

**INDIA INFRASTRUCTURE FINANCE
COMPANY (UK) LIMITED**

Report and Financial Statements

Year Ended

31 March 2017

Company Number 06496661

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
FINANCIAL STATEMENTS AND DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2017

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INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
DIRECTORS AND PROFESSIONAL ADVISORS
FOR THE YEAR ENDED 31 MARCH 2017

The Board of Directors	Mr. S.B. Nayar Chairman
	Mr. Pankaj Jain Director, Government of India Nominee
	Mr. Sanjiv Chadha Director, Government of India Nominee
	Mr. Manoj Ladwa Non-Executive Director (appointed 19 September 2016)
	Mr. S. Krishnan Managing Director
Registered office	Third Floor, 72 King William Street, London EC4N 7HR Tel: +44 (020) 77768950 Fax: +44 (020) 77768958 Website: www.iifc.org.uk; Email:info@iifc.org.uk
Company Secretary	Jordan Company Secretaries Limited 21 St. Thomas Street, Bristol, BS1 6JS
Auditors	BDO LLP, Chartered Accountants and Registered Auditor 55 Baker Street, London, W1U 7EU
Accountants	Leadenhall Financial Management Ltd 45b Brecknock Road, London, N7 0BT
Bankers	State Bank of India, 15 King Street, London, EC2V 8EA
	Bank of India, 63 Queen Victoria Street, London, EC4N 4UA
	Punjab National Bank (Int'l) Limited, 1 Moorgate, London, EC2R 6AB
	Bank of Baroda, 32 City Road, London, EC1Y 2BD
	Syndicate Bank, 2A Eastcheap, London, EC3M 1LH
	Canara Bank, 10 Chiswell street, London, EC1Y 4UQ
	Union Bank of India (UK) Limited, 85 Queen Victoria Street, London EC4V 4AB

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The directors have the pleasure in presenting the Annual Report and the audited financial statements for the year ended 31 March 2017. These financial statements have been prepared in accordance with the UK Companies Act 2006 and applicable International Financial Reporting Standards.

RESULTS AND DIVIDENDS

The profit before taxation for the year ended 31 March 2017 amounted to USD 36,957,569 (2016 - USD 27,980,908) and the profit after taxation is USD 25,918,927 (2016 - USD 20,233,698). A dividend of nil (2016 - USD 20,000,000) was paid in the year. With this, the cumulative retained earnings of the Company shall aggregate USD 99,957,311 (31 March 2016 USD - 74,038,384).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

India Infrastructure Finance Company (UK) Limited (IIFC (UK) Limited) (the "company") is a subsidiary company of India Infrastructure Finance Company Limited (IIFCL), which, in turn, is a wholly owned enterprise of the Government of India (GOI).

IIFCL, the parent company of IIFC (UK) Limited was established on 5 January 2006 under the Indian Companies Act 1956 and provides long term rupee loans to Indian companies implementing infrastructure projects in India. India Infrastructure Finance Company (UK) Limited was incorporated on 7 February 2008 and is registered with the Registrar of Companies of England and Wales at London under the UK Companies Act 2006. Operations of the company commenced effectively from September 2008. IIFC (UK) Limited has been set-up with the objective of providing long term loans in foreign currency to Indian companies implementing infrastructure projects in India for their import of capital equipment and machinery. The company lends under the Government of India approved Scheme for Financing Viable Infrastructure Projects through IIFCL (SIFTI).

The sectors broadly covered for financing under SIFTI include:

[i] **Transport:** Road and bridges, ports, airports, inland waterways, railway track, tunnels, viaducts, bridges and urban public transport (except rolling stock in case of urban road transport);

[ii] **Energy:** Electricity generation, transmission and distribution, oil pipelines, oil/gas/liquefied natural gas (LNG) storage facility, gas pipelines;

[iii] **Water Sanitation:** Solid waste management, water supply pipelines, water treatment plants, sewage collection, treatment and disposal system, Irrigation (dams, channels, embankments) and storm water drainage system;

[iv] **Communication:** Telecommunication (fixed network) and Telecommunication towers;

[v] **Social and Commercial Infrastructure:** Education Institutions (capital stock), Hospitals (capital stock), Three-star or higher category classified hotels located outside cities with population of more than one million, common infrastructure for industrial parks, special economic zones (SEZ), tourism facilities and agriculture markets, Post-harvest storage infrastructure for agriculture and horticultural produce including cold storage, Terminal markets, Soil-testing laboratories and Cold Chain.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS (continued)

The Government of India had approved inclusion of the following subsectors in SIFTI for external commercial borrowings (ECB) purposes with effect from 7 August 2014: i) Communication: Mobile Telephony Services/companies providing cellular services, ii) Mining, iii) Exploration and iv) Refining.

