PALIO (NO 10) LIMITED

ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE FINAL YEAR ENDED
31 DECEMBER 2017

FRIDAY
L7EZMSNV
LD9 21/09/2018 #44
COMPANIES HOUSE

Registered Number 07566807

DIRECTORS AND ADVISORS

Directors
A G Charlesworth (resigned 19 May 2017)
J Pritchard
D M Hardy (appointed 19 May 2017)

Company secretary
P Naylor

Company registered office
1 Kingsway
London
WC2B 6AN
England
United Kingdom

Auditor
Deloitte LLP
Statutory Auditor
London
United Kingdom

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS **Page**

STRATEGIC REPORT

Principal activities

The principal activity of Palio (No10) Limited ("the Company") is to invest in PPP infrastructure projects.

Business review

The Company currently holds 100% interest in Three Valleys Healthcare Holdings Limited. The Company reports a loss after tax for the year of £3,700,000 (2016: loss of £3,457,000) which included a loss on investments at fair value of £14,102,000 (2016: loss of £3,922,000).

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.

The Company's subsidiary is held at fair value in the statement of financial position with movements recorded through the 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.

During 2016 a dispute arose between the Roseberry Park Mental Health project SPV (100% owned by the Company) and the public sector client regarding the provision of certain Hard FM services, the operation of the Helpdesk at the project, as well as certain alleged construction defects.

In the year to 31 December 2017 settlement negotiations were taking place and both the project agreement and the loan agreement of the project SPV were in default as a consequence of the number of service failure points. The number of service failure points gave the Trust the right to terminate the project agreement, however, a standstill agreement was in place which prevented the Trust from exercising this right to terminate. A settlement had been reached in respect of the service failures up to 31 December 2015 and negotiations were continuing over further service failures and alleged construction defects. On 7 October 2016 the Company injected a further loan note of £1,828,721 into Three Valleys Healthcare Holdings Limited, which was funded by a loan from the Company's immediate parent. The directors were expecting that a settlement would be reached based on the negotiations that were ongoing and legal advice at 31 December 2016. As such the fair value of investments as at 31 December 2016 reflected the directors' belief that a settlement would be reached and that there continued to be value in the company's investment. During the year to 31 December 2017, these negotiations did not proceed as expected, the standstill agreement expired and in July 2017 the Trust exercised its termination notice. In August 2017, a further standstill agreement which suspends the termination process was agreed between all parties to allow further work to be undertaken to finalise the fire compartmentation scope and work. However, on 11 September 2017, the SPV's lenders served notice to the project company enforcing its security and administrators were appointed to Three Valleys Healthcare Holdings Limited, the parent of the Roseberry Park Mental Health project SPV and the Company lost control of Three Valleys Healthcare Holdings Limited and its subsidiary.

As a consequence of the events the directors have written down the fair value of the investment down to £nil during 2017. The Companies immediate parent JLIF Limited Partnership Limited also waived the outstanding and loan capital balance, accrued interest and other oustanding debtors due from the Company, amounting to £10,682,000 at 31 December 2016. As at 31 December the Company did not have have any oustanding liabilities with its immediate parent.

Going concern

The Directors have considered the use of the going concern assumption and in light of the appointment of the administrators to Three Valleys Healthcare Holdings Limited (the SPV holding company) after the year end the Directors of the Company consider that the Company has ceased to trade and that the Company is not a going concern. Consequently the financial statements have been prepared on a basis other than a going concern. Further details are provided in note 2.

STRATEGIC REPORT (continued)

Principal risks and uncertainties

The principal risk faced by the Company is credit risk in relation to its investment, however following the appointment of the administrators to the Three Valleys Healthcare Holdings Limited (detailed in the Business Review above) the Company has written down the fair value of its investment to £nil in 2017.

Key performance indicators

The key performance indicator for the Company is the net assets attributable to shareholders, as detailed on page 7 of the financial statements.

On behalf of the Board

J Pritchard
Director
20 September 2018

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the year ended 31 December 2017.

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.

