepared.

**PALIO (NO 5) LIMITED**  
**REGISTERED NUMBER: 07314955**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

|                                                  | Note | 2019<br>£000  | 2018<br>£000  |
|--------------------------------------------------|------|---------------|---------------|
| <b>Assets</b>                                    |      |               |               |
| <b>Non-current assets</b>                        |      |               |               |
| Investments at fair value through profit or loss | 8    | 22,840        | 21,216        |
|                                                  |      | <u>22,840</u> | <u>21,216</u> |
| <b>Total assets</b>                              |      | <u>22,840</u> | <u>21,216</u> |
| <b>Liabilities</b>                               |      |               |               |
| <b>Non-current liabilities</b>                   |      |               |               |
| Loans and borrowings                             | 11   | 7,144         | 7,161         |
|                                                  |      | <u>7,144</u>  | <u>7,161</u>  |
| <b>Current liabilities</b>                       |      |               |               |
| Trade and other liabilities                      | 10   | 612           | 180           |
|                                                  |      | <u>612</u>    | <u>180</u>    |
| <b>Total liabilities</b>                         |      | <u>7,756</u>  | <u>7,341</u>  |
| <b>Net assets</b>                                |      | <u>15,084</u> | <u>13,875</u> |
| <b>Equity</b>                                    |      |               |               |
| Share capital                                    | 12   | 50            | 50            |
| Retained earnings                                |      | 15,034        | 13,825        |
|                                                  |      | <u>15,084</u> | <u>13,875</u> |

The notes on pages 16 to 34 form part of these financial statements.

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



**V. L. Everett**  
Director

Date: 4 December 2020

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PALIO (NO 5) LIMITED

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STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019

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|                                                    | Share<br>capital<br>£000 | Retained<br>earnings<br>£000 | Total equity<br>£000 |
|----------------------------------------------------|--------------------------|------------------------------|----------------------|
| At 1 January 2019                                  | 50                       | 13,825                       | 13,875               |
| Comprehensive income for the year                  |                          |                              |                      |
| Profit for the year                                | -                        | 1,698                        | 1,698                |
|                                                    | -                        | 1,698                        | 1,698                |
| Total comprehensive income for the year            |                          |                              |                      |
| Contributions by and distributions to owners       |                          |                              |                      |
| Dividends paid (Note 12)                           | -                        | (489)                        | (489)                |
|                                                    | -                        | (489)                        | (489)                |
| Total contributions by and distributions to owners |                          |                              |                      |
| At 31 December 2019                                | 50                       | 15,034                       | 15,084               |

The notes on pages 15 to 34 form part of these financial statements.

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**PALIO (NO 5) LIMITED**

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**FOR THE YEAR ENDED 31 DECEMBER 2018**

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|                                                           | <b>Share<br/>capital<br/>£000</b> | <b>Retained<br/>earnings<br/>£000</b> | <b>Total equity<br/>£000</b> |
|-----------------------------------------------------------|-----------------------------------|---------------------------------------|------------------------------|
| <b>At 1 January 2018</b>                                  | 50                                | 14,192                                | 14,242                       |
| <b>Comprehensive income for the year</b>                  |                                   |                                       |                              |
| Profit for the year                                       | -                                 | 1,077                                 | 1,077                        |
|                                                           | <u>-</u>                          | <u>1,077</u>                          | <u>1,077</u>                 |
| <b>Total comprehensive income for the year</b>            |                                   |                                       |                              |
| <b>Contributions by and distributions to owners</b>       |                                   |                                       |                              |
| Dividends paid (Note 12)                                  | -                                 | (1,444)                               | (1,444)                      |
|                                                           | <u>-</u>                          | <u>(1,444)</u>                        | <u>(1,444)</u>               |
| <b>Total contributions by and distributions to owners</b> |                                   |                                       |                              |
|                                                           | <u>-</u>                          | <u>(1,444)</u>                        | <u>(1,444)</u>               |
| <b>At 31 December 2018</b>                                | <b>50</b>                         | <b>13,825</b>                         | <b>13,875</b>                |

The notes on pages 15 to 34 form part of these financial statements.