RBI has issued a revised ECB framework on 30 November 2015 which includes alignment of the list of infrastructure entities eligible for ECB with the Harmonised List of GOI. Accordingly, the sectors added have dropped out of eligible sectors for ECB funding under Infrastructure. However, the RBI vide circular dated 30 March 2016 has advised that for the purpose of ECB, "Exploration, Mining and Refinery" sectors which are not included in the Harmonised list of infrastructure sector but were eligible to take ECB under the previous ECB framework will be deemed as part of the infrastructure sector and can access ECB as applicable to the infrastructure sector.

Presently, the lending by IIFC (UK) Limited is exclusively meant for financing the import of capital equipment and machinery by the infrastructure projects in India and is subject to compliance of ECB guidelines by the projects. In view of the above, the origination of eligible projects is restricted to a few selected sectors which have adequate import content, namely energy - electricity generation, transmission and distribution, gas pipelines and LNG storage facility, metro rail, seaport and airport.

INTERNAL CONTROL AND FINANCIAL REPORTING

The directors are responsible for establishing effective internal control and for reviewing its effectiveness. Processes have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication.

Such processes are designed to contain and manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The processes that the directors have established are designed to provide effective internal control within the company.

Such processes for the on-going identification, evaluation and management of the significant risks faced by the company have been in place throughout the year and up to the date of approval of the financial statements for the year ended 31 March 2017.

The directors and senior management of the company have adopted policies which set out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed by Risk Committee of the Board of directors on an ongoing basis. The minutes are placed before the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an on-going basis by means of procedures such as physical controls, credit and other authorisation limits. The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

There are well established budgeting processes in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2017

BOARD OF DIRECTORS

Three meetings of the Board of Directors were held during the year on 23 June 2016, 19 September 2016 and 13 January 2017. The directors who served during the year are shown on page 1. The following new directors have been appointed to the Board of IIFC (UK) Limited during the year:

Mr. Manoj Ladwa

Mr. Manoj Ladwa, a leading legal professional, is a graduate of the London School of Economics. He is dual qualified as an English solicitor (non-practicing) as well as an Indian advocate. He is the Founder and Chief Executive of the MLS Chase Group, London and has interests in India focused advisory services, corporate affairs and publishing. He is a recognized expert on FDI into India and established the London office of the Federation of Indian Chambers of Commerce in 2003. Mr. Ladwa has served on various trade promotion committees, including those of the UKTI and London Chamber of Commerce. He was appointed to the Board of IIFC (UK) on 19 September 2016.

COMMITTEES OF THE BOARD OF DIRECTORS

Risk Management Committee

The Risk Management Committee of the Board, comprising of the UK based GOI nominee director, the Non-Executive Director and the Managing Director met on 6 October 2016, 29 November 2016, 21 February 2017 and 29 March 2017 during the year 2016-17.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has put in place a qualifying third party indemnity provision for the directors.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given, and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITORS

BDO LLP have been approved as auditors during the year and have indicated their willingness to be re-appointed under Section 487(2) of the Companies Act 2006.

STRATEGIC REPORT

Information required for disclosure in the Directors' Report in relation to financial risk management objectives and policies, exposure to risk and future developments are in the Strategic Report.

Approved by the Board on 30 May 2017
and signed on its behalf by

Sd/-
S Krishnan
Managing Director

Sd/-
S.B. Nayar
Chairman

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2017

This Strategic Report should be read in conjunction with the Directors' Report where some of the requirements of this report have been discussed.

