

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

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INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

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INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

STRATEGIC REPORT

The strategic report has been prepared for Infrastructure Investments (Health) Limited ("the Company").

The Directors present their Strategic Report and Directors' report on the affairs of the Company, which has been prepared in compliance with s414C of Companies Act 2006, together with the financial statements, for the year ended 31 March 2018.

Principal activity, review of business and future developments

The principal activity of the Company during the year under review was that of an investment holding company. The Directors expect the Company to continue this activity in the foreseeable future. The results for the year and financial position of the Company are as shown in the attached financial statements.

The Company has prepared financial statements for the year to 31 March 2018. The comparative period covers the year from 1 April 2016 to 31 March 2017. The Company's financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council ("FRC").

As the Company treats its equity investments as a homogenous investment portfolio, all investments are measured at fair value through profit and loss. As at 31 March 2018 the fair value of investments was £29,857,363 (2017: £32,182,587).

The Company made a loss before taxation of £3,051,082 in the year ended 31 March 2018 compared with a profit before taxation of £51,783 in the year ended 31 March 2017.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements show net current assets of £162,042 as at 31 March 2018 (2017: 6,426,142).

Risk management

Risk is managed on a group basis. This comprises identifying and evaluating the risks that the group faces and ensuring that appropriate controls and processes are in place to manage these risks. It also comprises responsibility for the oversight of the risk management process. An important part of the group risk management framework is to have documented policies and procedures in place.

The Directors of the Company are responsible for ensuring that the Company complies with the group's risk management framework. Assurance as to the effectiveness of and compliance with the risk management framework and internal controls is provided by the Group's risk management functions.

The Directors consider the risk management framework to be appropriate for a company of its size and complexity.

Financial risk management

The Company is subject to a number of financial risks throughout its business, primarily credit risk and liquidity risk.

Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet its obligations to repay outstanding amounts as they fall due. Credit risk arises principally from amounts owed to the Company from the companies it has interest in.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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STRATEGIC REPORT (continued)

Appropriate credit checks are required to be made on all counterparties to the Company. The Company only deposits money with appropriately rated counterparties.

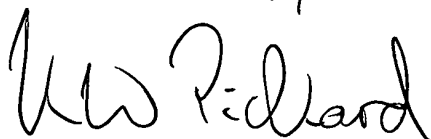
Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet its payment obligations as they fall due or can only do so at a significantly high cost. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due.

Key performance indicators

The key performance indicator for the Company is the net assets attributable to shareholders, as detailed on page 8 of the financial statements.

By order of the Board on 23/7/2018 and signed on its behalf by:



K W Pickard
Director

Registered Office:
12 Charles II Street
London
SW1Y 4QU
Registered Number 05721256

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2018

Principal activities

The Company acts as an investment holding company. No change in the Company's activities is anticipated. In accordance with Companies Act 2006 s414, further information regarding the Company's principal activity is found within the Strategic report on pages 1 to 2.

Results and dividends

The Company's loss for the year under review is as detailed in the income statement shown in these accounts.

Dividends in specie of £6,426,158 were paid on Ordinary shares in respect of the year ended 31 March 2018 (2017: £nil).

Directors

The Directors who served during the year were as follows:

A C Roper (appointed 7 July 2017, resigned effective 30 June 2018)
K W Pickard (appointed 7 July 2017)
H E C Seekings (appointed 23 October 2017)
C L Pitcher (appointed 20 March 2018)
A B Deacon (resigned 7 July 2017)
M C Wayment (resigned 7 July 2017)
A E Kinghorn (resigned 20 March 2018)

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

Disclosure of Information to Auditor

Each person who is a Director at the date of approval of this report confirms that so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board



K W Pickard
Director

23/7/ 2018

Registered Office:
12 Charles II Street
London
SW1Y 4QU
Registered Number 05721256

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Opinion

We have audited the financial statements of Infrastructure Investments (Health) Limited ("the company") for the year ended 31 March 2018 which comprise the Income Statement, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and related notes, including the key accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
2018

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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INCOME STATEMENT

for the year ended 31 March 2018

	Notes	Year ended 31 March 2018 Total £	Year ended 31 March 2017 Total £
(Loss)/gain on investments	11a	(2,325,222)	51,798
Total operating (expense)/income		(2,325,222)	51,798
Interest payable and similar charges	5	(725,860)	(4,968,942)
Interest receivable and similar income	6	-	4,968,927
Operating (loss)/profit for the year		(3,051,082)	51,783
(Loss)/profit before tax		(3,051,082)	51,783
Income tax credit	10a	137,916	-
(Loss)/profit for the financial year		(2,913,166)	51,783

The results of the Company are derived entirely from continuing operations.