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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### General information

Palio (No 5) Limited (the 'Company') is a private company incorporated, domiciled and registered in England and Wales. The Company's registered office is at 3rd Floor, South Building, 200 Aldersgate Street, London, EC1A 4HD. The Company's principal activity is set out within the Strategic Report shown on page 3.

These financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the Company operates. Monetary amounts are rounded to the nearest £'000.

#### 1. Accounting policies

##### 1.1 Basis of preparation

These financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards, International Accounting Standards as adopted by the European Union ("adopted IFRSs"). A summary of the principal accounting policies, all of which have been applied consistently throughout the current are set out below.

The financial statements are prepared on the historical cost basis except certain financial assets and financial liabilities (including derivatives) measured at fair value. As a consequence of the Company's parent meeting the criteria to be defined as an Investment Entity under International Financial Reporting Standard (IFRS) 10, Consolidated Financial Statements ("IFRS 10"), the Company's results are not consolidated into a parent entity. The Company has considered the need to prepare consolidated financial statements, however, the Company has adopted Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27) and meets the definition of an Investment Entity under IFRS 10, on the basis of the following criteria:

- (i) the Company obtains funds from multiple ultimate investors for the purpose of providing those investors with investment management services;
- (ii) the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (iii) the Company measures and evaluates the performance of substantially all of its investment on a fair value basis.

As such it is required to account for its investments at fair value through profit and loss and hence has not prepared consolidated financial statements.

IFRS 10 requires the Company to measure its interests in subsidiary investments under IFRS 9: Financial Instruments ("IFRS 9") and IFRS 13: Fair Value Measurement ("IFRS 13"). The investments are valued at fair value with gains or losses on measurement of investments accounted for through profit or loss (see note 8).

Joint ventures are those entities over which the Company has significant influence and joint control as defined in IAS 28 'Investments in Associates and Joint Ventures'. By virtue of the Company meeting the definition of a fund management company and the wholly-owned subsidiary of an investment fund and the exemption provided by IAS 28, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit and loss, in accordance with the equivalent measurement exception under IAS 28 and IFRS 13, with changes in fair value recognised in profit or loss in the period of charge.



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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1. Accounting policies (continued)

##### 1.2 Going concern

The cash flow forecasts and projections of the Company, taking account of reasonably possible changes in trading performance and committed investment capital, indicate that the Company should be able to operate within its current level of resources for the foreseeable future and for a period of at least 12 months from the date of these Financial Statements. The directors believe the Company is well placed to manage its risks successfully despite any current economic uncertainties and the economic outlook. Accordingly the going concern basis is adopted in preparing the annual report and Financial Statements.

The forecasts are in part dependent on the parent entity Fenton UK 3 Limited, not seeking repayment of the amounts currently due from the Company, which at 31 December 2019 amounted to £7,756K and providing additional financial support during that period. Fenton UK 3 Limited has indicated its intention to continue to make available such funds as needed by the Company, and that it does not intend to seek repayment of the amounts due at the Statement of Financial Position date, for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The directors of the Company have also considered the impact of the Covid-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility and reduced asset prices in global equity and bond markets. The main risk resulting from Covid-19 for the Company is in respect of the impact on the valuation of investments held at fair value through profit and loss. The directors of the Company have considered the impact on the Company of potentially lower valuations and do not consider there to be any significant impact on the going concern basis of preparation of the Company's financial statements. Whilst the Company holds a single asset investment, the investment has a high degree of revenue backed by the government. Therefore, the directors have considered that no severe but plausible downside event would prevent the Company being able to meet its liabilities as they fall due. In conjunction with this assessment, the directors believe that the Company has sufficient reserves and business controls to address any financial impact and therefore the directors consider there is no significant impact on the going concern basis of preparation of these financial statements.