FINANCIAL HIGHLIGHTS

The financial statements for the reporting year ended 31 March 2017 are placed at pages 15 - 41. The core income from interest on long term loans increased to USD 84,592,067 in FY 2016-17 from USD 63,385,001 in FY 2015-16. Operating profit of the company for the year ended 31 March 2017 amounted to USD 36,957,569 (2016 - USD 27,980,908) and the profit after taxation is USD 25,918,927 (2016 - USD 20,233,698). The company has not paid any dividend to its sole shareholder (IIFCL) and the profit has been retained in reserves. With this, the cumulative retained earnings of the company aggregate USD 99,957,311 (2016 - USD 74,038,384) over an equity base of USD 50,000,000. Net interest margin on the term loans is over 2.28 per cent and cost to income ratio is 0.048. Earnings per share, after tax, during the year under review was USD 0.518 (2016 – USD 0.405). Enhanced sanctions and disbursements are expected to increase income during subsequent years.

Table: 1

	Key data (Figures in USD million)	31 March 2017	31 March 2016	Growth over the previous year
1.	Sanctions	583	401	45%
2.	Disbursements	140	200	-30%
3.	Operating profit	36.96	27.98	32%
4.	Net profit	25.92	20.23	28%
5.	Interest on Long Term Loans	84.59	63.39	33%
6.	Return on Assets (Post Tax)	1.14%	0.90%	27%
7.	Return on Equity	52%	41%	27%
8.	Earnings Per Share (Face value USD 1)	USD 0.52	USD 0.41	27%
9.	Cost to Income Ratio	4.8%	6.9%	-30%

Sanctions shown above include in-principle approvals as well as sanctions in respect of 10 projects amounting to USD 1,022,000,000 cancelled by the Board during 2016-17.

The performance of the company during the year has been as follows:

- IIFC (UK) Limited approved credit proposals amounting to USD 583,000,000. Sanctions in respect of 10 projects amounting to USD 1,022,000,000 were cancelled during the year. With this, the approvals for aggregate loans, net of cancellations and reductions reached USD 3,639,000,000, 38 projects, including in principal approvals as of 31 March 2017. The sanctions during FY 16-17 grew by 45% over the previous financial year with new sanctions accorded to projects in the following sectors – Thermal Power USD 235,000,000 (40%), Solar Power USD 68,000,000 (12%), Oil Exploration and Refinery USD 280,000,000 (48%).
- With incremental disbursements of USD 140,000,000 during the year, the cumulative disbursements at year end aggregated USD 1,938,000,000 against USD 1,798,000,000 cumulative disbursements at 31 March 2016. The disbursements this year were lower on account of low offtake by projects.
- Operating profit registered a growth of 32% compared to the previous year. Profit after tax at USD 25,918,927 has grown by 28% over USD 20,233,698 in the previous year. The higher operating profit growth is due to lower administrative expenses as well as higher upfront fee income booked for the year on account of amortization using the effective interest rate model in accordance with the requirements of IAS 39 Financial Instruments: Recognition and Measurement.
- The interest on long term loans and advances increased by 33% due to higher movements in 6 M-LIBOR rates and improved monitoring on various projects.

FINANCIAL HIGHLIGHTS (continued)

- The key parameters including return on assets and equity, earnings per share and cost to income ratio has improved over the previous year on account of higher revenue during the year including upfront fees and lower administrative costs. The return on assets is higher on account of higher profits during the year.
- Net interest margin on the loans is 2.28% (2016 - 1.85%), earnings per share after tax during the year under review was USD 0.52 (2016 - USD 0.41).

Apart from the equity from IIFCL, IIFC (UK) Limited is funded by way of subscription by the Reserve Bank of India (RBI) in USD denominated bonds issued by IIFC (UK) Limited. On 19 January 2017, the RBI extended the time period for availability of such facility to IIFC (UK) Limited to 6 March 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

Information on principal risks and uncertainties which comprise financial risks is given in note 12.

OPERATING NORMS

IIFC (UK) Limited participates in consortium lending to eligible infrastructure projects in India. The company lends under the Government of India approved scheme for financing viable infrastructure projects through IIFCL (SIFTI).

In addition, lending by IIFC (UK) Limited is treated as External Commercial Borrowing (ECB) by the RBI. Therefore, the facilities extended by IIFC (UK) Limited are to be in compliance to parameters such as minimum maturity and permitted end-uses, as per the master framework of RBI for External Commercial Borrowings.

Furthermore, IIFC (UK) Limited is a non-deposit taking, whole-sale lending entity. Since such lending is not a regulated activity in the United Kingdom, the company is not under the regulatory ambit of the Financial Conduct Authority. However, for compliance with the Money Laundering Regulations 2007, the company is registered with the Financial Conduct Authority as an "Annex-I Financial Institution" with effect from 31 March 2009 and has put in place a comprehensive Know Your Customer Policy.

