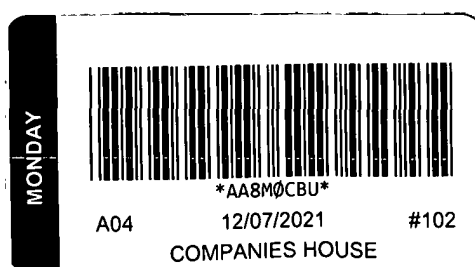


Company registration number: 10119518

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

**Directors' report and audited financial statements for the
year ended
31 December 2020**



INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

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INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Directors	S Kofman A E Caines (resigned 31 August 2020) P Banegas (resigned 31 August 2020, reappointed 14 September 2020, resigned 8 April 2021) T Fennelly (appointed 9 April 2021)
Company secretary	E Mendes
Company registration number	10119518
Registered office	Level 7, One Bartholomew Close Barts Square London EC1A 7BL
Banker	HSBC Bank Plc 8 Canada Square London E14 5HQ
Auditor	KPMG LLP 15 Canada Square London E14 5GL

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of InfraRed Infrastructure (Israel) Limited (the "Company") for the year ended 31 December 2020.

Principal activities

The Company acts as an investment holding company, established to hold an investment in a company established to undertake environmental infrastructure projects.

Business review

The profit for the year after taxation is US\$20,642,926 (2019: US\$14,383,244).

The Company's parent, InfraRed Infrastructure III General Partner Limited (in its capacity as General Partner of each of the eight limited partnerships constituting the InfraRed Infrastructure Fund III), has confirmed that the limited partnerships will financially support the Company. The Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Strategic report

The Company has taken advantage of the exemption provided under section 414B (b) of the Companies Act 2006 and has not produced a strategic report.

Risk management

The Company is part of the InfraRed Partners LLP group (the "Group"). Risk is managed on a Group basis. The managing partners of the Group are responsible for the Group risk management framework. 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 its risk management framework is appropriate for a company of its size and complexity.

Future developments

No change in the Company's activities is anticipated.

Dividends

The Directors have not declared a dividend in respect of the year ended 31 December 2020 (2019: US\$ nil).

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

DIRECTORS' REPORT (continued)

The impact of uncertainties due to the COVID-19 pandemic

The availability of the underlying operational asset has remained consistent despite the on-going challenges of COVID-19. Pressure on the Israeli government budget resulting from their response to the COVID-19 pandemic may result in fiscal action, such as regulatory changes or increases in the corporate tax rate which may lead to a future impact on the valuation of the underlying asset; however, as of the date of approval of these financial statements, none of these changes have been enacted and as a result has no impact on the valuation of the underlying asset.

The Directors are keeping in continued contact with the management team at P.S.P. Investments Ltd and continue to support them through this challenging period.

Directors

The Directors who served during the year were as follows:

S Kofman

A E Caines (resigned 31 August 2020)

P Banegas (resigned 31 August 2020, reappointed 14 September 2020, resigned 8 April 2021)

T Fennelly (appointed 9 April 2021)

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 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 or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Independent auditor

KPMG LLP is deemed to be reappointed in accordance with an elective resolution made under section 487 of the Companies Act 2006.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

DIRECTORS' REPORT (continued)

Statement of Directors' Responsibilities in respect of the Annual Report, Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom 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 period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Timothy Fennelly

T Fennelly
Director

Registered office
Level 7, One Bartholomew Close
Barts Square
London
EC1A 7BL

5 July 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

Opinion

We have audited the financial statements of InfraRed Infrastructure (Israel) Limited (the "Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the 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 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom 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

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (the "going concern period").

In our evaluation of the Director's conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRARED INFRASTRUCTURE (ISRAEL) LIMITED (continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks"), we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Directors of whether they are aware of fraud and of the Company's high-level policies and procedures to prevent and detect fraud; and
- Reading board minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as investment valuations. On this audit, we do not believe there is a fraud risk related to revenue recognition because the calculation of the revenue is non-judgmental and straightforward, with limited opportunity for manipulation.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Company's fraud risk management controls.

We performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts; and
- evaluating the business purpose of significant unusual transactions, if any.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors (as required by auditing standards) and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation, and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance, through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection and certain aspects of company legislation recognising the nature of the Company's activities and its legal form.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRARED INFRASTRUCTURE (ISRAEL) LIMITED (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws or regulation.

Directors' Report

The Directors are responsible for the Directors' Report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read 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 Directors' Report;
- in our opinion, the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion, that report has 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 INFRARED INFRASTRUCTURE (ISRAEL) 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.

