PALIO (NO 10) LIMITED

ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2013

Registered Number 7566807

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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Directors
A G Charlesworth
D B Marshall

Company secretary and registered office
M Lewis
1 Kingsway
London
WC2B 6AN

Auditor
Deloitte LLP
Chartered Accountants
London

STRATEGIC REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Company is to invest in PPP infrastructure projects.

BUSINESS REVIEW

The Company currently holds 100% interest in Three Valleys Healthcare (Holdings) Limited. During the year, the company continued to receive revenues from its investments in the form of interest on sub debt loan and dividends. The Company reports a profit after tax for the year of £814k and a positive movement in investments at fair value of £534k.

During the year, the Company has transitioned to International Financial Reporting Standards (IFRS) and undertaken the early adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) as it meets the definition of an investment entity. These amendments, endorsed by the EU on 20 November 2013, are effective from 1 January 2014. As a result of adopting the amendments to IFRS 10, IFRS 12 and IAS 27, the Company recognises its investments in PPP assets as Investments at fair value through profit or loss rather than at book value.

The Company's subsidiaries are held at fair value in the Balance Sheet with movement recorded through Income Statement as explained in note 2. In order to determine the fair value of these investments, the Company takes into consideration the fair value of the underlying portfolio companies and intermediate holding companies.

There have been no events subsequent to 31 December 2013 which require adjustment of or disclosure in the financial statements or notes thereto.

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current market conditions and concluded that it is appropriate. In reaching this conclusion, the Directors have specifically considered the Company's relationships with its immediate parent. More information is provided in note 1 to the financial statements.

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 investments in PPP projects, which are supported by central and local government bodies.

On behalf of the Board

A Charlesworth
Director
29 September 2014

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the year ended 31 December 2013.

Palio (No 10) Limited (the 'Company') is a limited company incorporated in England. The Company is wholly owned by JLIF Limited Partnership, the limited partner of which is JLIF LuxCo 2 S.á.r.l. The limited partner is an indirectly wholly owned subsidiary of John Laing Infrastructure Fund Limited. The Company invests in PFI/PPP infrastructure projects in the UK.

DIRECTORS

The Directors who served throughout the year are shown on page 1.

EMPLOYEES

Details of the number of employees and related costs can be found in note 4 to the financial statements on page 17.

AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

- as 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 he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006.

Deloitte LLP were appointed auditors at a meeting of the Board of Directors. Deloitte LLP have indicated their willingness to be reappointed as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the Board

A Charlesworth
Director
29 September 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such 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 European Union (EU). 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 year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent; and

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PALIO (NO 10) LIMITED

We have audited the financial statements of Palio (No 10) Limited for the year ended 31 December 2013 which comprise the Income Statement, the Reconciliation of Income Statement, the Balance Sheet, the Reconciliation of Balance Sheet at 31 December 2012, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards (IFRS) as adopted by the European Union.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies in the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Jacqueline Holden

Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 September 2014

INCOME STATEMENT

for the year ended 31 December 2013

	Notes	2013 £'000s	2012 Restated* £'000s
Interest Income		880	601
Dividend Income		13	357
Net gain on investments at fair value through profit or loss	7	534	1,199
Operating income		**1,427**	2,157
Operating expenses		-	-
Operating profit	4	1,427	2,157
Net finance costs	5	(880)	(601)
Profit before tax		**547**	1,556
Tax	6	267	(2,010)
Profit / (loss) for the year		**814**	(454)

All results are derived from continuing operations.

There are no items of Other Comprehensive Income in both the current and preceding year, and therefore no separate Statement of Comprehensive Income has been presented.

*All comparative information, including relevant notes, has been restated to reflect the Company has transitioned to International Financial Reporting Standards (IFRSs) and undertaken early adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). Refer to note 2(a) for details.