Presently, IIFC (UK) Limited participates only in funding the foreign currency loan component for the import of capital goods of the infrastructure project within prescribed limits. IIFC (UK) Limited considers sanction of loan to a project based on the appraisal of Lead Bank or of reputed appraising institutions/banks/international financial institutions.

In addition, internal risk assessment is also undertaken for identification and mitigation of various risks. The SIFTI guidelines and other operating norms also provide adequate checks and balances to limit the company's exposure to the projects/groups as per the prescribed limits. Accordingly, IIFC (UK)'s lending to any Project Company does not exceed 20 percent of the total cost of the project. IIFC (UK) Limited accords priority in lending to Public Private Partnership (PPP) projects. Lending to private sector companies not selected through a competitive bidding process does not exceed 50% of the total lending by IIFC (UK) in any accounting year.

Besides the above stipulations, the company adheres to the exposure norms for approval of loans to a single borrower and Group.

As per SIFTI, the Lead Bank is responsible for regular monitoring and periodic evaluation of the compliance of the project with agreed milestones and performance levels, particularly for the purpose of disbursement of IIFC (UK) Limited funds.

Further, as a part of due diligence exercise, the lenders appoint a Lenders' Independent Engineer (LIE). An LIE is generally a reputed Consultancy/Engineering firm with relevant experience in evaluating large infrastructure projects.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2017

RISK MANAGEMENT (continued)

The LIE carries out an independent study of the project, examines the project cost and related aspects, the project design, technical viability issues and the financing model. In the pre-financial closure stage, the LIE monitors the construction process and generates monitoring reports to enable the lenders to monitor progress in the project. Further, IIFC (UK) Limited also monitors the projects through site visits in addition to the progress reports received from the LIE.

The company undertakes monitoring and review of its portfolio on a regular basis, including the reviews undertaken by the risk committee and Board of Directors.

GOING CONCERN BASIS

The company has adequate resources to continue its operations for the foreseeable future, is profitable for the year ended 31 March 2017 and has a positive net worth position. The company has received sufficient operational support from the parent company from time to time and the same will continue to be received. Furthermore the company maintains adequate funds to finance loan disbursements as and when they fall due. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

SANCTION OF LOANS

From incorporation to 31 March 2017, IIFC (UK) Limited has made cumulative loan sanctions to 38 projects with sanctions amounting to USD 3,639,000,000 excluding cancellations and reductions. The status of the activity and sector gross approvals at 31 March 2017 are presented in Tables 2 and Tables 3 on the following page.

Table: 2 (Figures in USD Million)

Activity/Sector	No. of projects	Net Loan approvals	Share in Total (%)
Telecommunications	1	126	3%
Private	1	126	3%
Power	25	2,321	64%
PPP	6	979	27%
Private	11	1,254	35%
Private Competitive bidded	8	88	2%
Port	3	202	6%
PPP	2	134	4%
Private	1	68	2%
MRTS - Metro Rail	3	188	5%
PPP	3	188	5%
Gas Pipelines/LNG Storage/ Refinery	5	717	20%
Private	2	155	4%
Private Competitive bidded	1	72	2%
Public	2	490	14%
Fertilizers Mfg.	1	85	2%
Private	1	85	2%
Grand Total	38	3,639	100%

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2017

SANCTION OF LOANS (continued)

Table: 2

Sector/Activity	No. of projects	Net Loan approvals	Share in Total (%)
PPP	11	1,301	36%
Power	6	979	27%
Port	2	134	4%
MRTS	3	188	5%
Private	16	1,688	47%
Telecommunications	1	126	3%
Power	11	1,254	35%
Port	1	68	2%
Gas Pipelines/LNG Storage/ Refinery	2	155	5%
Fertilizers	1	85	2%
Private Competitive bidded	9	160	4%
Power	8	88	2%
Gas Pipelines/LNG Storage/ Refinery	1	72	2%
Public	2	490	13%
Gas Pipelines/LNG Storage/ Refinery	2	490	13%
Grand Total	38	3,639	100%

Disaggregated information in respect of the net loan approvals (after cancellations) for the periods ended 31 March 2010 to 31 March 2017 are shown in Table 3 below.