##### 1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable.

###### *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. It is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

###### *Dividend income*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1. Accounting policies (continued)

##### 1.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts.

The Company holds no cash or cash equivalents and has not held any cash or cash equivalents during the year, and therefore there have been no cash transactions during the year. All transactions have been conducted through intercompany transactions. As such, no cash flow statement has been prepared.

##### 1.5 Taxation

The tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the statement of profit and loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are recognised for temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and the rates that have been enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the same taxable company, and the Company intends to settle its current tax assets and liabilities on a net basis.

##### 1.6 Financial instruments

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of an instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IFRS 9.

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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1. Accounting policies (continued)

##### 1.6 Financial instruments (continued)

###### *Financial assets*

Financial assets, are classified in the following categories: fair value through profit and loss and amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

###### *i) Investments at fair value through profit or loss*

Investments at fair value through profit or loss are designated upon initial recognition as financial assets at fair value through profit or loss. The Company's policy is to fair value both the equity and subordinated debt investments in PPP assets together. Both elements are exposed to the same primary risk, being performance risk. This performance risk is taken into consideration when determining the discount rate applied to the forecast cash flows. In determining fair value observable transactions are considered and fair value is measured using assumptions that market participants would use when pricing assets including assumptions regarding risk. The sub debt and equity are considered to have the same risk characteristics. As such, the debt and equity form a single class of financial instrument for the purposes of this disclosure. The Company measures its investments as a single class of financial asset at fair value in accordance with IFRS 13. Subsequent to initial recognition, the investments are measured on a combined basis at fair value with changes recognised within the Statement of Profit or Loss.

The Company is required as an Investment Entity (Amendments to IFRS 10, IFRS 12, IAS 27) to measure its investments in subsidiaries at fair value through profit or loss, except where the subsidiary provides investment related services or activities. The Company measures its investments in PPP companies that are subsidiaries at fair value in accordance with IFRS 9 Financial Instruments, with changes in fair value recognised in profit or loss in the period of the charge.

###### *ii) Investments in joint ventures and associates*

The investments in joint ventures and associates meet the definition in IAS 28 of a venture capital organisation or similar entity and upon initial recognition has designated its investment in joint ventures and associates at fair value through profit or loss. The Company therefore measures its interest in joint ventures and associates at fair value through profit or loss in accordance with IFRS 9 and IFRS 13 Fair Value Measurement, with changes in fair value recognised in profit or loss in the period of the charge.

###### *(iii) Loans and receivables*

Trade receivables, loans and other receivables that are non derivative financial assets and that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and other receivables'. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. They are included in current assets, except where maturities are in greater than 12 months after the balance sheet date which are classified as non current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

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PALIO (NO 5) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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1. Accounting policies (continued)

1.6 Financial instruments (continued)

*Impairment of financial assets*

Financial Assets are assessed for impairment under the expected credit loss model ("ECL"). Assessment for impairment is based on a three-stage approach based on changes in credit risk since initial recognition, with each stage representing a change in the credit risk of Financial Assets. If a significant increase in credit risk is identified, the financial instrument is moved from stage one to stage two but is not yet deemed to be credit impaired; financial instruments that are deemed to be credit impaired are moved to stage three. The expected credit loss for stage one financial instruments is equal to the portion of lifetime expected credit losses that result from default events within the next twelve months. The expected credit loss for stage two and three financial instruments is equal to expected credit losses on a lifetime basis. ECLs are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Amounts receivable from Financial Assets are written off, when the Company concludes that there is no longer any realistic prospect of recovery of part or all of the receivable. Amounts receivable from Financial Assets are reviewed regularly and write off will be prompted by insolvency, adverse changes in operations and similar events associated with the Financial Asset.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

*Fair value estimation*

The fair value of financial instruments that are not traded in an active market with unobservable inputs, is derived in one of the following ways:

(i) Investments at fair value through profit or loss

Fair value measurement has been based on an estimated exit price at the balance sheet date using the most recent transaction value for the PPP asset in which it holds an investment. The most recent transaction value occurred during the last 12 months, with investment fair values adjusted for any subsequent cashflow receipts.

