

# **INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP**

**Registered Number OC392005**

## **MEMBERS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2018**

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# **INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP**

**Registered Number OC392005**

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## **CONTENTS**

1. Strategic Report
  3. Members' Report
  4. Statement of members' responsibilities in respect of the annual report and the financial statements
  5. Independent Auditor's Report to the members of Infrastructure Investments (Australia) LLP
  6. Income Statement
  7. Statement of Financial Position
  8. Statement of Cash Flows
  9. Statement of Net Assets attributable to members
  10. Notes to the financial statements
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# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

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## STRATEGIC REPORT

The strategic report has been prepared for Infrastructure Investments (Australia) LLP (the "Partnership").

The Members present their Strategic Report and Members' report on the affairs of the Partnership, 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 Partnership during the year under review was that of an investment holding company. The Members expect the Partnership to continue this activity in the foreseeable future. The results for the year and financial position of the Partnership are as shown in the attached financial statements.

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

The Partnership treats its equity investments as a homogenous investment portfolio, therefore all investments are measured at fair value through profit and loss. As at 31 March 2018 the fair value of investments was A\$152,318,456 (2017: A\$138,245,067).

At the time of these accounts having been produced the members had completed the disposal of, in full, the 9.7% equity share in Aquasure Holdings Pty limited. The equity share was sold for a sum of AUD\$157 million which, based on the March 2018 valuation, resulted in a premium of approximately AUD\$5 million.

### Going concern

The Members have a reasonable expectation that the Partnership 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 A\$54,436 as at 31 March 2018 (2017: A\$153,478).

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.

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

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

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## STRATEGIC REPORT (continued)

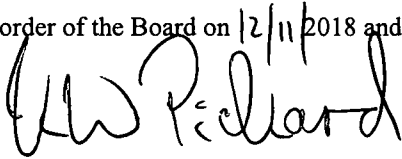
### *Liquidity risk*

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.

### **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 12/11/2018 and signed on its behalf by:



K W Pickard

Registered Office:

12 Charles II Street

London

SW1Y 4QU

Registered Number OC392005

# **INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP**

Registered Number OC392005

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## **MEMBERS' REPORT**

### **Principal activities**

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

### **Members**

The Members who served during the year were as follows:

InfraRed Environmental Infrastructure GP Limited, acting in its capacity as general partner of InfraRed Environmental Infrastructure Fund (I) LP, InfraRed Environmental Infrastructure Fund (II) LP and InfraRed Environmental Infrastructure Fund (III) LP (the "A Member")

Infrastructure Investments General Partner Limited, acting in its capacity as general partner of Infrastructure Investments Limited Partnership (the "B Member")

### **Members' profit and losses**

The net profits and losses each year shall be allocated to the B Member, as in accordance with the Limited Liability Partnership Agreement.

### **Auditor**

KPMG LLP has been reappointed as auditor of the Partnership.

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

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## MEMBERS' REPORT (continued)

### 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 and 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 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 Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members 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 LLP and of its profit for the year. In preparing these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the LLP'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 LLP or to cease operations, or have no realistic alternative but to do so.

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. 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 LLP and to prevent and detect fraud and other irregularities.

On behalf of the Members



K W Pickard

12/11/2018

Registered Office:  
12 Charles II Street  
London

SW1Y 4QU

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP**

### **Opinion**

We have audited the financial statements of Infrastructure Investments (Australia) LLP ("the LLP") for the year ended 31st March 2018 which comprise The Income Statement, The Statement of Financial Position, The Statement of Cash Flows, The Statement of Net Assets Attributable to Members 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 affairs of the LLP as at 31st March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with 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 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

### **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 LLP 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.

### **Other information**

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 as applied to limited liability partnerships 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
- we have not received all the information and explanations we require for our audit.
- We have nothing to report in these respects.

### **Members' responsibilities**

As explained more fully in their statement set out 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; 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 LLP'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 LLP or to cease operations, or have no realistic alternative but to do so.