Results and dividends

The Company currently holds 100% interest in Three Valleys Healthcare Holdings Limited. The Company reports a loss after tax for the year of £3,700,000 (2016: loss of £3,457,000) which included a loss on investments at fair value of £14,102,000 (2016: loss of £3,922,000).

The Directors have declared and paid total dividends of £nil (2016: £nil) in respect of the year ended 31 December 2017. The Directors recommended that no final dividend be paid (2016: £nil).

Directors

The Directors who served throughout the year were as follows:
A G Charlesworth (resigned 19 May 2017)
J Pritchard
D M Hardy (appointed 19 May 2017)

Directors' indemnities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Employees

The Company had no employees during the year (2016: none).

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.

Future developments

In 2018 the Directors anticipate that the Company will operate as a dormant company.

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 was appointed auditor at a meeting of the Board of Directors. Deloitte LLP has 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 a Annual General Meeting.

On behalf of the Board

J Pritchard
Director
20 September 2018

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 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. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Report on the audit of the financial statements

Opinion
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Palio (NO 10) Limited (the 'company') which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 21.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Palio (NO 10) Limited (continued)

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**. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Use of our report
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.

John Clacy FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
20 September 2018

INCOME STATEMENT
for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Interest (expense) / income		**(1,727)**	940
Net loss on investments at fair value through profit or loss	9	**(14,102)**	(3,922)
Operating Loss		**(15,829)**	(2,982)
Operating Loss	4	**(15,829)**	(2,982)
Net finance costs	5	**(737)**	(940)
Exceptional items	6	**11,419**	-
Loss before tax		**(5,147)**	(3,922)
Tax credit	7	**1,447**	465
Loss for the year		**(3,700)**	(3,457)

All results are derived from discontinuing 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.

The accompanying notes for part of these financial statements

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Notes	**2017** £'000s	2016 £'000s
Non-current assets			
Investments at fair value through profit or loss	9	-	15,829
Total non-current assets		-	15,829
Total assets		-	15,829
Current liabilities			
Trade and other payables	11	-	(1,754)
Loans and borrowings	12	-	(8,928)
Deferred tax liabilities	13	-	(1,447)
Total current liabilities		-	(12,129)
Total liabilities		-	(12,129)
Net assets		-	3,700
Equity			
Share capital	14	50	50
Retained earnings	15	(50)	3,650
Total equity		-	3,700

The financial statements of Palio (No 10) Limited, registered number 07566807, were approved by the Board of Directors and authorised for issue on 20 September 2018. They were signed on its behalf by:

The accompanying notes for part of these financial statements

J Pritchard
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

		Statement of Changes in Equity in 2017			
	Notes	Share capital £'000s	Share premium account £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2017	14 & 15	**50**	-	**3,650**	**3,700**
Loss for the year	15	-	-	**(3,700)**	**(3,700)**
Total comprehensive income for the year		-	-	**(3,700)**	**(3,700)**
Balance at 31 December 2017		**50**	-	**(50)**	-

		Statement of Changes in Equity in 2016			
		Share capital £'000s	Share premium account £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2016	14 & 15	50	-	7,107	7,157
Loss for the year	15	-	-	(3,457)	(3,457)
Total comprehensive income for the year		-	-	(3,457)	(3,457)
Balance at 31 December 2016		50	-	3,650	3,700

The accompanying notes for part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

1 GENERAL INFORMATION

Palio (No 10) Limited (the 'Company') is a private limited company, domiciled and incorporated in England and Wales, having it's registered office at 1 Kingsway, London United Kingdom, WC2B 6AN and having company registration number 07566807 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.

The Financial Statements of Palio (No 10) Limited have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The Company has considered the need to prepare consolidated financial statements, however, the Company meets the definition of an Investment Entity under IFRS 10. The Company has applied Investment Entities Standards IFRS 10, IFRS 12 and IAS 27, as a result has not prepared consolidated financial statements and instead recognises its investments in PPP assets as Investments at fair value through profit or loss.