RECONCILIATION OF INCOME STATEMENT
for the year ended 31 December 2012

	Notes	UK GAAP £'000s	IFRS adjustments £'000s	IFRS £'000s
Impairment Losses		-	-	-
Interest Income		-	601	601
Income from fixed asset investments		357	(357)	-
Dividend Income		-	357	357
Net gain on investments at fair value through profit or loss	7	-	1,199	1,199
Operating income		**357**	**1,800**	**2,157**
Operating expenses		-	-	-
Operating profit	4	**357**	**1,800**	**2,157**
Interest receivable		601	(601)	-
Interest payable		(601)	-	(601)
Profit before tax		357	1,199	1,556
Tax	6	-	(2,010)	(2,010)
Profit / (loss) for the year		**357**	(811)	(454)

BALANCE SHEET
as at 31 December 2013

	Notes	2013 £'000s	2012 Restated* £'000s
Non-current assets			
Investments at fair value through profit or loss	7	14,531	13,997
Total non-current assets		**14,531**	13,997
Total assets		**14,531**	13,997
Current liabilities			
Trade and other payables	9	(249)	(249)
Total current liabilities		**(249)**	(249)
Non-current liabilities			
Loans and borrowings	10	(7,099)	(7,099)
Deferred tax liabilities	11	(1,743)	(2,010)
Total non-current liabilities		**(8,842)**	(9,109)
Total liabilities		**(9,091)**	(9,358)
Net assets		**5,440**	4,639
Equity			
Share capital	12	50	50
Share premium account	13	5,400	5,400
Retained earnings	14	(10)	(811)
Total equity		**5,440**	4,639

*All comparative information, including relevant notes, has been restated to reflect the Company has transitioned to International Financial Reporting Standards (IFRSs) and undertaken early adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). Refer to note 2(a) for details.

The financial statements of Palio (No 10) Limited, registered number 7566807, were approved by the Board of Directors and authorised for issue on 29 September 2014. They were signed on its behalf by:

A Charlesworth
Director

RECONCILIATION OF BALANCE SHEET
as at 31 December 2012

	Notes	UK GAAP £'000s	IFRS adjustments £'000s	IFRS £'000s
Fixed assets				
Investments		5,477	(5,477)	-
Non-current assets				
Investments at fair value through profit or loss	7	-	13,997	13,997
Total non-current assets		5,477	8,520	13,997
Current assets				
Trade and other receivables	8	222	(222)	-
Other financial assets		7,099	(7,099)	-
Total current assets		7,321	(7,321)	-
Total assets		12,798	1,199	13,997
Current liabilities				
Trade and other payables	9	(249)	-	(249)
Total current liabilities		(249)	-	(249)
Non-current liabilities				
Loans and borrowings	10	(7,099)	-	(7,099)
Deferred tax liabilities	11	-	(2,010)	(2,010)
Total non-current liabilities		(7,099)	(2,010)	(9,109)
Total liabilities		(7,348)	(2,010)	(9,358)
Net assets		5,450	(811)	4,639
Equity				
Share capital	12	50	-	50
Share premium account	13	5,400	-	5,400
Retained earnings	14	-	(811)	(811)
Total equity		5,450	(811)	4,639

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

Statement of Changes in Equity in 2013

	Share capital	Share premium account	Retained reserves	Total equity
	£'000s	£'000s	£'000s	£'000s
Restated balance at 1 January 2013	50	5,400	(811)	4,639
Profit for the year	-	-	814	814
Total comprehensive income for the year	**-**	**-**	**814**	**814**
Dividend paid	-	-	(13)	(13)
Balance at 31 December 2013	**50**	**5,400**	**(10)**	**5,440**

*All comparative information, including relevant notes, has been restated to reflect the Company has transitioned to International Financial Reporting Standards (IFRSs) and undertaken early adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). Refer to note 2(a) for details.