There are no recognised gains and losses other than the net income for the financial year.

The notes form part of these financial statements.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

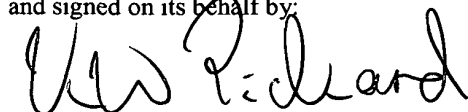
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STATEMENT OF FINANCIAL POSITION as at 31 March 2018

		31 March 2018	31 March 2017
	Notes	£	£
Non-current assets			
Investments at fair value through profit or loss	11a	29,857,363	32,182,587
Total non-current assets		29,857,363	32,182,587
Current assets			
Cash and cash equivalents		24,129	3,749,986
Debtors	12	137,913	6,426,156
Total current assets		162,042	10,176,142
Creditors - amounts falling due within one year	13	-	(3,750,000)
Net current assets		162,042	6,426,142
Total assets less current liabilities		30,019,405	38,608,729
Creditors – amounts falling due within more than one year	14	(12,733,123)	(12,733,123)
Net assets		17,286,282	25,875,606
Equity			
Called up share capital	15	1,750,000	1,000,000
Retained reserves	16	15,536,282	24,875,606
Total equity attributable to owners of the parent		17,286,282	25,875,606

The notes form part of these financial statements.

The financial statements were approved by the Board of Directors on 23/7/2018
and signed on its behalf by:



K W Pickard
Director

Registered Number 05721256

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

STATEMENT OF CASH FLOWS, for the year ended 31 March 2018

	Year ended 31 March 2018	Year ended 31 March 2017
	£	£
Net cash flows from operating activities		
(Loss)/profit before tax:	(3,051,082)	51,783
<i>Adjustments for:</i>		
Interest receivable and similar income	-	(4,968,927)
Interest payable and similar charges	725,860	4,968,942
Loss/(gains) on investments	2,325,222	(51,798)
Decrease in payables	(3,750,000)	(12,733,123)
Cash inflows from operating activities	(3,750,000)	(12,733,123)
Cash flows from investing activities		
Interest received	-	3,750,000
Group relief received	3	-
Net cash from investing activities	3	3,750,000
Cash flows from financing activities		
Interest paid on loan notes	(725,860)	(14)
Proceeds from issue of share capital	750,000	-
Proceeds from issue of loans and borrowings	-	12,733,123
Net cash used in financing activities	24,140	12,733,109
Net (decrease)/increase in cash and cash equivalents	(3,725,857)	3,749,986
Cash and cash equivalents at beginning of the year	3,749,986	-
Cash and cash equivalents at end of the year	24,129	3,749,986

The notes form part of these financial statements.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2018

For the year ended 31 March 2018			
	Share capital and Share premium £	Retained reserves £	Total equity £
Shareholders' equity at beginning of year	1,000,000	24,875,606	25,875,606
Loss for the year	-	(2,913,166)	(2,913,166)
Shares issued in the year	750,000	-	750,000
Dividend paid	-	(6,426,158)	(6,426,158)
Shareholders' equity at end of year	1,750,000	15,563,282	17,286,282

For the year ended 31 March 2017			
	Share capital and Share premium £	Retained reserves £	Total equity £
Shareholders' equity at beginning of year	96,052	25,727,771	25,823,823
Profit for the year	-	51,783	51,783
Shares issued in the year	24,322,113	(24,322,113)	-
Capital reduction	(23,418,165)	23,418,165	-
Shareholders' equity at end of year	1,000,000	24,875,606	25,875,606

The notes form part of these financial statements.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2018

1. General information

Infrastructure Investments (Health) Limited is a Company limited by shares and incorporated and domiciled in the UK. The address of the Company is given in the Directors' Report on page 4. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2. Key accounting policies

(a) Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The financial statements are prepared on the historical cost basis, modified to include certain items at fair value.

The Company is exempt by virtue of FRS 102 section 9.9 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Investments in joint ventures are held as part of the investment portfolio and are therefore measured at fair value with changes in fair value recognised in profit or loss.

The functional and presentational currency of these financial statements is sterling.

The principal accounting policies are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(b) Going concern

The financial position of the Company, its liquidity position and borrowing facilities, as well as the Company's business activities and factors likely to affect its future development and position, are described in the Strategic Report on pages 1 to 2.