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

The Company has not adopted during the year any new and revised International Financial Reporting Standards interpretations and amendments. At the date of approval of these financial statements, the Company has not applied the following new and revised IFRS standards that have been issued but are not yet effective and have not yet been adopted by the EU:

- IFRS 9 Financial instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- IFRS 17 Insurance Contracts (effective 1 January 2021)
- Classification and Measurement of Share-based Payment Transactions (amendments to IFRS 2) (effective 1 January 2018)
- Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018)
- Transfers of Investment Property (amendments to IAS 40) (effective 1 January 2018)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (effective 1 January 2019)
- Prepayment Features with Negative Compensation (Amendments to IFRS 9) (effective 1 January 2019)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)

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

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

Investments
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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Going concern

The Company has an investment in one operational non-recourse PPP Project company which yields annual interest, dividends and loan repayments. Following the appointment of the Administrators to Three Valleys Healthcare Holdings Limited, the parent of the Roseberry Park Mental Health project SPV the Directors of the Company do not anticipate that the Company will receive any cash flows in the future and therefore do not consider it appropriate to adopt the going concern basis. The financial statements have therefore been prepared on a basis other than that of a going concern. All liabilities have been disclosed as current liabilities, as they will fall due on the date the Company ceases to trade. Further details are provided in the post balance sheet events note.

2.3 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.

2.4 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 cash flow statement. Deposits held with original maturities of greater than three months are included in other financial assets.

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.

2.5 Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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 Statement of Finanical Position 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 Statement of Financial Position 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 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. 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.

2.7 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 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.

The Company's investments comprises both equity and debt. 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 we have considered observable market transactions and have measured fair value using assumptions that market participants would use when pricing the asset including assumptions regarding risk. The 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 disclosure. The Company measures its investment as a single class of financial asset at fair value in accordance with IFRS 13 'Fair Value Measurement'.

The Company qualifies as an Investment Entity as it:

A) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

B) Commits to its investor(s) that its business purpose is to invest funds solely for returns from investment income, capital appreciation, or both; and
C) Measures and evaluates the performance of substantially all of its investments on a fair value basis

Consequently, under IFRS 10 and Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27, the Company is required 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. 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. Estimates such as future cash flows are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. In determining the discount rate, management applies their judgement in determining the appropriate risk-free rates and specific risks, and considering the evidence of recent transactions. Management deems the discount rate to be one of the most significant unobservable inputs and any change in it could have a material impact on the fair value of the investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 due in greater than 12 months after the Statement of Finanical Position 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.

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

The nominal amount of shares issued is included in the share capital account.

b) Equity instruments - Share Premium

The balance of proceeds received net of direct issue costs is recorded as share premium.

c) 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) Fair value estimation

The fair value of financial instruments that are not traded in active markets is derived in one of two 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 2017 were in the range of 7.00% to 9.5% (2016: 7.02% to 9.00%). Refer to note 9 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 AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Investment entities

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

4. OPERATING LOSS

The operating loss 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 £1,500 (2016: £2,536) 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 year or preceding year. There was no directors' remuneration for the year or preceding year.

5. FINANCE COST

	2017 £'000s	2016 £'000s
Interest expense on loans from immediate parent company	(737)	(940)
Total finance cost	(737)	(940)

6. Exceptional items

	2017 £'000s	2016 £'000s
Write back intercompany loans and accrued interest	11,419	-
Total Exceptional items	11,419	-

The exceptional items in the year relate to the write back of intercompany loans and accrued interest with the Company's parent JLIF Limited partnership

7. TAX

	2017 £'000s	2016 £'000s
Current Tax		
UK Corporation tax	-	-
Total Current Tax	-	-
Deferred Tax		
Derecognition of deferred tax liability	1,447	-
Changes to tax rates and laws	-	(286)
Total Deferred tax	1,447	(286)
Total credit on loss on ordinary activities	1,447	(286)
Factors affecting tax credit for the year:		
Loss on ordinary activities before taxation	(5,147)	(3,922)
Loss on ordinary activities multiplied by the blended rate of corporation tax in the UK of 19.25% (2017: 20.00%)	(991)	(784)
Effect of:		
Non-taxable UK dividends received	-	-
Net loss on investments at FV through profit or loss	2,715	784
Non taxable exceptional items	(1,866)	-
Origination and reversal of timing differences	-	(179)
Changes to tax rates and laws	-	(286)
Derecognition of deferred tax liability	(1,447)	-
Total tax credit for the year	(1,589)	(465)

Since 1 April 2015, the main UK corporation tax rate is 20% and will reduce to 19% from 1 April 2017. The UK Finance Bill enacted in September 2016 reduced the UK Corporation Tax rate from 19% to 17% from April 2020.