Table: 3

(Figures in USD Million)

Year	Approvals During the year	Cumulative approvals	Power	Gas Pipeline/Refinery	Metro Rail	Ports	Telecom	Fertilizers Manufact.	Airport
2009-10	257	888	764	-	124	-	-	-	-
%		(100)	(86)	-	(14)	-	-	-	-
2010-11	Sanctions cancelled	888	764	-	124	-	-	-	-
%		(100)	(86)	-	(14)	-	-	-	-
2011-12	348	1,236	1027	-	124	-	-	85	-
%		(100)	(83)	-	(10)	-	-	(7)	-
2012-13	593	1,829	1393	95	188	68	-	85	-
%		(100)	(76)	(5)	(10)	(4)	-	(5)	-
2013-14	932	2,761	1643	564	382	68	-	85	19
%		(100)	(60)	(20)	(14)	(2)	-	(3)	(1)
2014-15	969	3,730	1922	929	382	313	80	85	19
%		(100)	(52)	(25)	(10)	(8)	(2)	(2)	(1)
2015-16	401	4,132	2,097	1,001	382	422	126	85	19
%		(100)	(51)	(24)	(9)	(10)	(3)	(2)	(1)
2016-17	583	3,639	2,322	717	188	202	126	85	-
%		(100)	(64)	(20)	(5)	(6)	(3)	(2)	-

Sanctions shown in tables 2 and 3 include in-principle approvals as well as sanctions in respect of 10 projects amounting to USD 1,022,000,000 cancelled by the Board during 2016-17.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2017

SANCTION OF LOANS (continued)

During the year ended 31 March 2017, the company approved credit proposals totalling USD 583 million as compared to total loan approvals of USD 401 million during the year ended 31 March 2016. The sanctions include the following sectors – Thermal Power USD 235,000,000 (40%), Solar Power USD 68,000,000 (12%), Oil Exploration and Refinery USD 280,000,000 (48%). The projects sanctioned by the company during the year would augment the power generation capacity by 2339 MW, as well as increasing gas production and refining capacity. The total cumulative cost of the sanctioned projects is over USD 71,231,000,000.

DISBURSEMENT OF LOANS

As at 31 March 2017, cumulative disbursements including commitments to lend by the company from incorporation to date aggregated USD 2,021,000,000 (2016 - USD 1,880,000,000). The total outstanding commitments to lend are USD 82,920,000 in favour of the State Bank of India (USD 82,920,000) in respect of a revolving and self-reinstating Letter of Credit (“LoC”) opened for import of capital equipment for power sector and exploration sector projects. Excluding the value of outstanding LoCs, the cumulative disbursements at 31 March 2017 totalled USD 1,938,390,000 compared to USD 1,798,030,000 disbursed in the year ended 31 March 2016. The details of the cumulative disbursement of loans at 31 March 2017 are shown in Table 4 below.

Table: 4

(Figures in USD million)

Sector/Activity	No. of projects	Net Loan approved	Disbursement	Outstanding LoC	Total
Telecommunications	1	126	-	-	-
Private	1	126	-	-	-
Power	25	2,321	1,480	82	1,562
PPP	6	979	663	82	745
Private	11	1,254	784	-	784
Private Competitive bidded	8	88	33	-	33
Port	3	202	143	-	143
PPP	2	134	109	-	109
Private	1	68	34	-	34
MRTS	3	188	175	-	175
PPP	3	188	175	-	175
Gas Pipelines/LNG Storage/ Refinery	5	717	70	1	71
Private	2	155	-	-	-
Private Competitive bidded	1	72	70	1	71
Public	2	490	-	-	-
Fertilizers	1	85	70	-	70
Private	1	85	70	-	70
Grand Total	38	3,639	1,938	83	2,021

IMPAIRMENT OF ASSETS

The company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

One project has stalled and Karnataka Power Corporation Limited (KPCL) (owned by Government of Karnataka with the Chief Minister of Karnataka as the Chairman of the Board of Directors) has shown interest in the purchase of the project's assets. A co-ordination committee comprising of large lenders and leading banks has been formed to facilitate the valuation and tender process for the sale of the assets. After the completion of the valuation, the share of realisable value to IIFC (UK) Limited was valued at approximately USD 13,000,000 at the end of March 2016. After a recent valuation by the same valuer, the share of realisable value to IIFC (UK) Limited has now been valued at approximately USD 10,280,000 at the end of March 2017.