(ii) Loans and receivables

Loans and borrowings are held at amortised cost.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

*Financial liabilities and equity*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities, including borrowings, are classified as 'other financial liabilities' and are initially measured at fair value. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**1. Accounting policies (continued)**

**1.6 Financial instruments (continued)**

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**1.7 Share capital**

Ordinary shares are classified as equity.

**1.8 Expenses**

All expenses are accounted for on an accruals basis. The Company's fees, finance costs and all other expenses are charged through the statement of profit and loss and other comprehensive income.

**1.9 Dividends**

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders.

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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 2. Critical accounting judgements and key estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Company as at 31 December are discussed below:

##### *Inter-company agreement - interest rate*

The Company's loan agreement with its subsidiaries and shareholders carry an interest rate of 12%, reflecting the market rate attributable to similar instruments entered into by the Company's investments, therefore the directors believe that the loan note value in these financial statements reflects fair value as at 31 December 2019.

##### *Investments at fair value through profit or loss*

By virtue of the Company's status as an Investment Entity and the associated requirement of IFRS 10, investments in joint ventures and associates are designated upon initial recognition and subsequently to be accounted for at fair value through profit or loss.

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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 2. Critical accounting judgements and key estimation uncertainty (continued)

The fair values of unlisted investments, which are not traded in an active market, are determined using valuation techniques or most recent transaction value. The directors principally use discounted cash flow analysis to make their best estimation of the fair value, or otherwise use the most recent transaction values. The estimate of fair value may vary from the price achieved in an actual sale as potential acquirers may use different valuation criteria for their own strategic reasons.

The principal drivers of internally prepared valuations are therefore:

- i) expected future net cash flows; and
- ii) the discount rate to be applied.

The fair value estimation takes into account the future distributions to be received by the Company from its investments.

Future distributions involve a degree of uncertainty in terms of their amount and timing. Cash flows in the underlying investments are exposed to risks in relation to deductions that may be made by the relevant Government Authority in relation to performance conditions and inflation.

If the expected future net cash flows were decreased or increased by 10%, with all other variables held constant, the impact on the value of financial assets would be £2,284,000 loss/gain respectively.

The discount rate is determined in relation to the particular risks for each investment. All relevant risks such as interest rate risk, credit risk and liquidity risk are incorporated in the fair value of the investments by adjusting the expected cash flows or discount rate used for the valuation of investments. The discount rates used for the 2019 valuation were in a range between 6.00% and 7.02%. If the discount rate used in the valuation were increased or decreased by 100 bps, the impact on the value of the financial assets would be a loss/gain respectively of £1,007,000/£1,077,000.

#### Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets is derived in one of the following ways:

#### i) Financial assets at fair value through profit or loss

Financial assets are recognised initially at fair value. Subsequent to initial recognition, the financial assets are measured at fair value using the discounted cash flow methodology. In determining the discount rate, regard is had to risk free rates and risk premia that are specific to the individual concession.

#### ii) Loans, receivables, and payables

The carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair values.

#### iii) Borrowings

Intercompany loans are held at amortised cost.

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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**3. International financial reporting standards ("IFRS") - adoption of new and revised standards**

A number of new standards are effective 1 January 2019 but do not have a material effect on the Company's financial statements. The notable new standards are listed below:

- IFRS 16 'Leases' (1 January 2019)
- IFRS 17 'Insurance Contracts' (1 January 2019)
- IFRIC 23 'Uncertainty over Income Tax Treatments' (1 January 2019)
- Amendments resulting from the annual improvements to IFRS Standards 2015-2017 Cycle (1 January 2019)

The following IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- Definition of a Business (Amendments to IFRS 3)
- Amendments to References to the Conceptual Framework in IFRS Standards and Revised Conceptual Framework
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The directors do not expect that the adoption of the other standards listed above will have a material impact on the Company in future periods.