The Company and its subsidiaries have a long-term contract with a government client for an infrastructure project. In addition, the subsidiaries' project-level financing is non-recourse to the Company. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, thus they adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

2. Key accounting policies (continued)

(d) Financial assets and liabilities

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

(e) Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value with changes recognised in profit and loss. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits held at call with banks and other short term, highly liquid investments with original maturities of three months or less.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

2. Key accounting policies (continued)

(f) *Financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the profit and loss account. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the profit and loss account.

(g) **Investment income**

Dividends are recognised when the Company's right to receive payment has been established.

Gains on investments relates solely to the investments held at fair value.

(h) **Interest receivable and interest payable**

Interest income is recognised in the income statement as it accrues on a time-apportioned basis, using the effective interest rate of the instrument concerned as calculated on acquisition or origination date.

(i) **Income tax**

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

Current tax is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

3. Critical accounting judgements, estimates and assumptions

In the application of the Company's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Investments at fair value through profit or loss

The investments at fair value through profit or loss are valued by discounting future cash flows from investments in equity (dividends and equity redemptions) to the Company at an appropriate discount rate. In determining the discount rate, regard is had to relevant long-term government bond yields, specific risks associated with the nature of the underlying asset (PFI's) and geographic location of the underlying investment, and the evidence of recent transactions.

The Company's ultimate parent (refer to Note 17 for further details) has carried out fair market valuations of the investments as at 31 March 2018. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. All investments in PFI/PPP/P3 projects are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior year.

Discount rates applied range from 4.1% to 9.8% (weighted average of 7.4%) (2017: 5.6% to 9.8% (weighted average of 7.4%)). The discount rate is considered one of the most significant unobservable inputs 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 sensitivities of the valuation inputs are discussed in detail in the financial statements of the ultimate parent company, HICL, which are available from their website www.hicl.com.

The Directors have satisfied themselves as to the methodology used, the discount rates and key assumptions applied, and the valuation.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

4. Financial instruments

Risk Management

The objective of the Company's financial risk management is to manage and control the risk exposures of its investment portfolio. The review and management of financial risks are delegated to InfraRed Capital Partners Limited, the appointed Operator of the Company's parent entity, Infrastructure Investments Limited Partnership. The Operator has documented procedures designed to identify, monitor and manage the financial risks to which the Company is exposed. This note presents information about the Company's exposure to financial risks, its objectives, policies and processes for managing risk and the Company's management of its financial resources.

Interest rate risk

The Company invests in subordinated loanstock of project companies, usually with fixed interest rate coupons. Where floating rate debt is owned the primary risk is that the Company's cash flows will be subject to variation depending upon changes to base interest rates. The portfolio's cash flows are continually monitored and reforecasted both over the near future (five year time horizon) and the long-term (over whole period of projects' concessions) to analyse the cash flow returns from investments.

The Company has an indirect exposure to changes in interest rates through its investment in project companies, which are financed by senior debt. Senior debt financing of project companies is generally either through floating rate debt, fixed rate bonds or index linked bonds. Where senior debt is floating rate, the projects typically have concession length hedging arrangements in place, which are monitored by the project companies' managers, finance parties and boards of Directors. Floating rate debt is hedged using fixed floating interest rate swaps.

Inflation risk

The Company's project companies are generally structured so that contractual income and costs are either wholly or partially linked to specific inflation where possible to minimise the risks of mismatch between income and costs due to movements in inflation indexes. The Company's overall cashflows vary with inflation, although they are not directly correlated as not all flows are indexed. The effects of these inflation changes do not always immediately flow through to the Company's cashflows, particularly where a project's loanstock debt carries a fixed coupon and the inflation changes flow through by way of changes to dividends in future periods.

Market risk

Returns from the Company's investments are affected by the price at which they are acquired. The value of these investments will be a function of the discounted value of their expected future cash flows, and as such will vary with, inter alia, movements in interest rates, market prices and the competition for such assets.

Currency risk

The projects in which the Company invests, all conduct their business in the United Kingdom and pay loan interest, loan principal, dividends and fees in sterling.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

Registered Number 05721256

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

4. Financial instruments (continued)

Credit risk

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

The Company's key direct counterparties are the project companies in which it makes investments. The Company's near term cash flow forecasts are used to monitor the timing of cash receipts from project counterparties. Underlying the cash flow forecast are project Company cash flow models, which are regularly updated by project companies, for the purposes of demonstrating the projects' ability to pay interest and dividends based on a set of detailed assumptions. Many of the Company's investment and subsidiary entities generally receive revenue from government departments, and public sector or local authority clients. Therefore a significant portion of the Company's investments' revenue is with counterparties of good financial standing.