An amount of USD 12,000,000 had been provided as at 31 March 2016 being capital impairment. Further capital impairment of USD 2,718,437 has been provided as at 31 March 2017 making the total capital impairment of USD 14,718,437 in the account. An additional USD 2,568,720 has been provided during the year which is the impairment loss on the interest receivable.

Secondly, one PPP project has reached its commercial operation date but operations have stopped and notice of termination has been served on the Concession Authority for a termination payment. As per the terms of Concession agreement, in the event of a default, the Concession Authority is liable to make the termination payments. IIFC (UK) Limited has requested for intervention from the Government of India's Ministry of Finance where the issue is being examined. Pursuant to a high level meeting convened by Government of Maharashtra where reply was sought from all stakeholders, IIFC (UK) Limited has sent its reply requesting for release of the termination payment or exploration of other resolutions such as outright purchase of the plant by a Government owned entity and support by way of an extension of long term PPA. As per the terms of Concession agreement, in the event of Maharashtra Airport Development Company Limited ("MADC") defaulting, MADC is liable to make termination payments equal to the total debt due plus 150% of equity. In the event of the project company defaulting, MADC is required to pay 90% of the total debt due. A conservative view has been taken and expected termination payments of 90% of total debt due have been considered.

An amount of USD 3,061,007 has been provided as at 31 March 2017 being capital impairment and an additional USD 3,953,426 has been provided during the year which is the impairment loss on the interest receivable.

In another completed project, in view of the challenges faced by the project and financial constraints being faced by the current promoters/group, lenders were of opinion that the project requires a financially strong, experienced and resourceful promoter with strong technical capabilities to ensure tie-up of long term PPA and also to meet the financial obligations of the company, until stabilisation of operations of the project to generate sufficient cash flows for debt servicing. Therefore, in order to facilitate bringing in a new promoter, a change in management and ensuring long term viability of the project, the lenders decided to invoke Strategic Debt Restructuring (SDR). Under SDR, Lenders convert part of their debt into equity (so that lenders hold a minimum of 51% of the equity). It was decided that 29 July 2016 would be the "Reference Date" for the invocation of the SDR. A standstill period of 18 months from the reference date is provided for a change in management. The conversion of debt into equity under SDR will help in reducing the debt and would enhance competitiveness of the project.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2017

IMPAIRMENT OF ASSETS (continued)

All lenders, with the exception of IIFC (UK) Limited, have converted a part of their exposure including interest at February 2017 into equity.

Interest for IIFC (UK) Limited has been unpaid and outstanding since June 2016 (since IIFC (UK) Limited has not converted its exposure into equity). Presently the project is not generating revenues due to insufficient working capital. However, once it starts generating revenues it would take quite some time for its operations to ramp up considering the long gestation period in Infrastructure projects.

Therefore an amount of USD 1,677,562 has been provided during the year as the impairment loss on the interest receivable.

The total provision for impairment on loans as at 31 March 2017 was USD 17,779,445 (USD 12,000,000 as at 31 March 2016) and provision for impairment of interest and other receivables for the year ended 31st March 2017 was USD 8,199,708 (USD 747,100 for the year ended 31 March 2016 and USD 5,055,752 for the year ended 31 March 2015).

FUTURE DEVELOPMENTS

According to a recent World Bank report India's GDP growth is expected to accelerate to 7.2 per cent in 2017 followed by further acceleration to 7.5 per cent in 2018 and 7.7 per cent in 2019, after expanding by a slightly lower than expected 6.8 percent in 2016. Such an economic growth would increase the need for investments into the infrastructure sector. As per a recent report of CRISIL (Leading Rating Agency in India), India would need Rs. 31 lakh crores investment in infrastructure during 2015-20 and about 70 per cent of this will be required in the power, roads and urban infrastructure sectors. This may present more business opportunities to the company and would also reduce the present stress in the sector thereby making the portfolio of IIFC (UK) more robust.

In addition to the above, the Reserve Bank of India (RBI) has announced implementation of the Large Exposures (LE) Framework from April 1, 2019, which would reduce the exposure limits of banks on large corporations. This may result in borrowers shifting their exposures to newer avenues such as IIFC (UK) Limited.

The above along with other Government initiatives for infrastructure such as revitalising of PPPs, drawing of action plans for the revival of unserved and underserved airports and a large outlay for the infrastructure sector, monitoring of stressed projects at significantly higher levels as well as the Make in India initiative are expected to give an impetus to the growth of the company.