CASH FLOW STATEMENT

for the year ended 31 December 2013

	2013 £'000s	2012 Restated* £'000s
Profit from operations	1,427	2,157
Adjustments for:		
Net gain on investments at fair value through profit or loss	(534)	(1,199)
Operating cash flows before movements in working capital	**893**	**958**
Cash inflow from operations	**893**	**958**
Net cash inflow from operating activities	**893**	**958**
Net cash (used in) investing activities	**-**	**-**
Financing activities		
Dividends paid - equity shareholders	(13)	(357)
Interest paid	(880)	(601)
Net cash from financing activities	**(893)**	**(958)**
Net increase/(decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at end of year	-	-

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to fair value.

*All comparative information, including relevant notes, has been restated to reflect the Company has transitioned to International Financial Reporting Standards (IFRSs) and undertaken early adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). Refer to note 2(a) for details.

1 GENERAL INFORMATION

Palio (No 10) Limited (the 'Company') is a limited company incorporated in England. The Company is wholly owned by JLIF Limited Partnership, the limited partner of which is JLIF LuxCo 2 S.á.r.l. The limited partner is an indirectly wholly owned subsidiary of John Laing Infrastructure Fund Limited. The Company invests in PPP infrastructure projects in the UK.

The Financial Statements of Palio (No 10) Limited have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). These are the Company's first financial statements prepared in accordance with IFRS.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards and the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) as adopted by the European Union.

For all the periods up to and including the year ended 31 December 2012, the Company prepared its financial statements in accordance with the United Kingdom Generally Accepted Accounting Principles (UK GAAP). The Company has adopted for the year ended 31 December 2013 the International Financial Reporting Standards (IFRS) and reports its financial statements under IFRS for the first time. IFRS 1 requires that at least one year of comparative prior period financial information be presented. The Company has prepared financial statements which compy with IFRS applicable for the periods beginning on or after 1 January 2012.
Prior to 1 January 2012 the Company was dormant. No financial information is available for the restatement of the Opening Balance at 1 January 2012. The Company has made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS.

The Company has considered the need to prepare consolidated financial statements, however, the Company meets the definition of an Investment Entity under IFRS 10 and as such the Company has early adopted Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments, endorsed by the EU on 20 November 2013, are effective from 1 January 2014. As a result of adopting the amendments to IFRS 10, IFRS 12 and IAS 27, the Company has not prepared consolidated financial statements and instead recognises its investments in PPP assets as Investments at fair value through profit or loss rather than at book value.

A summary of the principal accounting policies adopted by the Directors, which have been applied consistently throughout the current and preceding period, is shown below.

The financial statements have been prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair values: derivative financial instruments and financial assets classified at their fair value through profit or loss. The principal accounting policies are set below.

The adoption of the following new and revised interpretations and amendments has not led to any changes in the Company's accounting policies or had any material impact on these financial statements :
IAS 1 (June 2011): Presentation of Items of Other Comprehensive Income
IAS 12 (December 2010): Deferred Tax: Recovery of Underlying Assets
IAS 19: Employee Benefits
IFRS 1: Government Loans
IFRS 7: Disclosure-Offsetting Financial Assets and Financial Liabilities
IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting (Continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The Directors determined that the Company meets the definition of an investment entity and decided to early adopt the amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Consolidated and Separate Financial Statements which are effective for period commencing on or after 1 January 2014.

In order to reach this conclusion, the Directors gave consideration and agreed that the Company meets the following key characteristics of an investment entity:

a) The Company invests solely for the purpose of capital appreciation, investment income, or both;
b) The Company does not plan to hold its investments indefinitely; it holds them for a limited period, i.e. there is an exit strategy; and
c) The Company measures and evaluates the performance of substantially all its investments on a fair value basis.

Following the adoption of the amendments and determination that the Company is an investment entity, the Company recognises its investments as investments at fair value through profit or loss.

The amendments, which are effective for periods commencing on or after 1 January 2014, are permitted to be early adopted.