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP (continued)**

### **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](http://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 members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP'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 LLP and the LLP'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

15 / 11 / 2018

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

## INCOME STATEMENT

for the year ending 31 March 2018

|                                                                         |       | Year ended<br>31 March 2018 | Year ended<br>31 March 2017 |
|-------------------------------------------------------------------------|-------|-----------------------------|-----------------------------|
|                                                                         | Notes | Total<br>A\$                | Total<br>A\$                |
| Gain/loss on investments                                                | 7     | 14,073,389                  | 9,710,559                   |
| Dividend income                                                         |       | 12,044,118                  | 9,310,702                   |
| <b>Profit for the year</b>                                              |       | <b>26,117,507</b>           | <b>19,021,261</b>           |
| Administration fee                                                      |       | (58,970)                    | (85,456)                    |
| Interest receivable                                                     |       | 2,310                       | 10,219                      |
| <b>Profit before and after tax before members' remuneration</b>         |       | <b>26,060,847</b>           | <b>18,946,024</b>           |
| Members' remuneration                                                   |       | (12,086,500)                | (9,684,488)                 |
| <b>Profit/(loss) for the financial year after Members' remuneration</b> |       | <b>13,974,347</b>           | <b>9,261,536</b>            |

The results of the Partnership are derived entirely from its investment in operations which were disposed of in October 2018.

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 (AUSTRALIA) LLP

Registered Number OC392005

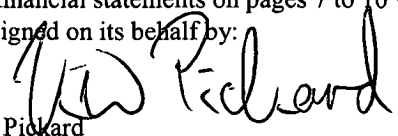
## STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

|                                                             |       | Year ended<br>31 March<br>2018 | Year ended<br>31 March<br>2017 |
|-------------------------------------------------------------|-------|--------------------------------|--------------------------------|
|                                                             | Notes | A\$                            | A\$                            |
| <b>Non-current assets</b>                                   |       |                                |                                |
| Investments at fair value through profit or loss            | 7     | 152,318,456                    | 138,245,067                    |
| <b>Total non-current assets</b>                             |       | <b>152,318,456</b>             | <b>138,245,067</b>             |
| <b>Current assets</b>                                       |       |                                |                                |
| Cash and cash equivalents                                   |       | 69,836                         | 178,878                        |
| <b>Total current assets</b>                                 |       | <b>69,836</b>                  | <b>178,878</b>                 |
| <b>Creditors: Amounts falling due within one year</b>       |       | <b>(15,400)</b>                | <b>(25,400)</b>                |
| <b>Net current assets</b>                                   |       | <b>54,436</b>                  | <b>153,478</b>                 |
| <b>Net assets attributable to Members</b>                   |       | <b>152,372,892</b>             | <b>138,398,545</b>             |
| <b>Represented by:</b>                                      |       |                                |                                |
| <b>Loans and other debts due to members within one year</b> |       |                                |                                |
| Other amounts                                               |       | 525,000                        | 525,000                        |
| Member Loans                                                |       | 136,296,329                    | 136,296,329                    |
| <b>Total Loans and other debts due to members</b>           |       | <b>136,821,329</b>             | <b>136,821,329</b>             |
| <b>Members' other interests</b>                             |       |                                |                                |
| Members' capital classified as equity                       |       | 100                            | 100                            |
| Other reserves classified as equity                         |       | 15,551,463                     | 1,577,116                      |
| Profit and loss account                                     |       | -                              | -                              |
| <b>Total Members' other interests</b>                       |       | <b>15,551,563</b>              | <b>1,577,216</b>               |
| <b>Total Members' interests</b>                             |       | <b>152,372,892</b>             | <b>138,398,545</b>             |

The notes form part of these financial statements.

The financial statements on pages 7 to 10 were approved by the Members on 12/11/2018 and signed on its behalf by:

