

**ESO Investments (PC) LLP**  
**Report of the Members and Financial Statements**  
**For the year ended 31 January 2017**



Registered No. OC356809

# **ESO Investments (PC) LLP**

## **Contents**

<b>Page</b>	
2	Management and Administration
3	Report of the Members
4	Statement of Members' Responsibilities
5	Report of the Independent Auditors
6	Statement of Comprehensive Income
7	Statement of Financial Position
8	Statement of Changes in Members' Capital
9 - 19	Notes to the Financial Statements

## **ESO Investments (PC) LLP**

### **Management and Administration**

#### **Designated Members of the Partnership**

EPE Special Opportunities plc  
EPIC Private Equity LLP

#### **Registered Office**

3rd Floor Audrey House,  
16-20 Ely Place,  
London  
United Kingdom  
EC1N 6SN

#### **Investment Advisor**

EPIC Private Equity LLP  
Audrey House,  
16-20 Ely Place,  
London  
United Kingdom  
EC1N 6SN

#### **Auditors**

KPMG Audit LLC  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man  
IM99 1HN

## ESO Investments (PC) LLP

### Report of the Members

The Members present their report and financial statements of ESO Investments (PC) LLP ("the Partnership" or "the LLP") for the year ended 31 January 2017.

### The Partnership's business

The general purpose of the Partnership is to make and hold private equity investments and the business of the Partnership shall be:

- (a) to invest in and hold investments;
- (b) to realise investments; and or
- (c) such other business as the Members may agree by resolution.

### Designated Members

The following served as Designated Members of the Partnership throughout the year and up to the date of this report:

- EPE Special Opportunities plc; and
- EPIC Private Equity LLP

### Allocations and Distributions

As disclosed in the Members' Agreement, the Net Income, Net Income Losses, the Capital Gains and the Capital Losses shall be allocated between the Members' respective Profit Accounts as follows:

- (a) 80% to EPE Special Opportunities plc
- (b) 20% to EPIC Private Equity LLP

Distributions shall be allocated in accordance with the Members' Agreement in the following order of priority:

- (a) a payment of the Priority Profit Share;
- (b) in repaying Member loans;
- (c) in paying the Members a return, (the Hurdle) being 8% compounded annually on the balance of their loans; and
- (d) following the repayment of the Hurdle, various other distribution priorities are contained within the Members' Agreement.

### Disclosure of information to auditors

The Members confirm that:

- So far as each Member is aware, there is no relevant information of which the LLP's auditors are unaware; and
- The Members have taken all the steps that they ought to have taken as Members in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Auditors

Our auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office.

On behalf of the Members

Giles Brand

for and on behalf of EPIC Private Equity LLP  
Date: [•] March 2017

31

## **ESO Investments (PC) LLP**

### **Statement of Members' responsibilities in respect of the Members' Report and the financial statements**

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

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial statements are required by law to give a true and fair view of the state of affairs of the LLP and of the profit or loss for that year. In preparing financial statements the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

The Members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to Limited Liability Partnerships. They are also responsible for safeguarding the assets of the LLP and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are exercised by EPIC Private Equity LLP on behalf of the Members.

## **ESO Investments (PC) LLP**

### **Report of the Independent Auditors, KPMG Audit LLC, to the Members of ESO Investments (PC) LLP**

We have audited the financial statements of ESO Investments (PC) LLP for the year ended 31 January 2017 which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Members' Capital and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the qualifying partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 4 of the Partnerships (Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the partnership'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 partnership and the partnership's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of members and auditor**

As explained more fully in the Statement of Members' Responsibilities on page 4, the members 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 Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

#### **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 as applied to qualifying limited liability partnerships 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 members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- members were not entitled to take advantage of the small companies exemption, as applied to qualifying partnerships, from the requirement to prepare a strategic report.

Nicholas Quayle (Senior Statutory Auditor)

**For and on behalf of KPMG Audit LLC, Statutory Auditor**

*Chartered Accountants*

Heritage Court

41 Athol Street

Douglas

Isle of Man IM99 1HN

Date:

## ESO Investments (PC) LLP

### Report of the Independent Auditors, KPMG Audit LLC, to the Members of ESO Investments (PC) LLP

We have audited the financial statements of ESO Investments (PC) LLP for the year ended 31 January 2017 which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Members' Capital and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the qualifying partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 4 of the Partnerships (Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the partnership'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 partnership and the partnership's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of members and auditor

As explained more fully in the Statement of Members' Responsibilities on page 4, the members 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 Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

#### 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 as applied to qualifying limited liability partnerships 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 members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- members were not entitled to take advantage of the small companies exemption, as applied to qualifying partnerships, from the requirement to prepare a strategic report.