**4. Operating profit**

The operating profit of the Company is attributable to the principal activity of the Company, all of which was carried out in the United Kingdom.

The Company's audit costs are borne by another group entity, Jura Acquisition Limited.

**5. Directors' remuneration**

No staff were directly employed by the Company.

No directors received any remuneration for services to the Company during the year. The Company is managed by secondees from third parties. No recharge for services rendered has been made during the year.



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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**6. Investment income**

|                                         | <b>2019</b>  | <b>2018</b> |
|-----------------------------------------|--------------|-------------|
|                                         | <b>£000</b>  | <b>£000</b> |
| Dividend income from investments        | <b>489</b>   | 1,444       |
| Interest income on loans to investments | <b>858</b>   | 869         |
|                                         | <b>1,347</b> | 2,313       |

During the year the Company received dividend payments from its subsidiary Regenter B3 Holdco Limited of £489,000 (2018: £1,444,000).

**7. Finance expense**

|                                                         | <b>2019</b> | <b>2018</b> |
|---------------------------------------------------------|-------------|-------------|
|                                                         | <b>£000</b> | <b>£000</b> |
| Interest expense on loans from immediate parent company | <b>857</b>  | 869         |
|                                                         | <b>857</b>  | 869         |

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PALIO (NO 5) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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8. Investments at fair value through profit or loss

|                                     | 2019<br>£000  | 2018<br>£000  |
|-------------------------------------|---------------|---------------|
| Opening net book value              | 21,216        | 21,704        |
| Additions                           | -             | -             |
| Repayment of principal and interest | (442)         | (986)         |
| Accrued interest                    | 858           | 865           |
| Fair value gain/(loss)              | 1,208         | (367)         |
|                                     | <u>22,840</u> | <u>21,216</u> |

The following economic assumptions were used in the discounted cash flow valuations:

|                           | 2019     |
|---------------------------|----------|
| UK inflation rates        | 2.8%*    |
| UK deposit interest rates | 0.5%**   |
| UK tax rates              | 17.0%*** |

\*thereafter 3%

\*\*thereafter 1%

\*\*\*thereafter 17%

Investments are generally restricted on their ability to transfer funds to the Company under the terms of the senior funding arrangement for that investment. Significant restrictions include:

- Historic and projected debt service and loan life cover ratios exceed a given threshold;
- Required cash reserve account levels are met;
- Senior lenders have agreed the current financial model that forecasts the economic performance of the company;
- Project performance is in compliance with the terms of its senior funding arrangements; and
- Senior lenders have approved the annual budget for the Company.

A list of subsidiaries of the Company can be found in note 15 of these financial statements.

The gain on investments of £1,208,000 (2018: loss of £367,000) has been included in the Statement of Comprehensive Income. Movements in fair value are attributed to the equity portion of the investment.

The directors have satisfied themselves as to the methodology used, the discount rates applied and the valuation. Further detail is given in note 13.

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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**9. Tax**

**9.1 Income tax recognised in profit or loss**

|                                     | <b>2019<br/>£000</b> |
|-------------------------------------|----------------------|
| <b>Current tax</b>                  |                      |
| Current tax on profits for the year | -                    |
| <b>Total current tax</b>            | <u>-</u>             |

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

|                                                             | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|-------------------------------------------------------------|----------------------|----------------------|
| Profit for the year                                         | <b>1,698</b>         | 1,077                |
| <b>Profit before income taxes</b>                           | <u><b>1,698</b></u>  | <u>1,077</u>         |
| Tax using the Company's domestic tax rate of 19% (2018:19%) | <b>323</b>           | 205                  |
| Expenses not deductible for tax purposes                    | -                    | 70                   |
| Non-taxable income                                          | <b>(323)</b>         | (275)                |
| <b>Total tax expense</b>                                    | <u><u>-</u></u>      | <u><u>-</u></u>      |