Kushan Tikkoo

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

6 July 2021

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2020

	Note	2020 US\$	2019 US\$
Turnover	4	1,599,487	1,181,867
Operating expenses	5	<u>(17,458)</u>	<u>(5,317)</u>
Operating profit		1,582,029	1,176,550
Foreign exchange gains on investment	8	6,103,053	5,853,517
Fair value gains on investments	8	13,342,013	7,751,837
Foreign exchange gains on non-investment		<u>14,532</u>	<u>-</u>
Profit before tax		21,041,627	14,781,904
Tax on profit	7	<u>(398,701)</u>	<u>(398,660)</u>
Profit for the financial year		<u>20,642,926</u>	<u>14,383,244</u>
Total comprehensive profit for the financial year		<u>20,642,926</u>	<u>14,383,244</u>

All activities derive from continuing operations.

The accompanying notes on pages 12 to 19 form an integral part of these financial statements.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

STATEMENT OF FINANCIAL POSITION as at 31 December 2020

	Note	2020 US\$	2019 US\$
Non-current assets			
Investments	8	109,206,238	86,780,789
Debtors: amounts falling due after more than one year	9	<u>4,263,722</u>	<u>2,664,235</u>
		113,469,960	89,445,024
Current assets			
Debtors: amounts falling due within one year	9	401	-
Current liabilities			
Creditors: amounts falling due within one year	10	<u>(1,213,756)</u>	<u>(811,728)</u>
Net current liabilities		<u>(1,213,355)</u>	<u>(811,728)</u>
Net assets		<u>112,256,605</u>	<u>88,633,296</u>
Capital and reserves			
Called up share capital	11	76,223,052	73,242,669
Profit and loss account		<u>36,033,553</u>	<u>15,390,627</u>
Equity shareholder's funds		<u>112,256,605</u>	<u>88,633,296</u>

The accompanying notes on pages 12 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 5 July 2021 and were signed on its behalf by

Timothy Fennelly

T Fennelly
Director

Company Registration Number: 10119518

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

STATEMENT OF CHANGES IN EQUITY as at 31 December 2020

	Called up share capital US\$	Profit and loss account US\$	Total US\$
At 1 January 2019	70,650,011	1,007,383	71,657,394
Issued share capital	2,592,658	-	2,592,658
Profit for the year	-	14,383,244	14,383,244
At 31 December 2019	73,242,669	15,390,627	88,633,296
Issued share capital	3,647,736	-	3,647,736
Return of share capital	(667,353)	-	(667,353)
Profit for the year	-	20,642,926	20,642,926
At 31 December 2020	76,223,052	36,033,553	112,256,605

The accompanying notes on pages 12 to 19 form an integral part of these financial statements.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. GENERAL INFORMATION

InfraRed Infrastructure (Israel) Limited was incorporated on 12 April 2016. The Company is a private limited company with company number 10119518.

The Company acts as an investment holding company established to hold an investment in a company established to undertake environmental infrastructure projects.

The Company's registered address is Level 7, One Bartholomew Close, Barts Square, London, EC1A 7BL.

2. ACCOUNTING POLICIES

a) Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and all applicable laws and regulations.

The Company is considered to be a small entity and has applied the exemption under FRS 102.3.1B in respect of the Cash Flow Statement and related notes disclosures.

The Company has adopted the following Amendments to FRS 102 in these financial statements. These Amendments are effective for accounting periods beginning on or after 1 January 2020:

- i. the Amendments to FRS 102 – Interest rate benchmark reform;
- ii. the consequential Amendments to FRS 102 from the Amendments to FRS 101, "Reduced Disclosure Framework 2019/20 cycle"; and
- iii. the Amendments to FRS 102 – COVID-19-related rent concessions.

There has been no material impact following the adoption of the Amendments on accounting policies for classification, recognition and measurement of items within the financial statements or on disclosures within these.

b) Basis of preparation

These audited financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom (FRS 102). These financial statements are presented in United States dollars ("US\$"), the Company's functional currency. Israeli dollars ("ILS") is the main currency of the Company's operations and investments; however, the Company has chosen to present these financial statements in US\$ as the investments are funded by the Company's parent, InfraRed Infrastructure III General Partner Limited (in its capacity as General Partner of each of the eight limited partnerships constituting the InfraRed Infrastructure Fund III), which operates in US\$.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2020

2. ACCOUNTING POLICIES (continued)

b) Basis of preparation (continued)

The Company invests in P.S.P. Investments Ltd, which invests in an infrastructure asset. Given the ongoing COVID-19 pandemic, there continues to be uncertainty in the Israeli economy where the investment is based. The Directors are confident that the investment will continue to operate for a period of at least 12 months from the date of approval of these financial statements. The investment has a debt facility; however, this is non-recourse to the Company. At the Statement of Financial Position date, the Company was committed to investing a further US\$4.3m into its investment to finance the completion of the outstanding construction works. Beyond this amount, the Company has no obligation to invest further but may do so based on the Directors' assessment of the returns to the Company. Commitments are expected to be funded by equity injections received from the parent Fund (InfraRed Infrastructure Fund III).