Nicholas Quayle (Senior Statutory Auditor)  
For and on behalf of KPMG Audit LLC, Statutory Auditor  
Chartered Accountants  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man IM99 1HN  
Date:



4 April 2017

## ESO Investments (PC) LLP

### Statement of Comprehensive Income

For the year ended 31 January 2017

	Note	2017 £	2016 £
Income		-	-
Total income		-	-
Expenses		(7,710)	(4,735)
Total expenses		(7,710)	(4,735)
Net investment loss		(7,710)	(4,735)
Gains/(loss) on investments			
Movement in fair value of investments at fair value through profit or loss	4	4,224,784	(574,636)
Profit/(loss) for the year on investments at fair value through profit or loss		4,224,784	(574,636)
Profit/(loss) for the year		4,217,074	(579,371)

The Members consider that all results derive from continuing activities.

The accompanying notes on pages 9 to 19 are an integral part of the financial statements.




# ESO Investments (PC) LLP

## Statement of Financial Position

As at 31 January 2017

		2017	2016
	Note	£	£
<b>Non-current assets</b>			
Financial assets at fair value through profit and loss	4	9,453,084	5,228,300
<b>Current assets</b>			
Trade and other receivables	5	100	100
Loan to EPE Special Opportunities plc	6	276,510	282,120
<b>Total assets</b>		<b>9,729,694</b>	<b>5,510,520</b>
<b>Current liabilities</b>			
Trade and other payables		2,100	-
<b>Total liabilities</b>		<b>2,100</b>	<b>-</b>
<b>Net assets attributable to members</b>		<b>9,727,594</b>	<b>5,510,520</b>
<b>Members' capital</b>			
Members' capital account		100	100
Members' current account	8	9,727,494	5,510,420
<b>Members' funds</b>		<b>9,727,594</b>	<b>5,510,520</b>

The financial statements were approved and signed by the Members on <sup>31</sup>~~1~~ March 2017 and signed on their behalf by:

  
Giles Brand  
for and on behalf of EPIC Private Equity LLP

The accompanying notes on pages 9 to 19 are an integral part of the financial statements.

## ESO Investments (PC) LLP

### Statement of Changes in Members' Capital

*For the year ended 31 January 2017*

#### Members Capital

	Capital £	Current £	Total £
Balance at 31 January 2016	100	5,510,420	5,510,520
<b>Total comprehensive profit for the year</b>			
Profit for the year	-	4,217,074	4,217,074
<b>Balance at 31 January 2017</b>	<b>100</b>	<b>9,727,494</b>	<b>9,727,594</b>

	Capital £	Current £	Total £
Balance at 31 January 2015	100	6,089,791	6,089,891
<b>Total comprehensive loss for the year</b>			
Loss for the year	-	(579,371)	(579,371)
<b>Balance at 31 January 2016</b>	<b>100</b>	<b>5,510,420</b>	<b>5,510,520</b>

The accompanying notes on pages 9 to 19 are an integral part of the financial statements.

# ESO Investments (PC) LLP

## Notes to the Financial Statements

### *For the year ended 31 January 2017*

#### **1 Operations**

ESO Investments (PC) LLP ("the Partnership" or "the LLP") is a limited liability partnership formed in England on 29 July 2010 under the Limited Liability Partnerships Act 2000.

The Partnership's principal purpose is to make and hold private equity investments.

#### **2 Basis of preparation**

##### **a Statement of compliance**

The financial statements have been prepared in conformity with International Financial Reporting Standards (IFRSs) as adopted by the EU and Interpretations adopted by the International Accounting Standards Board (IASB) and applicable legal and regulatory requirements of United Kingdom law and The Limited Liability Partnerships Act, 2000, and reflect the following policies which have been adopted and applied consistently, with the exception of the adoption of the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016:

- i. Equity method in separate financial statements - amendments to ISA 27
- ii. Annual improvements to IFRS – 2012-2014 cycle – various standards
- iii. Investment entities – Applying the consolidation exception – amendments to IFRS 10, IFRS 12 and IAS 28
- iv. Disclosure initiative – amendments to IAS 7

The adoption of the above new standards has had no significant impact on the Partnership's measurement of its assets and liabilities, and no impact on the disclosures included in the financial statements.

##### **b Basis of measurement**

The financial statements have been prepared on the historical cost basis except for investments in equity interests that are measured at fair value through profit or loss.