**10. Trade and other liabilities**

|                                                     | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|-----------------------------------------------------|----------------------|----------------------|
| Payables to related parties                         | <b>38</b>            | 38                   |
| Accruals                                            | <b>574</b>           | 142                  |
| <b>Total trade and other payables</b>               | <u><b>612</b></u>    | <u>180</u>           |
| Less: current portion - payables to related parties | <b>(38)</b>          | (38)                 |
| Less: current portion - accruals                    | <b>(574)</b>         | (142)                |
| <b>Total non-current position</b>                   | <u><u>-</u></u>      | <u><u>-</u></u>      |

The carrying amount of these liabilities approximates their fair value.

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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**11. Loans and borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

|                                    | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|------------------------------------|----------------------|----------------------|
| <b>Non-current</b>                 |                      |                      |
| Amounts owed to group undertakings | <b>7,144</b>         | 7,161                |
| <b>Total loans and borrowings</b>  | <b>7,144</b>         | <b>7,161</b>         |

Amounts owed to group undertakings represent a loan from Fenton UK 3 Limited for the purpose of lending this to its subsidiary Regenter B3 Holdco Limited. Interest on Amounts owed to group undertakings accrues at 12%.

The carrying amount of these liabilities approximates their fair value.

**12. Share capital and reserves**

**Authorised**

|                                                                | <b>2019<br/>Number</b> | <b>2019<br/>£000</b> |
|----------------------------------------------------------------|------------------------|----------------------|
| <b>Shares treated as equity</b>                                |                        |                      |
| Ordinary shares at beginning and end of the year of £1.00 each | <b>50,001</b>          | <b>50</b>            |
|                                                                | <b>50,001</b>          | <b>50</b>            |

At present, the Company has one class of ordinary share which carries no right to fixed income.

The dividends for the period ended 31 December 2019 amounted to £489,000 (2018: £1,444,000) being £9.78 (2018: £28.88) per ordinary share.

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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**13. Financial instruments**

**Capital risk management**

The capital structure of the Company consists of net debt less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 11.

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged since incorporation.

**Categories of financial instruments**

|                                                | <b>2019</b>   | <b>2018</b> |
|------------------------------------------------|---------------|-------------|
|                                                | <b>£000</b>   | <b>£000</b> |
| <b>Financial assets</b>                        |               |             |
| <b>Fair value through profit and loss</b>      |               |             |
| Investments                                    | <b>22,840</b> | 21,216      |
|                                                | <b>22,840</b> | 21,216      |
| <b>Financial liabilities at amortised cost</b> |               |             |
| Borrowings                                     | <b>7,144</b>  | 7,161       |
| Trade and other payables                       | <b>612</b>    | 180         |
|                                                | <b>7,756</b>  | 7,341       |

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PALIO (NO 5) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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**13. Financial instruments (continued)**

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and inflation risk), credit risk, liquidity risk, and capital risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company's investment entities use derivative financial instruments to hedge certain risk exposures.

Interest rate sensitivity analysis

The Company has no exposure to interest rate risk because of the fixed rate arrangement in place for the external bank loans and the loan held with Fenton UK 3 Limited has a fixed interest rate of 7.00%.

*Inflation risk management*

The investment has part of its revenue and some of its costs linked to a specific inflation index at inception of the project. This creates a natural hedge, meaning a derivative does not need to be entered into in order to mitigate inflation risk.

*Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. For cash and cash equivalents the Company only transacts with entities that are rated the equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties. Credit risk is generated through the overall performance risk of the projects, deterioration of which might impact their ability to service equity payments. This risk is mitigated through the PFI contract structure, whereby deductions are passed down to the facilities management and construction sub contractors.