The impact of adopting Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) is the recognition of the investments in PPP assets at fair value through profit or loss as opposed to at net book value.

Investments
Under UK GAAP fixed asset investments were shown at cost less provision for impairment. Income from investments was included in the profit and loss account as declared.

IFRS 10 requires the Company to measure its interest in investments at fair value with gains and losses on measurement of investments accounted through profit or loss.

Subdebt debtors
Subsequent to the transition to IFRS, sub debt debtors of amounts owed by investments have been included within the fair value of the investment to which it relates. Under IFRS, the debtor has been classified to investments. Consequently, the interest revenue associated to the sub debt debtor is now reported within Operating Income in the Income Statement.

Deferred tax
An initial deferred tax liability has been recognised on the subordinated debt interest income included in the fair value of the investments. The deferred tax liability is adjusted annually as gains or losses arise on the fair value of the subordinated debt interest income.

b) Going concern
Having reviewed the Company's investment portfolio including the associated future cash requirements and forecast receipts, the Directors are satisfied that they have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Company has an nvestment in one operational non-recourse PPP Project Company which yield annual interest, dividends and loan repayments. The cash flow from the project yield comfortably covers the Company's expected cash flow requirements for overheads and targeted dividend distribution policy.

The Company has sufficient financial resources together with public sector long-term contracts across a range of Infrastructure projects. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors, at the time of approving the financial statements, are satisfied that the Company have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Revenue recognition

(i) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time-apportioned basis, using the effective interest rate of the instrument concerned as calculated at the acquisition or origination date. Interest income is recognised gross of withholding tax, if any.

(ii) Dividend income

Dividend income is recognised when the Company's right to receive the payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Dividend income is recognised gross of withholding tax, if any, and only when paid by the PPP project company.

(iii) Gains on investments at fair value through profit or loss

Gains or losses that arise from the movement in the fair value of investments are presented separately from interest income and dividend income above.

Revenue excludes the value of intra-group transactions and VAT.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held on call with banks and other short-term highly liquid deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Deposits held with original maturities of greater than three months are included in other financial assets.

e) Borrowing costs

All borrowing costs are recognised in the Income Statement in the period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Taxation

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

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the Income Statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax
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 bases 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 taxable 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company 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 Balance Sheet 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. Deferred tax is charged or credited to the Income Statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

g) Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the 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 IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS13 'Fair Value Measurement'.

i) Financial assets
The Company classifies its financial assets in the following categories: fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) 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. Subsequent to initial recognition, the investments are measured on a combined basis at fair value with changes recognised within operating income in the Income Statement.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in subsidiaries
The Company is required under Investment Entities (Amendments to IFRS 10, IFRS 12 and 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 assets in accordance with IFRS 13 Fair Value Measurement, with changes in fair value recognised in profit or loss in the period of the change. Where a subsidiary provides investment-related services or activities, the subsidiary is consolidated on a line by line basis in accordance with IFRS 10 Consolidated Financial Statements.

b) 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 Balance Sheet.

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

a) Equity instruments - share capital and share premium
Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or associated with the establishment of the Company that would otherwise have been avoided are written off against the balance of the share premium account.

b) Financial liabilities
Financial liabilities are classified as other financial liabilities, comprising of:
- Loans and borrowings are recognised initially at fair value of the consideration received, less transaction costs. Subsequent to initial recognition, loan and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

- Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

iii) Effective interest method

The effective interest rate is that rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the relevant asset's carrying amount.

iv) Fair value estimation
The fair value of financial instruments that are not traded in active markets is derived in one of three ways:
a) Investments at fair value through profit or loss
Fair value is calculated by discounting future cash flows, from investments in both equity (dividends and equity redemptions) and subordinated loans (interest and repayments), to the Company at an appropriate discount rate. The basis of discount rates are long run average government bond rates adjusted for an appropriate premium to reflect PPP specific risk. Risk premia are then added to this adjusted base gilt rate depending on the phase of the project. The discount rates that have been applied to the investments at 31 December 2013 were in the range 7.50% to 8.85% (31 December 2012 - 7.95% to 8.86%). Refer to note 7 for details of the areas of estimation in the calculation of the fair value.

b) Loans and receivables, borrowings and payables
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.