##### **c Functional and presentation currency**

The functional and presentation currency of the Partnership is Sterling. All financial information presented in Sterling has been rounded to the nearest pound.

##### **d Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Unlisted investments are valued at the Members' estimate of their fair value in accordance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' and guidelines issued by IPEV. Fair values of such instruments are determined by using valuation techniques and Members make assumptions based on market conditions.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed. However, changes in assumptions could affect the reported fair value of financial instruments.

## **ESO Investments (PC) LLP**

### **Notes to the Financial Statements (continued)**

#### ***For the year ended 31 January 2017***

#### **3 Significant accounting policies**

##### **a Income and expenses**

Income and expenses are accounted for on an accruals basis.

All the expenses of the Partnership, except for the priority profit share and specific direct costs, are borne by EPE Special Opportunities PLC, a member of the Partnership.

##### **b Cash and cash equivalents**

The Partnership does not hold any funds in its bank account and all income and costs are received and paid by EPE Special Opportunities plc on behalf of the Partnership.

##### **c Financial assets and liabilities**

###### **(i) Classification**

Investments held in ordinary shares have been designated at fair value through profit or loss.

Financial assets that are designated as loans and receivables comprise loans and accrued interest and other receivables.

###### **(ii) Recognition**

The Partnership recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

###### **(iii) Measurement**

Investments held in ordinary shares are stated at fair value. Loans and receivables are stated at amortised cost less any impairment losses.

When available, the Partnership measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Partnership measures instruments quoted in an active market at mid price.

If there is no quoted price in an active market, then the Partnership uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Partnership recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Investments held in unlisted equity instruments are valued at the Member's estimate of fair value using the and International Private Equity and Venture Capital Valuation (IPEV) guidelines and other valuation methods, with reference to the valuation principles of IFRS 13. As all investments are unquoted the valuation principles adopted are classified as Level 3 in the IFRS 7 fair value hierarchy. IPEV guidelines recommend the use of comparable quoted company metrics and comparable transaction metrics to determine an appropriate enterprise value, to which a marketability discount is applied given the illiquid nature of private equity investments. The Members also seek to confirm value using discounted cash flow and other methods of valuation, and by applying a range approach.

## **ESO Investments (PC) LLP**

### **Notes to the Financial Statements (continued)**

#### ***For the year ended 31 January 2017***

#### **3 Significant accounting policies (continued)**

##### **c Financial assets and liabilities (continued)**

The Members then seek to determine whether holding the investment at cost is appropriate given the implied value, or whether an adjustment should be made to achieve fair value whether this is in the form of impairment or a write-up.

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Partnership has access at that date. The fair value of a liability reflects its non-performance risk.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Financial assets that are not carried at fair value through profit and loss are subject to an impairment test. For loans to portfolio companies the impairment test is undertaken as part of the assessment of the fair value of the enterprise value of the related business, as described above. If expected life cannot be determined reliably, then the contractual life is used.

##### **d Impairment**

Financial assets that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the profit or loss.

##### **e Derecognition**

The Partnership derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

#### *For the year ended 31 January 2017*

#### **3 Significant accounting policies (continued)**

##### **f Future changes in accounting policies**

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the date of these financial statements:

<b>New/Revised International Financial Reporting Standards (IAS/IFRS)</b>	<b>EU Effective Date (accounting periods commencing on or after)</b>
IFRS 9 Financial Instruments	1 January 2018.
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Disclosure initiative – amendments to IAS 7	Not yet endorsed

The General Partner does expect the adoption of the standards and interpretations to have a material impact on the Partnership's financial statements in the period of initial application.

##### **g Cash Flow Statement**

The LLP has no cash or cash equivalents, all payments and receipts being made on behalf of the LLP by EPE Special Opportunities plc, therefore no cash flow statement is presented for the year.

##### **h Taxation**

The Partnership is regarded as transparent for tax purposes and each Member will be assessed for tax on their share of the Partnership's income or gains.

#### **4 Financial assets and liabilities**

##### **Fair values of financial instruments**

The fair values of financial assets and financial liabilities that are traded in an active market are based on quoted market prices. For all other financial instruments, the Partnership determines fair values using other valuation techniques, based on the IPEV rules.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

## **ESO Investments (PC) LLP**

### **Notes to the Financial Statements (continued)**

#### ***For the year ended 31 January 2017***

#### **4 Financial assets and liabilities (continued)**

##### **Fair values of financial instruments (Continued)**

The Partnership measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. All of the Partnership's underlying investments are deemed as level 3 in the fair value hierarchy.