The Company only transacts with creditworthy PFI / PPP concession companies that have a cash flow derived from projects in agreement with government or semi-government authorities.

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PALIO (NO 5) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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13. Financial instruments (continued)

*Liquidity risk management*

The Company adopts a prudent approach to liquidity management by maintaining sufficient cash and available committed facilities to meet its obligations. Due to the nature of its investment (PPP project) the timing of cash outflows is reasonably predictable and, therefore, is not a major risk to the Company.

The Company's liquidity management policy involves projecting cash flows in major currencies and assuming the level of liquid assets necessary to meet these.

The Company aims to deliver its objective by investing available cash and using leverage whilst maintaining sufficient liquidity to meet ongoing expenses and dividend payments.

The directors consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost in the financial statements, are approximately equal to their fair values.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up on undiscounted cash flows of financial liabilities based on the earliest date the Company could be required to satisfy borrowing repayments. The table includes principal repayments on borrowings and settlement of other payables, but excludes interest on the intercompany loans.

**Liabilities**

|                             | Less than 1<br>year<br>£000 | 1-2 years<br>£000 | 3-5 years<br>£000 | 5+ years<br>£000 | Total<br>£000 |
|-----------------------------|-----------------------------|-------------------|-------------------|------------------|---------------|
| 2019                        |                             |                   |                   |                  |               |
| Borrowings                  | -                           | -                 | -                 | 7,144            | 7,144         |
| Trade and other liabilities | 612                         | -                 | -                 | -                | 612           |
|                             | <u>612</u>                  | <u>-</u>          | <u>-</u>          | <u>7,144</u>     | <u>7,756</u>  |

Interest payable due in 2-5 years was £3,432k and due after 5 years was £1,139k.

Borrowings comprise amounts borrowed from the parent company, Fenton UK 3 Limited. The carrying value of the loan notes represents the current fair value.

*Fair value of financial instruments*

The fair value of financial assets and liabilities is determined as follows:

The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

The fair value of other non-derivative financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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PALIO (NO 5) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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**13. Financial instruments (continued)**

**Fair value of financial instruments**

The Company holds a number of financial instruments on the statement of financial position at their fair values. The following hierarchy classifies each class of financial asset or liability depending upon the valuation technique applied in determining its fair value.

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities, where inputs are observable;

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) where inputs are directly or indirectly observable; and

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data, where the inputs are unobservable.

There have been no transfers between these categories in the current period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

|                                                          | 2019<br>£000  | 2018<br>£000  |
|----------------------------------------------------------|---------------|---------------|
| <b>Investments at fair value through profit and loss</b> |               |               |
| Level 1                                                  | -             | -             |
| Level 2                                                  | -             | -             |
| Level 3                                                  | 22,840        | 21,216        |
| <b>Total</b>                                             | <b>22,840</b> | <b>21,216</b> |

The fair value calculation is performed on a recurring, annual basis, as defined by IFRS 13.



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**PALIO (NO 5) LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**13. Financial instruments (continued)**

The key assumptions used in determining the fair values of unquoted investments and a sensitivity analysis is disclosed in note 2.

Level 3 Reconciliation - Investments at fair value through profit or loss

|                                                      | <b>2019</b>   | <b>2018</b> |
|------------------------------------------------------|---------------|-------------|
|                                                      | <b>£000</b>   | <b>£000</b> |
| Opening net book value                               | <b>21,216</b> | 21,704      |
| Movement due to additions                            | -             | -           |
| Movement due to unwinding of discounting calculation | <b>1,293</b>  | 1,946       |
| Movement due to change in cash flows                 | <b>1,262</b>  | -           |
| Movement due to fund returns                         | <b>(931)</b>  | (2,434)     |
| <b>Closing net book value</b>                        | <b>22,840</b> | 21,216      |