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the fair value of assets and liabilities that affect reported amounts. 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.

Investments at fair value through profit or loss

Fair values for those investments for which a market quote is not available are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to risk free rates, specific risks and the evidence of recent transactions. The Directors have satisfied themselves that the PPP investments share the same investment characteristics and as such constitute a single asset class for IFRS 7 disclosure purposes.

4. OPERATING PROFIT

The operating profit is attributable to the principal activity of the Company, all of which was carried out in the United Kingdom.
The audit fee for Palio (No 10) Limited of £2,050 has been borne by JLIF Limited Partnership who will not seek recovery from the Company.

The Company had no employees other than directors for the current year or preceding period. There was no directors' remuneration for the year or preceding period.

5. FINANCE COST

	Year ended 31 December 2013 £'000s	2012* £'000s
Interest expense on loans from immediate parent company	880	601
Total finance cost	**880**	601

6. TAX

	Year ended 31 December 2013 £'000s	2012* £'000s
Current Tax		
UK Corporation tax	-	-
Total Current Tax	-	-
Deferred Tax		
Origination and reversal of timing differences	(5)	2,010
Changes to tax rates and laws	(262)	-
Total Deferred tax	**(267)**	**2,010**
Total (credit) / charge on profit on ordinary activities	**(267)**	**2,010**

Profit on ordinary activities before taxation	547	1,556
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	127	381
Effect of		
Non-taxable UK dividends received	(3)	(87)
Net gain on investments at FV through profit or loss	(124)	(294)
Origination and reversal of timing differences	(5)	2,010
Changes to tax rates and laws	(262)	-
Total tax (credit) / charge for the year	(267)	2,010

The Finance Act 2013 was enacted on 17 July 2013 implementing a reduction in the main UK corporation tax rate from 24% to 23% effective from 1 April 2013, with a further deduction of 2% to 21% from 1 April 2014 and to 20% from 1 April 2015. As a result of the change the deferred tax balances at the year-end have been re-measured. This gives rise to a deferred tax credit of £262k in the year.

* All comparative information, including relevant notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

		2013	2012*
		£'000s	£'000s
Opening balance		**13,997**	-
Acquisitions		**-**	13,066
Dividends received from investments	*	**(13)**	(357)
Interest received from investments	*	**(880)**	(601)
Movement in accrued interest		**-**	(268)
Discount rate movement	*	**(131)**	-
Unwind of discount rate and other movements	*	**1,558**	2,157
Carrying amount at 31 December		**14,531**	13,997

*Net gain on investments at fair value through profit or loss for the year ended 31 December 2013 is £534,000 (2012: gain of £1,199,000)

The Ultimate Parent Company's Investment Advisor has carried out fair market valuations of the investments as at 31 December 2013. The Directors have satisfied themselves as to the methodology used, the discount rates applied and the valuation. The investments are all investments in PPP projects and are valued using a discounted cash flow methodology. The valuation techniques and methodologies have been applied consistently with the methodology used to value the Investments since the launch of the ultimate parent company John Laing Infrastructure Fund Limited in 2010. Discount rates applied range from 7.50% to 8.85% (2012 - 7.95% to 8.86%).

The following economic assumptions were used in the discounted cashflow valuations:

	2013	2012
Inflation rates -		
UK	**2.75%**	2.75%
Deposit interest rates (UK)	**1% for 2014 and 2015 rising to 3.5% from 2018**	1% for 2013, 4% thereafter

The changes to the main rate of corporation tax for UK companies announced in the March 2013 Budget were substantively enacted by the UK Government on 2 July 2013. The main corporation tax rate will reduce by 2% to 21% from 1 April 2014 with a further reduction to 20% from 1 April 2015. The reduction to 21% is reflected in the fair value of the UK investments and as such within the financial statements. The further reduction to 20% from 1 April 2015 is not reflected in the fair value of the investments.