At 31 December 2020, the Company had an excess of current liabilities over current assets of US\$1.2m. The Company is dependent for its working capital on funds provided to it by InfraRed Infrastructure III General Partner Ltd (the "General Partner") (in its capacity as general partner of each of the limited partnerships constituting InfraRed Infrastructure Fund III). The General Partner has indicated its intention that, for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of amounts currently made available. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe it will not do so.

Therefore, the Directors consider the Company will have sufficient resources to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements and have consequently prepared the financial statements on a going concern basis.

The principal accounting policies, which have been consistently applied throughout the year and the preceding period, are described below.

c) Exemption from preparing consolidated financial statements

The Company is a subsidiary undertaking of InfraRed Partners LLP, a LLP incorporated in the United Kingdom, and is included in the consolidated accounts of that company. As such it is exempt by virtue of s400 of the Companies Act 2006 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.

d) Turnover

Turnover represents loan stock interest receivable from related parties. It is recognised in profit or loss on an accruals basis from the date the entitlement arises.

Revenue is recognised to the extent that it is virtually certain that the economic benefit will flow to the entity and can be reliably measured.

e) Taxation

Taxation expense for the period comprises current tax recognised in the financial year. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity respectively.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

2. ACCOUNTING POLICIES (continued)

e) Taxation (continued)

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

f) Investments

Investments in equity and loan stock are recorded at fair value through profit or loss since the Company manages these investments based on their fair value. Fair values are determined using 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 appropriate discount rate, regard is had to relevant long-term government bond yields, the specific risks of each investment and the evidence of recent transactions.

The main method for determining the appropriate discount rate used for valuing each investment is based on the Directors' knowledge of the market, taking into the account intelligence gained from bidding activities, discussions with financial advisers knowledgeable in these markets and publicly available information on relevant transactions.

g) Current debtors and creditors

Debtors and creditors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

h) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2020

3. USE OF ASSUMPTIONS AND ESTIMATES

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.

The accounting policies that are deemed critical to the Company's results and financial position in terms of materiality and which involve a high degree of judgement and estimation are addressed below.

Valuation of investments

Investments held at fair value are valued using the discounted cash flow method. Valuations of investments are particularly sensitive to the judgements made by the Directors on discount rates and assumptions around the timing of cash flows, dividends and capital requirements.

Valuations of investments have been based on the assumptions and estimates made by the Directors based on market conditions as at 31 December 2020, including the ongoing impact of the COVID-19 pandemic.

4. TURNOVER

	2020 US\$	2019 US\$
Loanstock interest	<u>1,599,487</u>	<u>1,181,867</u>

5. OPERATING EXPENSES

	2020 US\$	2019 US\$
Legal and professional fees	17,458	4,946
Other expenses	<u>-</u>	<u>371</u>
	<u>17,458</u>	<u>5,317</u>

The auditor's remuneration for the year was £5,500 (2019: £2,620) has been borne by a Group undertaking.

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors are not remunerated by the Company. The Directors are either partners of Charles II Realisation LLP (formerly InfraRed Capital Partners (Management) LLP) (the "LLP") and are remunerated through profit shares from the LLP or are employees of and are remunerated by InfraRed Partners LLP, an intermediate parent company.

The number of persons employed by the Company during the year was nil (2019: nil).

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2020

7. TAX ON PROFIT

	2020 US\$	2019 US\$
Current tax		
UK corporation tax	518,920	398,660
Adjustments in respect of prior years	(120,219)	-
Total current tax expense	<u>398,701</u>	<u>398,660</u>

The tax assessed for the year is different to that resulting from applying the standard rate of corporation tax applicable in the UK of 19% (2019: 19%). The differences are explained below:

	2020 US\$	2019 US\$
Profit before taxation	<u>21,041,627</u>	<u>14,781,904</u>
Profit multiplied by standard rate	3,997,909	2,808,562
Effects of:		
- non-taxable income	(3,478,989)	(2,409,902)
- adjustments in respect of prior year	<u>(120,219)</u>	<u>-</u>
Total tax charge for the year	<u>398,701</u>	<u>398,660</u>

Factors affecting current and future tax charges

The Government has confirmed an increase to the UK corporation tax rate from 19% to 25%, with effect from 1 April 2023. In addition, the 19% rate will continue to apply to companies with profits of not more than £50,000, with marginal relief for profits of up to £250,000. The company is expected to be subject to the 25% UK corporation tax rate, once enacted. This measure is not regarded as being substantively enacted, as such the 19% rate has been applied to deferred tax statement of financial position amounts.