Deferred taxes at the Statement of Financial Position date have been measured using the enacted rates and reflected in these financial statements.

8. DIVIDENDS

	2017 £'000s	2016 £'000s
The following interim dividends have been paid during the period:		
Interim dividend paid	-	-

The Company paid £nil interim dividends the year ended 31 December 2017 (2016 : £nil).

The Directors recommended that no final dividend be paid (2016: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	£'000s	£'000s
Opening balance	**15,829**	16,982
Loan stock investment	**-**	1,829
Interest written off/ received from investments*	**1,727**	(940)
Movement in accrued interest	**(1,727)**	940
Unwind of discount rate and other movements*	**(15,992)**	(2,523)
Discount rate movement*	**163**	(459)
Carrying amount at 31 December	**-**	15,829

*Net loss on investments at fair value through profit or loss for the year ended 31 December 2017 is £14,102,000 (2016: loss of £3,922,000).

As detailed in the Business Review section following the appointment of the administrators to Valleys Healthcare Holdings Limited, the parent of the Roseberry Park Mental Health project SPV the Company has written down the fair value of the investment down to £nil in the year to 31 December 2017.

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

	% holding 31 December 2017		% holding 31 December 2016	
Investments (project name - see note 19 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

10. TRADE AND OTHER RECEIVABLES

The Company had no trade or other receivable as at 31 December 2017.

11. TRADE AND OTHER PAYABLES

	2017 £'000s	2016 £'000s
Accruals and deferred income	-	1,727
Amounts owed to parent company	-	27
Balance at 31 December	-	1,754

During the year the oustanding loan capital, accrued interest and other payables were waived by the Company's parent JLIF Limited partnership.

12. LOANS AND BORROWINGS

	2017 £'000s	2016 £'000s
Loan from parent company	-	8,928
Balance at 31 December *	-	8,928

The loan from Parent Company is repayable in line with repayments schedules. Interest is charged on an arm's length basis at a fixed rate of 12.4%. During the year the oustanding loan capital and the interest accrued up to 31 August 2017 was waived by the Company's parent JLIF Limited partnership.

The carrying amount of these liabilities approximates their fair value.

13. DEFERRED TAX LIABILITY

	2017 £'000s	2016 £'000s
Deferred Tax Liability	-	1,447
Balance at 31 December	-	1,447

An initial deferred tax liability was recognised on the subordinated debt interest income included in the fair value of the investments. The Directors have performed a review of the Deferred tax treatment and components of the fair value of investment and no longer deem it appropriate to recognise a tax liability and have therefore released the Deferred tax position in the year.

14. SHARE CAPITAL

	2017 £'000s	2016 £'000s
Issued and fully paid		
50,001 (2016: 50,001) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

15. RETAINED (LOSSES) / EARNINGS

	2017 £'000s	2016 £'000s
Opening balance	3,650	7,107
Net loss for the year	(3,700)	(3,457)
Balance at 31 December	(50)	3,650

16. 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 20 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 subsidiary during the year:

	2017 £'000s	2016 £'000s
Three Valleys Healthcare Holdings Limited		
Cash received		
Subordinated loan interest	-	-
Dividends	-	-
Repayment	-	-
Income statement		
Subordinated loan interest	(1,727)	940
Dividends	-	-
Balance due		
Subordinated loan	-	8,928
Subordinated loan interest	-	1,727

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

17. 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 2015.

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 14 and 15. 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.

Gearing ratio

As at the reporting date, the Company had outstanding debt of £nil (2016: £8.9m) which represented a gearing ratio of 0% (2016: 71%).