Various valuation techniques may be applied in determining the fair value of investments held as level 3 in the fair value hierarchy. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used. As discussed below, the Members have selected to use the EBITDA multiple valuation model in arriving at the fair value of investments held as level 3 in the fair value hierarchy.

##### **Valuation framework**

The Partnership has developed a valuation framework with respect to the measurement of fair values. The valuation of investments is performed by the Members. As detailed in note 3(c), the Members determine fair values using the IPEV guidelines. The following approach is used:

- 'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Partnership has access at that date. The fair value of a liability reflects its non-performance risk;
- The EBITDA multiple valuation model is used, based on budgeted EBITDA for the next financial year;
- Loans made are stated at amortised cost but impairment tested based on the enterprise value derived from the valuation.

## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

#### For the year ended 31 January 2017

#### 4 Financial assets and liabilities (continued)

##### Fair value hierarchy – Financial instruments measured at fair value

The table below analyses the underlying investments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. Debt securities are also included, as although stated at amortised cost, the Members assess the fair value of the total investment, which includes debt and equity. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring. There are no other financial assets or liabilities carried at fair value.

	Unquoted equity securities £	Total £
Closing book cost at 31 January 2017	1,000,000	1,000,000
Unrealised gain on revaluation	8,453,084	8,453,084
<b>Fair value at 31 January 2017</b>	<b>9,453,084</b>	<b>9,453,084</b>

	Unquoted equity securities £	Total £
Closing book cost at 31 January 2016	1,000,000	1,000,000
Unrealised gain on revaluation	4,228,300	4,228,300
<b>Fair value at 31 January 2016</b>	<b>5,228,300</b>	<b>5,228,300</b>

The following table shows a reconciliation of the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	2017 £	2016 £
<b>Unquoted equity investments</b>		
Opening balance	5,228,300	5,802,936
Movement in fair value through profit or loss	4,224,784	(574,636)
<b>Closing balance</b>	<b>9,453,084</b>	<b>5,228,300</b>



## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

#### For the year ended 31 January 2017

#### 4 Financial assets and liabilities (continued)

##### Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 31 January 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 31 January 2017 £	Valuation technique
Unquoted private equity investments	9,453,084	Sales/EBITDA multiple

Significant unobservable inputs are developed as follows:

- Sales/EBITDA multiple: Represents amounts that market participants would use when pricing the investments. Sales/EBITDA multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the company by its Sales/EBITDA and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.
- The Sales/EBITDA multiple is applied to the budgeted Sales/EBITDA for the next financial year.

IFRS 13 requires disclosure, by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. On that basis, the Members believe that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly.

Loans are secured on the assets of the investee companies and bear interest at 8 per cent per annum. The loan was repaid at year end.

The Partnership also has control over the following underlying investee companies but these companies have not been consolidated on the basis of the adoption of the amendments to IFRS 10:

	Country of incorporation	Equity percentage held at year end
An underlying company	UK	85.0%

##### Financial instruments not measured at fair value

The carrying value of short-term financial assets and financial liabilities (cash, debtors and creditors) approximate their fair value.

## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

*For the year ended 31 January 2017*

#### 5 Trade and other receivables

	2017	2016
	£	£
Unpaid capital contribution	100	100
	<u>100</u>	<u>100</u>

#### 6 Loan to EPE Special Opportunities PLC

	2017	2016
	£	£
Balance at 1 February	282,120	286,855
Repayments/received	<u>(5,610)</u>	<u>(4,735)</u>
<b>Balance at 31 January</b>	<b><u>276,510</u></b>	<b><u>282,120</u></b>

The loan with EPE Special Opportunities plc is unsecured interest free and repayable on demand.

The loan is decreased by any sales proceeds of investments realised which are paid to EPE Special Opportunities plc, and increased by any purchases of investments which are funded by EPE Special Opportunities plc.

## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

#### For the year ended 31 January 2017

#### 7 Financial instruments

The Partnership financial instruments comprise unquoted equity securities and loan stock.

##### Financial risk management objectives and policies

The main risks arising from the Partnership's financial instruments are market risk (including price risk, and interest rate risk), credit risk and liquidity risk. The Members regularly review and agree policies for managing each of these risks and these are summarised below.

##### Estimation of fair values

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value, with the exception of financial instruments at fair value through profit and loss, which are measured at fair value (note 4).