The fair value of the PPP investments would be an estimated £1.7 million higher or £1.4 million lower (2012 - estimated £1.7 million higher or £1.4 million lower) if the discount rate used in the discounted cash flow analysis were to differ by 1% from that used in the fair value calculation.

The fair value of the PPP investments would be an estimated £0.7 million higher (2012 - £0.2 million higher) if the inflation rate used in the discounted cash flow analysis was an absolute 1% higher than that used in the fair value calculation, and £0.6 million lower (2012 - £0.2 million lower) if the inflation rate was an absolute 1% lower. The inflation rate assumed for all future periods from 31 December 2013 was 2.75% (2012 - 2.75%).

The fair value of the PPP investments would be an estimated £0.9 million higher or £0.5 million lower (2012 - estimated £0.9 million higher or £0.9 million lower) if the deposit rates used in the discounted cash flow analysis were to differ by 1% from that used in the fair value calculation. The deposit rates assumed for all future periods from 31 December 2013 were 1% for 2013 and 2014, gradually rising to 3.5% from 2018.

Details of investments recognised at fair value through profit or loss were as follows:

	% holding 31 December 2013		% holding 31 December 2012	
Investments (project name - see note 18 for further details)	**Equity**	**Subordinated loan stock**	Equity	Subordinated loan stock
Three Valleys Healthcare (Holdings) Limited	100.0%	100.0%	100.0%	100.0%

There are no future loan stock or capital commitments on investments held at fair value through profit or loss.

* All comparative information, including relevant notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

8. TRADE AND OTHER RECEIVABLES

The Company had no trade or other receivable as at 31 December 2013.

9. TRADE AND OTHER PAYABLES

	31 December 2013 £'000s	31 December 2012 £'000s
Accruals and deferred income	**249**	249
Balance at 31 December	**249**	249

10. LOANS AND BORROWINGS

	31 December 2013 £'000s	31 December 2012 £'000s
Non-current liabilities		
Loan from Parent Company	**7,099**	7,099
Balance at 31 December	**7,099**	7,099

The loan from Parent Company is repayable in line with repayments schedules. Interest is charged on arms length basis at a fixed rate of 12.4%.

The carrying amount of these liabilities approximates their fair value.

11. DEFERRED TAX LIABILITY

	31 December 2013 £'000s	31 December 2012 £'000s
Non-current liabilities		
Deferred Tax Liability	**1,743**	2,010
Balance at 31 December	**1,743**	2,010

An initial deferred tax liability has been recognised on the subordinated debt interest income included in the fair value of the investments. The deferred tax liability is adjusted annually as gains or losses arise on the fair value of the subordinated debt interest income.

* All comparative information, including relevant notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

12. SHARE CAPITAL

Issued and fully paid	**2013** **£'000s**	2012* £'000s
50000 (31 December 2012 - 50000) ordinary shares of £1 each	**50**	50

The Company is authorised to issue an unlimited number of shares.

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

13. SHARE PREMIUM ACCOUNT

	2013 **£'000s**	2012* £'000s
Opening balance	**5,400**	-
Premium arising on issue of equity shares	**-**	5,400
Balance at 31 December	**5,400**	5,400

14. RETAINED EARNINGS

	2013 **£'000s**	2012* £'000s
Opening balance	**(811)**	-
Net profit / (loss) for the year	**814**	(454)
Dividends paid	**(13)**	(357)
Balance at 31 December	**(10)**	(811)

* All comparative information, including relevant notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

15. TRANSACTIONS WITH RELATED PARTIES

As a wholly owned subsidiary of John Laing Infrastructure Fund Limited, the Company has taken advantage of the exemption under IAS 24 (revised), 'Related party disclosures' not to provide information on related party transactions with other undertakings within the John Laing Infrastructure Fund Limited Group. Note 19 gives details of how to obtain a copy of the published financial statements of John Laing Infrastructure Fund Limited.