  
K W Pickard

Registered Number OC392005

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

## STATEMENT OF CASH FLOWS for the year ending 31 March 2018

|                                                    | Year ended<br>31 March<br>2018<br>A\$ | Year ended<br>31 March<br>2017<br>A\$ |
|----------------------------------------------------|---------------------------------------|---------------------------------------|
| <b>Net cash flows from operating activities</b>    |                                       |                                       |
| Profit for the Year before tax                     | 26,060,847                            | 18,946,024                            |
| <i>Adjustments for:</i>                            |                                       |                                       |
| Interest receivable and similar income             | (2,310)                               | (10,219)                              |
| Interest payable and similar charges               | -                                     | -                                     |
| Gain/loss on investments                           | (14,073,389)                          | (9,710,559)                           |
| Dividend income                                    | (12,044,118)                          | (9,310,702)                           |
| Movement in payables                               | (10,000)                              | 8,000                                 |
| <b>Cash flows used in operating activities</b>     | <b>(68,970)</b>                       | <b>(77,456)</b>                       |
| <b>Cash flows from investing activities</b>        |                                       |                                       |
| Purchase of investments                            | -                                     | -                                     |
| Interest received                                  | 2,310                                 | 10,219                                |
| Dividends received                                 | 12,044,118                            | 9,310,702                             |
| <b>Net cash from investing activities</b>          | <b>12,046,428</b>                     | <b>9,320,921</b>                      |
| <b>Cash flows from financing activities</b>        |                                       |                                       |
| Distributions to members                           | (12,086,500)                          | (9,684,488)                           |
| Proceeds from partners loan advances               | -                                     | -                                     |
| <b>Net cash flows used in financing activities</b> | <b>(12,086,500)</b>                   | <b>(9,684,488)</b>                    |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(109,042)</b>                      | <b>(441,023)</b>                      |
| Cash and cash equivalents at beginning of year     | 178,878                               | 619,901                               |
| <b>Cash and cash equivalents at end of year</b>    | <b>69,836</b>                         | <b>178,878</b>                        |

The notes form part of these financial statements.

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

## STATEMENT OF NET ASSETS ATTRIBUTABLE TO MEMBERS

As at 31 March 2018

|                                                                                 | Members' Other Interests                   |                   | Loans and other debts due to members |                  | Total        |
|---------------------------------------------------------------------------------|--------------------------------------------|-------------------|--------------------------------------|------------------|--------------|
|                                                                                 | Members' Capital<br>(Classified as equity) | Other<br>Reserves | Member loans                         | Other<br>amounts |              |
|                                                                                 | 100                                        | 1,577,116         | 136,296,329                          | 525,000          | 138,398,545  |
| Members' remuneration charged as an expense                                     | -                                          | -                 | -                                    | 12,086,500       | 12,086,500   |
| Profit for the financial year after Members' remuneration charged as an expense | -                                          | 13,974,347        | -                                    | -                | 13,974,347   |
| Distributions paid in the year                                                  | -                                          | -                 | -                                    | (12,086,500)     | (12,086,500) |
|                                                                                 | 100                                        | 15,551,463        | 136,296,329                          | 525,000          | 152,372,892  |

For the year ended 31 March 2017

|                                                                                 | Members' Other Interests                   |                   | Loans and other debts due to members |                  | Total       |
|---------------------------------------------------------------------------------|--------------------------------------------|-------------------|--------------------------------------|------------------|-------------|
|                                                                                 | Members' Capital<br>(Classified as equity) | Other<br>Reserves | Member loans                         | Other<br>amounts |             |
|                                                                                 | 100                                        | (7,684,420)       | 136,296,329                          | 525,000          | 129,137,009 |
| Issue of Member Loans during the year                                           | -                                          | -                 | -                                    | -                | -           |
| Members' remuneration charged as an expense                                     | -                                          | -                 | -                                    | 9,684,488        | 9,684,488   |
| Profit for the financial year after Members' remuneration charged as an expense | -                                          | 9,261,536         | -                                    | -                | 9,261,536   |
| Distributions paid in the year                                                  | -                                          | -                 | -                                    | (9,684,488)      | (9,684,488) |
|                                                                                 | 100                                        | 1,577,116         | 136,296,329                          | 525,000          | 138,398,545 |

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ending 31 March 2018

### 1. General information

Infrastructure Investments (Australia) LLP was incorporated on 17 March 2014 and is domiciled in the UK. The address of the Partnership is given in the Members' Report on page 4. The nature of the Partnership'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 Partnership 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 Partnership 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 Australian Dollar.

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 Partnership, its liquidity position and borrowing facilities, as well as the Partnership'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 Partnership 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 Partnership. As a consequence, the Directors believe that the Partnership is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Partnership 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 Partnership'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.

## 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 Partnership are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Partnership 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 Partnership; and
- (b) where the instrument will or may be settled in the Partnership's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Partnership's own equity instruments or is a derivative that will be settled by the Partnership'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 Partnership'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 (AUSTRALIA) LLP

Registered Number OC392005

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## 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 Partnership'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.