##### Foreign currency risk

The Partnership's operations are conducted in Sterling and all the Partnership's assets are held in Sterling. Hence there is no foreign exchange risk to the Sterling.

##### Interest rate risk

The Partnership's exposure to market risk for changes in interest rates relates primarily to the investment portfolio. The Investment Advisor takes this factor into account when making any investment decisions as well as considering the financial standing of any potential investee company. The Partnership does not use derivative financial instruments to hedge its investments.

The interest rate profile of the Partnership at 31 January 2017 is as follows:

##### Financial assets

	Total	Fixed rate	Assets on which no interest is received
	£	£	£
Unquoted equity securities	9,453,084	-	9,453,084
Trade and other receivables	100	-	100
Loan to EPE Special Opportunities plc	276,510	-	276,510
	<b>9,729,694</b>	<b>-</b>	<b>9,729,694</b>

## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

#### For the year ended 31 January 2017

#### 7 Financial instruments (continued)

##### Interest rate risk (continued)

The interest rate profile of the Partnership at 31 January 2016 is as follows:

Financial assets	Total £	Fixed rate £	Assets on which no interest is received £
Unquoted equity securities	5,228,300	-	5,228,300
Trade and other receivables	100	-	100
Loan to EPE Special Opportunities plc	282,120	-	282,120
<b>Financial assets at amortised cost</b>	<b>5,510,520</b>	<b>-</b>	<b>5,510,520</b>

##### Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Partnership.

The Partnership, through its interests in associates, has advanced loans to a number of private companies which exposes the partnership to significant credit risk. The loans are advanced to unquoted private companies, which have no credit risk rating. They are entered into as part of the investment strategy of the partnership and its associates, and credit risk is managed by taking security where available (typically a floating charge) and the Investment Advisor taking an active role in the management of the borrowing companies.

Although the Investment Advisor looks to set realistic repayment schedules, it does not necessarily view a portfolio company not repaying on time and in full as "underperforming" and seeks to monitor each portfolio company on a case-by-case basis. However, in all cases the Investment Advisor reserves the right to exercise step in rights. In addition to the repayment of loans advanced, the partnership and associates will often arrange additional preference share structures and take significant equity stakes so as to create shareholder value. It is the performance on the combination of all securities including third party debt that determines the partnership's view of each investment.

At the reporting date, the partnership financial assets exposed to credit risk amounted to the following (excluding exposure in the underlying associates):

At the reporting date, the Partnership's financial assets exposed to credit risk amounted to the following:

	2017 £	2016 £
Loan to EPE Special Opportunities plc	276,510	282,120
	<b>276,510</b>	<b>282,120</b>

## ESO Investments (PC) LLP

### Notes to the Financial Statements (continued)

#### *For the year ended 31 January 2017*

#### **7 Financial instruments (continued)**

##### **Liquidity risk**

Liquidity risk is the risk that the Partnership will encounter in realising assets or otherwise raising funds to meet financial commitments. The Partnership's investments include unquoted investments in which there are no ready markets and as such, these investments may not be readily realisable. As a result, the Partnership may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements.

As at 31 January 2017 the partnership had an outstanding liabilities of £2,100 (2016: nil).

##### **Capital management**

The capital of the Partnership is defined as the total of the capital contribution classified as equity and other reserves. Total capital at 31 January 2017 was £9,727,594 (2016: £5,510,520). The Partnership is not subject to external regulatory capital requirements.

The Partnership's objectives when managing capital are to:

- Safeguard the Partnership's ability to continue as a going concern so that it can continue to provide returns for Members and benefits for its other stakeholders; and
- Maintain a strong capital base to support the future strategy and development of the Partnership.

#### **8 Members' current accounts**

The movements in the Members' current accounts in the year ended 31 January 2017 were as follows:

	<b>EPE LLP</b>	<b>ESO plc</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Balance at beginning of period	1,057,677	4,452,743	5,510,420
Profit share allocation	843,874	3,373,200	4,217,074
<b>Balance at end of year</b>	<b>1,901,551</b>	<b>7,825,943</b>	<b>9,727,494</b>

#### **9 Related parties**

(i) Under the terms of the Limited Liability Partnership Members' Agreement for the investment in Partnership dated 29 July 2010, EPIC Private Equity LLP was appointed as investment advisor to the Partnership.

#### **10 Commitments**

At 31 January 2017 ESO Investments (PC) LLP had no formal commitments to provide additional funds to any of its investee companies.

#### **11 Subsequent events**

There were no significant subsequent events that would require adjustments to or disclosure in these financial statements.