The following transactions took place between the Company and its subsidiaries during the year:

	2013	2012*
	£'000	£'000
Three Valleys Healthcare (Holdings) Limited		
Cash received		
Subordinated loan interest	**880**	601
Dividends	**13**	357
Repayment	**-**	
Income statement		
Subordinated loan interest	**880**	601
Dividends	**13**	357
Balance due		
Subordinated loan	**7,099**	7,099
Subordinated loan interest	**249**	249

* All comparative information, including relevant notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

16. FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

Capital management
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 from 2012.
The capital structure of the Company consist 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 notes 12 and 14.

Gearing ratio
As at the reporting date, the Company had no outstanding debt.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency exchange rate risk, 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.

The financial risks of the Company's investments are hedged at the inception of a project. The various types of financial risk are managed as follows:

Market risk - interest rate risk

The Company's interest rate risk arises on the floating rate deposits. The Company does not have borrowings issued at variable rates and therefore is not subject to interest rate risk on its liabilities.

Each PPP investment hedges its interest rate risk at the inception of a project. The PPP investment is bank financed, with variable rate debt which are swapped into fixed rate by the use of interest rate swaps.

The fluctuations in interest rates impact the return from floating rate deposits and hence the income from investments at fair value through profit or loss. A 1% increase or decrease represents Management's assessment of the reasonable possible change in interest rates.

For a sensitivity analysis of investments at fair value through profit or loss, refer to Note 7.

Market risk - inflation risk

Each investment will typically have part of its revenue and some of its costs linked to a specific inflation index at inception of the project. In most cases this creates a natural hedge, meaning a derivative does not need to be entered into in order to mitigate inflation risk. However, in a minority of cases where the investment has index-linked cash flows that fall outside of this natural hedge, the inflation risk in relation to those cash flows will be mitigated using RPI inflation swaps.

For a sensitivity analysis of investments at fair value through profit or loss, refer to Note 7.

Credit risk

Credit risk is managed by the Company's parent. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

The Company's parent mitigates its risk on cash investments and derivative transactions by only transacting with banking counterparties with high credit ratings assigned by international credit rating agencies (a minimum of Standard and Poor's A-1).

The Company's investments receive revenue from government departments, public sector or local authority clients or directly from the public via real tolls. Therefore these projects are not exposed to significant credit risk.

Given the above factors, the Board does not consider it appropriate to present a detailed analysis of credit risk.

Liquidity risk

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 investments (PPP projects) 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.

Capital risk

The Group's capital structure comprises its equity only (refer to the Consolidated Statement of Changes in Equity). As at 31 December 2013 the Group had no recourse debt (2012 - £nil).

16. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category:

	31 December 2013				
	Cash and bank balances £'000s	**Loans and receivables £'000s**	**Financial assets at FVTPL* £'000s**	**Financial liabilities at amortised cost £'000s**	**Total £'000s**
Non-current assets					
Investments at fair value through profit or loss (Level 3)	-	-	**14,531**	-	**14,531**
Total financial assets	-	-	**14,531**	-	**14,531**
Current liabilities					
Trade and other payables	-	-	-	**(249)**	**(249)**
Non-current liabilities					
Interest bearing loans and borrowings	-	-	-	**(7,099)**	**(7,099)**
Total financial liabilities	-	-	-	**(7,348)**	**(7,348)**
Net financial instruments	-	-	**14,531**	**(7,348)**	**7,183**