**PALIO (NO 5) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**14. Related party transactions**

The following transactions took place between the Company and its joint ventures and subsidiaries during the period:

|                                                       | Investment income | Interest expense |
|-------------------------------------------------------|-------------------|------------------|
| <u>Statement of comprehensive income transactions</u> | 2019              | 2019             |
|                                                       | £'000             | £'000            |
| <b>Related party</b>                                  |                   |                  |
| Fenton UK 3 Limited                                   | -                 | 857              |
| Regenter B3 Holdco Limited                            | 1,347             | -                |
|                                                       | <u>1,347</u>      | <u>857</u>       |

|                                              | Amounts owed by<br>related parties | Amounts owed to<br>related parties |
|----------------------------------------------|------------------------------------|------------------------------------|
| <u>Statement of financial position items</u> | 2019                               | 2019                               |
|                                              | £'000                              | £'000                              |
| <b>Related party</b>                         |                                    |                                    |
| Fenton UK 3 Limited                          | -                                  | 7,756                              |
| Regenter B3 Holdco Limited                   | 7,718                              | -                                  |
|                                              | <u>7,718</u>                       | <u>7,756</u>                       |

|                                                       | Investment income | Interest expense |
|-------------------------------------------------------|-------------------|------------------|
| <u>Statement of comprehensive income transactions</u> | 2018              | 2018             |
|                                                       | £'000             | £'000            |
| <b>Related party</b>                                  |                   |                  |
| Regenter B3 Holdco Limited                            | 2,313             | -                |
|                                                       | <u>2,313</u>      | <u>-</u>         |

|                                              | Amounts owed by<br>related parties | Amounts owed to<br>related parties |
|----------------------------------------------|------------------------------------|------------------------------------|
| <u>Statement of financial position items</u> | 2018                               | 2018                               |
|                                              | £'000                              | £'000                              |
| <b>Related party</b>                         |                                    |                                    |
| Regenter B3 Holdco Limited                   | 7,303                              | -                                  |
|                                              | <u>7,303</u>                       | <u>-</u>                           |

Amounts owed from related parties are included within Investment balance in the statement of financial position.

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## PALIO (NO 5) LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 15. Parent company

The Company's immediate parent company is Fenton UK 3 Limited, a company incorporated in Jersey, with registered office at 44 Esplanade, St Helier, Jersey, JE4 9WG. The Company's ultimate parent and controlling entity, is Fenton Holdco Limited, a company registered in England and Wales, with registered office at 3rd Floor, South Building, 200 Aldersgate Street, London, EC1A 4HD. The Company's results are not consolidated as the Company and its parent entities meet the criteria of Investment Entities under IFRS 10.

#### 16. Investments in subsidiaries

| Company name               | Percentage of shares held | Category             | Registered Address                                      |
|----------------------------|---------------------------|----------------------|---------------------------------------------------------|
| Regenter B3 Holdco Limited | 100%                      | Intermediate holding | 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG |
| Regenter B3 Limited        | 100%*                     | Operating subsidiary | 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG |

\*denotes investment held indirectly

#### 17. Post balance sheet events

During the period from the date of the Statement of Financial Position to the date of the financial statements were approved, the coronavirus (Covid-19) outbreak has caused extensive disruptions to businesses and economic activities globally. The uncertainties over the emergence and spread of Covid-19 have caused market volatility on a global scale. The quantum of the effect on the Company is difficult to determine, however the directors are monitoring the situation and considering the effect it may have on the valuation of any impacted underlying unquoted portfolio companies in the future. In accordance with the requirements of IFRS, the fair valuations at the date of the statement of financial position reflect the economic conditions in existence at that date. The next date at which a valuation of unquoted investments will be performed will be as at 31 December 2020. The directors consider the emergence of Covid-19 to be a non-adjusting event. The Directors do not believe there is any financial impact to the Financial Statements as at 31 December 2019 as a result of this subsequent event.