The Company is also reliant on the project's subcontractors continuing to perform their service delivery obligations such that revenues to projects are not disrupted. Management of this risk is undertaken by the Operator of Infrastructure Investments Limited Partnership. The credit standing of subcontractors is reviewed, and the risk of default estimated for each significant counterparty position. Monitoring is on-going, and period end positions are reported to the General Partner.

The Company is subject to credit risk on its loans, receivables, cash and deposits. The Company's cash and deposits are held with a variety of well-known banks. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due, it is believed that the risk of default is small and capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the investment. Fair value adjustments, or "loan impairments", are made when the net present value of the future cash flows predicted to arise from the asset, discounted using the effective interest rate method, implies non-recovery of all or part of the Company's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall.

The Company's maximum exposure to credit risk over financial assets is the carrying value of those assets in the balance sheet. The Company does not hold any collateral as security.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as these fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient financial resources and liquidity to meet its liabilities when due. The Company ensures it maintains adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company's investments are predominantly funded by share capital and medium term debt funding.

The Company's investments are generally in private companies in which there is no listed market and therefore such investment would take time to realise and there is no assurance that the valuations placed on the investments would be achieved from any such sale process.

The Company's investments have borrowings which rank senior to the Company's own investments into the companies. This senior debt is structured such that, under normal operating conditions, it will be repaid within the expected life of the projects. Debt raised by the investment companies from third parties is without recourse to the Company.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

4. Financial instruments (continued)

Fair value estimation

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

Non-derivative financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses the income approach, which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values. In determining the discount rate, regard is had to relevant long-term government bond yields, the specific risks of each investment and the evidence of recent transactions.

Classification of financial instruments

	As at 31 March 2018 £	As at 31 March 2017 £
Financial assets		
Designated at fair value through profit or loss:		
Investments	29,857,363	32,182,587
Financial assets at fair value	29,857,363	32,182,587
At amortised cost:		
Cash and cash equivalents	24,129	3,749,986
Debtors	137,913	6,426,156
Financial assets at amortised cost	162,042	10,176,142
Financial liabilities		
At amortised cost:		
Loans and borrowings	12,733,123	16,483,123
Financial liabilities at amortised cost	12,733,123	16,483,123

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

5. Interest payable and similar charges

	Year ended 31 March 2018	Year ended 31 March 2017
	Total £	Total £
Interest payable on loan from related parties	725,788	4,968,927
Bank charges	72	15
Total interest payable and similar charges	725,860	4,968,942

6. Interest receivable and similar income

	Year ended 31 March 2018	Year ended 31 March 2017
	Total £	Total £
Interest receivable from investments	-	4,968,927
Total interest receivable and similar income	-	4,968,927

7. Directors' remuneration

The Directors' emoluments are borne by a group undertaking. It is not practicable to allocate costs to the Company for the services performed by the Directors in relation to the Company.

8. Auditor's remuneration

The auditor's remuneration for the current financial year is estimated at £2,500 and has been borne by a group undertaking (2017: £3,000).

9. Employees

The Company had no employees during the financial year (2017: nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

10a. Income tax

	Year ended 31 March 2018	Year ended 31 March 2017
	Total	Total
	£	£
Income tax receivable	137,916	-
Total income tax credit	137,916	-

10b. Reconciliation of effective tax rate

The charge for the year can be reconciled to the profit before tax in the profit and loss account as follows:

	Year ended 31 March 2018	Year ended 31 March 2017
	Total	Total
	£	£
(Loss)/profit on ordinary activities before taxation	(3,051,082)	51,783
Total tax (credit)/expense	(579,705)	10,357
Effects of:		
Tax using the UK corporate rate of 19% (2017: 20%)	(579,705)	10,357
Adjustments in respect of non-taxable income	441,792	(10,357)
Adjustments in respect of prior periods	(3)	-
Tax credit for the year	(137,916)	-

10c. Factors affecting future current and total tax charges

UK corporation tax rate reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the Company's future current tax charge accordingly.

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

11a. Investments at fair value through profit and loss

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Brought forward	32,182,587	32,130,789
(Loss)/gain on valuation	(2,325,224)	51,798
Carrying amount at period end	29,857,363	32,182,587
This is represented by:		
Greater than one year	29,857,363	32,182,587
Carrying amount at period end	29,857,363	32,182,587

The Company's ultimate parent (refer to Note 17 for further details) has carried out fair market valuations of the investments as at 31 March 2018. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. All investments in PFI/PPP/P3 projects are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior year. Discount rates applied range from 4.1% to 9.8% (weighted average of 7.4%) (2017: 5.6% to 9.8% (weighted average of 7.4%)).