	31 December 2012 - Restated				
	Cash and bank balances £'000s	Loans and receivables £'000s	Financial assets at FVTPL* £'000s	Financial liabilities at amortised cost £'000s	Total £'000s
Non-current assets					
Investments at fair value through profit or loss (Level 3)	-	-	13,997	-	13,997
Total financial assets	-	-	13,997	-	13,997
Current liabilities					
Trade and other payables	-	-	-	(249)	(249)
Non-current liabilities					
Interest bearing loans and borrowings	-	-	-	(7,099)	(7,099)
Total financial liabilities	-	-	-	(7,348)	(7,348)
Net financial instruments	-	-	13,997	(7,348)	6,649

** FVTPL = Fair value through profit or loss*

The above table provides an analysis of financial instruments that are measured subsequent to their initial recognition at fair value as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs to the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 during the year (2012 - none).

Reconciliation of Level 3 fair value measurement of financial assets and liabilities

An analysis of the movement between opening to closing balances of the investments at fair value through profit or loss is given in note 7. For financial assets at fair value through profit or loss, changing the discount rate used to value the underlying instruments would alter the fair value.

The investments at fair value through profit or loss, whose fair values include the use of level 3 inputs, are valued by discounting future cash flows from investments in both equity (dividends and equity redemptions) and subordinated loans (interest and repayments) to the Company at an appropriate discount rate. The basis of each discount rate, which is a weighted average cost of capital, is a long run average government bond rates adjusted by an appropriate premium to reflect PPP specific risk, phase of he PPP project and counterparty credit risk. The weighted average discount rate applied was in the range of 7.50% to 8.85% (year ended 31 December 2012* - 7.95% to 8.86%). The discount rate is considered the most significant unobservable input through which an increase or decrease would have a material impact on the fair value of the investments at fair value through profit or loss.

The fair value of the PPP investments would be an estimated £1.7 million higher or £1.4 million lower (2012 - estimated £1.7 million higher or £1.4 million lower) if the discount rate used in the discounted cash flow analysis were to differ by 1% from that used in the fair value calculation.

For a sensitivity analysis of Financial Assets at fair value through profit or loss, refer to Note 7.

17. GUARANTEES AND OTHER COMMITMENTS

As at 31 December 2013 the Company had no commitments (2012: no commitments).

18. DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS

The Company holds investments in service concession arrangements in the Accommodation sectors. The concessions vary on the obligations required but typically require the construction and operation of an asset during the concession period. The concession may require the acquisition or replacement of an existing asset or the construction of a new asset. The operation of the asset may include the provision of facilities management services like cleaning, catering, caretaking and major maintenance. At the end of the concession period on the majority of the concessions the assets are returned to the concession provider. As at 31 December 2013 all the service concessions were fully operational (31 December 2012 - All).

The rights of both the concession provider and concession operator are stated within the specific project agreement. The standard rights of the provider to terminate the project include poor performance and in the event of force majeure. The operator's rights to terminate include the failure of the provider to make payment under the agreement, a material breach of contract and relevant changes of law which would render it impossible for the service company to fulfil its requirements.

					Period of concession			
Sector	**Company name**	**Project name**	**% owned**	**Short description of concession arrangement**	**Start date**	**End date**	**No. years**	**Project capex**
Accommodation								
	Three Valleys Healthcare Limited	Roseberry Park Hospital	100%	Design, build, finance and operate a mental health facility in Middlesbrough.	18-Dec-2007	23-Mar-2040	32	Construction of hospital costing £75 million.

19. ULTIMATE PARENT UNDERTAKING

The Company's immediate parent entity is the JLIF Limited Partnership, a limited partnership established in England under the Limited Partnership Act 1907, which acts through its General Partner, JLIF (GP) Limited.

The smallest and largest group in which its results are consolidated is John Laing Infrastructure Fund Limited, a company incorporated in Guernsey, Channel Islands. Copies of the consolidated accounts of John Laing Infrastructure Fund Limited are availalable from the Company's website www.jlif.com.

The Company's ultimate parent and controlling entity is John Laing Infrastructure Fund Limited, a company incorporated in Guernsey, Channel Islands.