8. INVESTMENTS

	2020 US\$	2019 US\$
At 1 January	86,780,789	70,582,777
Additions	5,182,043	2,592,658
Redemption	(2,201,660)	-
Foreign exchange gains	6,103,053	5,853,517
Fair value gains on Investment	<u>13,342,013</u>	<u>7,751,837</u>
At 31 December	<u>109,206,238</u>	<u>86,780,789</u>

Investments are measured at fair value and categorised as Level 3 as prescribed in FRS 102. There were no transfers between levels in the year (2019: none).

As at 31 December 2020, the investment balance comprises equity of US\$92,264,660 (2019: US\$73,101,768) and loan stock of US\$16,941,578 (2019: US\$13,679,021).

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2020

8. INVESTMENTS (continued)

The Company had equity interests in the following investment as at 31 December:

Name of company and registered address	Class of shares held	Proportion of shares held by the Company	
		2020	2019
P.S.P. Investments Ltd.	Ordinary ILS 1 shares	49%	49%
7 Jabotinsky St., Ramat-Gan, Israel 5252007			

9. DEBTORS

	2020 US\$	2019 US\$
Amounts falling due after more than one year		
Accrued income	4,263,722	2,664,235
	2020 US\$	2019 US\$
Amounts falling due within one year		
Other debtors	401	-

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 US\$	2019 US\$
Amounts owed to Group undertakings	901,043	720,034
Corporation tax	312,713	91,694
	1,213,756	811,728

11. CALLED UP SHARE CAPITAL

	2020 US\$	2019 US\$
Allotted, called up and fully paid		
76,223,052 (2019: 73,242,669) ordinary shares of US\$1 each	76,223,052	73,242,669
	2020 US\$	2019 US\$
At 1 January	73,242,669	70,650,011
Ordinary shares issued	3,647,736	2,592,658
Return of share capital	(667,353)	-
At 31 December	76,223,052	73,242,669

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2020

12. RELATED PARTY TRANSACTIONS

The Company is a related party of all companies within the InfraRed Partners LLP ("InfraRed") group of companies by virtue of its immediate parent company being InfraRed Infrastructure III General Partner Limited (in its capacity as General Partner of each of the eight limited partnerships constituting the InfraRed Infrastructure Fund III), an InfraRed group company incorporated in the United Kingdom. The registered address of InfraRed Partners LLP is Level 7, One Bartholomew Close, Barts Square, London, EC1A 7BL.

As at 31 December 2020, an amount of US\$901,042 (2019: US\$720,034) was due to InfraRed Infrastructure III General Partner Limited in relation to corporation tax expenses and professional fees.

13. ULTIMATE PARENT UNDERTAKING

The ultimate controlling party is Sun Life Financial Inc., with a registered address of 1 York Street, Toronto, Ontario, Canada, M5J 0B6.

The smallest and largest group which consolidates the results of the Company is InfraRed Partners LLP, with a registered address of Level 7, One Bartholomew Close, Barts Square, London, EC1A 7BL.

The consolidated financial statements of the Group are available to the public and may be obtained from Companies House.

14. SUBSEQUENT EVENTS

There were no subsequent events after the Statement of Financial Position date requiring disclosure in these financial statements.

15. FINANCIAL RISK MANAGEMENT

The Company is subject to financial risks throughout its business, being credit risk, liquidity risk and foreign currency risk.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a counterparty to meet its obligations. The Company's principal counterparties are: counterparties with and in whom the Company invests and the sub-contractors to the underlying project companies.

Credit risk is managed in accordance with the Company's policies and procedures. The Group's credit team uses external credit ratings for all financial institutions where they are available. Where external ratings are not available, the Group's credit team performs its own analysis on the credit status of counterparties, in accordance with its policies for assessing and monitoring credit risk, which includes concentration risks and "watch list" monitoring.

The credit risk relating to the Company's investments is principally managed through contractual protections in the relevant transaction agreements and due diligence on the counterparties and by playing an active part in the oversight of all underlying projects. The credit risk relating to banks is managed through using banks with a credit rating of 'A' or above.

INFRARED INFRASTRUCTURE (ISRAEL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 31 December 2020

15. FINANCIAL RISK MANAGEMENT (continued)

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.

Foreign currency risk

Foreign exchange risk is the risk that the Company will sustain losses through adverse movements in currency exchange rates.

A significant amount of the Company's income and a proportion of its expenses are denominated in currencies other than its functional currency, United States dollars i.e. Pounds Sterling (GBP) and Israeli Shekel (ILS). This impacts the Company's exposure to non-US\$ income and expenses.

The Company monitors foreign currency balances closely in order to effectively manage foreign currency risk. The Company is not currently hedging its exposure to non-US\$ investments. The Company does not hedge surplus cash flows from investments as the timing and quantum of flows are not certain.

The Directors regularly review the foreign exchange hedging policy in the light of the nature and shape of the investment that are made in foreign currencies. The Company's policy is to hold minimum non-US\$ currency to cover operational needs and therefore converts foreign currency on receipt.