The following economic assumptions were used in the discounted cash flow valuations at 31 March 2018:

UK inflation rates	2.75%
UK deposit interest rates	1.0% to March 2021 and 2.0% thereafter
UK corporation tax rate	19% to 2020 and 17% thereafter

At 31 March 2017:

UK inflation rates	2.75%
UK deposit interest rates	1% to March 2021 and 2.0% thereafter
UK corporation tax rate	19% to 2020 and 17% thereafter

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

11a. Investments at fair value through profit and loss (continued)

The Company's Investments include:

Company	Registered Address	Class of shares	Percentage of shares held		Year end	Capital & Reserves GBP 000'S	Profit & Loss GBP 000'S
			31/03/18	31/03/17			
The Hospital Company (Southmead) Holdings Limited	8 White Oak Square, London Road, Swanley, England BR8 7AG	Ordinary	50.00% ¹	50.00% ¹	31/12/2017	110,698	(4,273)
Infrastructure Investments (No 7) Limited	12 Charles II St, London SW1Y 4QU	Ordinary	100.00% ¹	100.00% ¹	31/03/2018	5,971	(465)

Companies held via The Hospital Company (Southmead) Holdings Limited :

Company	Registered Address	Class of shares	Percentage of shares held		Year end	Capital & Reserves GBP 000'S	Profit & Loss GBP 000'S
			31/03/18	31/03/17			
The Hospital Company (Southmead) Limited	8 White Oak Square, London Road, Swanley, England BR8 7AG	Ordinary	100.00% ¹	100.00% ¹	31/12/2017	110,698	(4,273)

Companies held via Infrastructure Investments (No 7) Limited :

Company	Registered Address	Class of shares	Percentage of shares held		Year end	Capital & Reserves GBP 000'S	Profit & Loss GBP 000'S
			31/03/18	31/03/17			
PIP Infrastructure Investment (Southmead) Ltd	6th Floor, Cheapside House, 138 Cheapside, London, England, EC2V 6AE	Ordinary	25.00% ¹	25.00% ¹	N/A ²	N/A ²	N/A ²

¹ Denotes a direct shareholding.

² In line with Companies Act requirements, no disclosure has been made where the Company's holdings in an undertaking's share capital is less than 50% or where capital & reserves and profit or loss amounts are not considered to be material.

INFRASTRUCTURE INVESTMENTS (HEALTH) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

11b. Investments in loanstock

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Brought forward	-	48,714,973
Transfer to parent undertaking	-	(48,714,973)
Carrying amount at period end	-	-

12. Debtors

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Group Relief Receivable	137,913	-
Amounts owed by parent company	-	6,426,156
Total Debtors	137,913	6,426,156

13. Creditors – amounts falling due within one year

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Accrued interest owed to related party	-	3,750,000
Total Creditors – amounts falling due within one year	-	3,750,000

14. Creditors – amounts falling due in greater than one year

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Amounts due to related parties	12,733,123	12,733,123
Total Creditors – amounts falling due in greater than one year	12,733,123	12,733,123

Amounts due to related parties of £12,733,123 was issued in the year ended 31 March 2017 by a related party at a coupon of 5.70% per annum to mature in 2042.

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NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 March 2018

15. Share capital

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	1,000,000	96,052
Ordinary shares issued during the year of £1 each	750,000	24,322,113
Share capital reduction	-	(23,418,165)
Ordinary share of £1 each at end of year	1,750,000	1,000,000

16. Retained reserves

	As at 31 March 2018 Total £	As at 31 March 2017 Total £
Balance at the beginning of the year	24,875,606	25,727,771
Dividends paid	(6,426,158)	-
Share conversion	-	(24,332,113)
Share capital reduction	-	23,418,165
(Loss)/profit for the period	(2,913,166)	51,783
Balance at the end of the year	15,536,282	24,875,606

17. Controlling party

The Company's immediate parent Company is Infrastructure Investments (Holdings) Limited, which is incorporated in England and Wales.

The ultimate controlling party is HICL Infrastructure Company Limited, which is incorporated in Guernsey, Channel Islands and its accounts are available at East Wing, Trafalgar Court, Les Banques, St Peter Port, GY1 3PP, Guernsey.