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:

<u>Market risk - interest rate risk</u>

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.

<u>Market risk - inflation risk</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

17. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

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. Therefore these projects are not exposed to significant credit risk.

The performance risk arises from the PPP investments' inability to pay the forecast distributions as the Company relies on its PPP investments projects companies to perform adequately and return the expected yields.

Several factors could hinder this ability such as poor operational performance, exceptional expenditures, major maintenance overspend or an event that would affect the PPP project company's cover ratios. The Company's PPP investments are also dependent on the performance of their main operational contractors. The Company regularly monitors the contractors' concentration and financial strength.

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 however following the post balance sheet events detailed in the Business Review that future expected cash flows from the project is expected to be nil.

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 Company's capital structure comprises its equity and inter company debt (refer to the Statement of Changes in Equity). As at 31 December 2017 the Company had no external debt (2016: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

17. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category:

	31 December 2017				
	Cash and bank balances	**Loans and receivables**	**Financial assets at FVTPL***	**Financial liabilities at amortised cost**	**Total**
Levels	1	1	3	1	
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Non-current assets					
Investments at fair value through profit or loss	-	-	-	-	-
Total financial assets	-	-	-	-	-
Current liabilities					
Trade and other payables	-	-	-	-	-
Interest bearing loans and borrowings	-	-	-	-	-
Total financial liabilities	-	-	-	-	-
Net financial instruments	-	-	-	-	-

	31 December 2016				
	Cash and bank balances	Loans and receivables	Financial assets at FVTPL*	Financial liabilities at amortised cost	Total
Levels	1	1	3	1	
	£'000s	£'000s	£'000s	£'000s	£'000s
Non-current assets					
Investments at fair value through profit or loss (Level 3)	-	-	15,829	-	15,829
Total financial assets	-	-	15,829	-	15,829
Current liabilities					
Trade and other payables	-	-	-	(1,754)	(1,754)
Non-current liabilities					
Interest bearing loans and borrowings	-	-	-	(8,928)	(8,928)
Total financial liabilities	-	-	-	(10,682)	(10,682)
Net financial instruments	-	-	-	(10,682)	5,147

** 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 Level 2 assets or liabilities during the year (2016: none). There were no transactions between Level 1 and 2, Level 1 and 3 or Level 2 and 3 during the year (2016: 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 9. 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 the PPP project and counterparty credit risk. The weighted average discount rate applied was in the range of 7.00% to 9.5% (31 December 2016: 7.02% to 9.00%). 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 £nil million higher or £nil million lower (2016: estimated £1.8 million higher or £1.6 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 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

18. GUARANTEES AND OTHER COMMITMENTS

As at 31 December 2017 the Company had no commitments (2016: no commitments).

19. DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS

Prior to the appointment of the SPV administrators as reported in the Strategic Report the Company held one investment in a service concession arrangements in the Health sector. 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 2017 all the service concessions were fully operational (2016: 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**
Health	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.

20. 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, registered in England. The Company's immediate parent entity is incorporated in Great Britain and the registered address is 1 Kingsway, London, WC2B 6AN.

The Company's ultimate parent and controlling entity is John Laing Infrastructure Fund Limited, a company incorporated in Guernsey, Channel Islands. Copies of the financial statements of John Laing Infrastructure Fund Limited are available from its website www.jlif.com.

21. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURE

Name of Subsidiaries and Joint Venture	Registered Office Address	Place of Incorporation	Percentage of interest	Financial year end	Net assets/ (liabilities) £000	Profit & Loss for the year £000
Three Valleys Healthcare Limited*	**	United Kingdom	100.00%	31/12/2017	***	***
Three Valleys Healthcare Holdings Limited	**	United Kingdom	100.00%	31/12/2017	***	***

* Indirectly held by the Company
** 15 Canada Square Canada Wharf, London, E14 5GL
At 31 December 2017, none of the above subsidiaries are consolidated (2016: nil).

*** Three Valleys Healthcare Limited and Three Valleys Healthcare Holdings Limited are both in Administration. Refer to the Directors report for further details.