## 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 Partnership'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 Partnership 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 Partnership's ultimate parent 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 Partnership, HICL, which are available from their website [www.hicl.com](http://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 (AUSTRALIA) LLP

Registered Number OC392005

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

### 4. Financial instruments

#### *Risk Management*

The objective of the Partnership'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 Partnership's parent entity, Infrastructure Investments Limited Partnership. The Operator has documented procedures designed to identify, monitor and manage the financial risks to which the Partnership is exposed. This note presents information about the Partnership's exposure to financial risks, its objectives, policies and processes for managing risk and the Partnership's management of its financial resources.

#### *Interest rate risk*

The Partnership 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 Partnership'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 Partnership 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 Partnership'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 Partnership'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 Partnership'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 Partnership'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 Partnership invests, all conduct their business in Australia and pay loan interest, loan principal, dividends and fees in Australian Dollars.

The Partnership monitors its foreign exchange exposures using its near term and long term cash flow forecasts.

#### *Credit risk*

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

The Partnership's key direct counterparties are the project companies in which it makes investments. The Partnership'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 Partnership 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 Partnership's investment and subsidiary entities generally receive revenue from government departments, and public sector or local authority clients. Therefore a significant portion of the Partnership's investments' revenue is with counterparties of good financial standing.

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

### 4. Financial instruments (continued)

The Partnership 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 Partnership is subject to credit risk on its loans, receivables, cash and deposits. The Partnership'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 Partnership's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall.

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

#### *Liquidity risk*

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as these fall due. The Partnership'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 Partnership 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 Partnership's investments are predominantly funded by share capital and medium term debt funding.

The Partnership'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 Partnership's investments have borrowings which rank senior to the Partnership'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 Partnership.

#### **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.

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

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

### Classification of financial instruments

|                                                  | Year ended<br>31 March<br>2018 | Year ended<br>31 March<br>2017 |
|--------------------------------------------------|--------------------------------|--------------------------------|
|                                                  | A\$                            | A\$                            |
| <b>Financial assets</b>                          |                                |                                |
| Designated at fair value through profit or loss: |                                |                                |
| Investments                                      | 152,318,456                    | 138,245,067                    |
| <b>Financial assets at fair value</b>            | <b>152,318,456</b>             | <b>138,245,067</b>             |
| At amortised cost:                               |                                |                                |
| Cash and cash equivalents                        | 69,836                         | 178,878                        |
| Loans and other debts due to members             | 136,821,329                    | 136,821,329                    |
| <b>Financial assets at amortised cost</b>        | <b>136,891,165</b>             | <b>137,000,207</b>             |

The Members believe that the carrying values of all financial instruments are not materially different to their fair values.

### 5. Auditor's remuneration

The auditor's remuneration for the current financial year is estimated at £2,100 (approx. A\$3,800) and has been borne by a group undertaking (2017: £3,000).

### 6. Employees

The Partnership had no employees during the financial year.

### 7. Investments at fair value through profit and loss

|                                    | Year ended 31<br>March 2018 | Year ended 31<br>March 2017 |
|------------------------------------|-----------------------------|-----------------------------|
|                                    | A\$                         | A\$                         |
| Balance at beginning of year/Year  | 138,245,067                 | 128,534,508                 |
| Gain/(loss) on investments         | 14,073,389                  | 9,710,559                   |
| <b>Balance at end of year/Year</b> | <b>152,318,456</b>          | <b>138,245,067</b>          |

The Partnership's ultimate parent has carried out fair market valuations of the investments as at 31 March 2018. The Members 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%)).

# INFRASTRUCTURE INVESTMENTS (AUSTRALIA) LLP

Registered Number OC392005

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

### 7. Investments at fair value through profit and loss (continued)

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

|                            |                                      |
|----------------------------|--------------------------------------|
| UK inflation rates         | 2.75%                                |
| Australian inflation rates | 2.5%                                 |
| UK deposit interest rates  | 1% to March 2021 and 2.0% thereafter |

At 31 March 2017:

|                           |                                      |
|---------------------------|--------------------------------------|
| UK inflation rates        | 2.75%                                |
| Australia inflation rates | 2.5%                                 |
| UK deposit interest rates | 1% to March 2021 and 2.0% thereafter |

### 8. Controlling party

The Partnership has no ultimate controlling party.

### 9. Events after the balance sheet date

At the time of these accounts having been produced the members had completed the disposal of, in full, the 9.7% equity share in Aquasure Holdings Pty limited. The equity share was sold for a sum of AUD\$157 million which, based on the March 2018 valuation, resulted in a premium of approximately AUD\$5 million.