The directors thankfully acknowledge the support of the Government of India, the Reserve Bank of India and India Infrastructure Finance Company Limited.

Approved by the Board on 30 May 2017
and signed on its behalf by

Sd/-

S Krishnan

Managing Director

Company registration number: 06496661

30 May 2017

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS'
REPORT, STRATEGIC REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires faithful representation of the effect of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out on the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all situations, a fair presentation will be achieved by complying with all applicable IFRSs. In preparing these financial statements, the directors are also required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that 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 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Approved by the Board on 30 May 2017
and signed on its behalf by

Sd-
S Krishnan
Managing Director

Sd/-
S.B. Nayar
Chairman

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INDIA
INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
FOR THE YEAR ENDED 31 MARCH 2017

We have audited the financial statements of India Infrastructure Finance Company (UK) Limited for the year ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to report them in an auditors' 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 shareholders as a body, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL ACCOUNTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

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

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INDIA
INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
FOR THE YEAR ENDED 31 MARCH 2017

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report or the Strategic Report.

We have nothing to report in respect of the following matters where the Companies Act 2006, requires us to report to you if, in our opinion:

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

Sd/-

Daniel Taylor (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

55 Baker Street, London, W1U 7EU

Date: 30 May 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 \$	2016 \$
Finance income	4	84,592,067	63,385,001
Finance costs	5	(42,958,188)	(30,384,343)
Net finance income		41,633,879	33,000,658
Other operating income	4	11,167,312	9,813,456
Administrative expenses	6	(1,864,470)	(2,086,106)
Impairment loss on financial assets	13	(13,979,152)	(12,747,100)
PROFIT FROM OPERATIONS BEFORE TAX		36,957,569	27,980,908
Loss on disposal of plant, property and equipment		-	-
PROFIT BEFORE TAX FOR THE YEAR		36,957,569	27,980,908
Income tax expense	9	(11,038,642)	(7,747,210)
PROFIT FOR THE YEAR		25,918,927	20,233,698
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		25,918,927	20,233,698

The notes on pages 19 to 41 form part of these financial statements

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

31 March 2017:

	Note	Issued share capital \$	Retained earnings \$	Total equity \$
Balance at 1 April 2016		50,000,000	74,038,384	124,038,384
Profit for the year		-	25,918,927	25,918,927
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	25,918,927	25,918,927
Distributions to owners				
Dividend paid	10	-	-	-
Balance at 31 March 2017		50,000,000	99,957,311	149,957,311

31 March 2016:

		Issued share capital \$	Retained earnings \$	Total equity \$
Balance at 1 April 2015		50,000,000	73,804,686	123,804,686
Profit for the year		-	20,233,698	20,233,698
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	20,233,698	20,233,698
Distributions to owners				
Dividend paid	10	-	(20,000,000)	(20,000,000)
Balance at 31 March 2016		50,000,000	74,038,384	124,038,384

The notes on pages 19 to 41 form part of these financial statements

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Notes	2017 \$	2016 \$
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	11	116,706	137,338
Loans and receivables	12	1,630,012,925	1,636,546,594
Deferred tax assets	15	1,491,158	1,733,846
		<u>1,631,620,789</u>	<u>1,638,417,778</u>
CURRENT ASSETS			
Loans and receivables	12	55,533,689	58,660,613
Interest and other receivables	14	20,028,808	17,003,436
Cash and cash equivalents	17	574,103,440	540,828,646
		<u>649,665,937</u>	<u>616,492,695</u>
TOTAL ASSETS		<u>2,281,286,726</u>	<u>2,254,910,473</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	18	50,000,000	50,000,000
Retained earnings	19	99,957,311	74,038,384
TOTAL EQUITY		<u>149,957,311</u>	<u>124,038,384</u>
NON CURRENT LIABILITIES			
Interest bearing borrowings	20	2,100,000,000	2,100,000,000
Interest and other payables	21	15,154,776	14,099,939
		<u>2,115,154,776</u>	<u>2,114,099,939</u>
CURRENT LIABILITIES			
Interest and other payables	22	16,174,639	16,772,150
TOTAL EQUITY AND LIABILITIES		<u>2,281,286,726</u>	<u>2,254,910,473</u>

Approved by the Board on 30 May 2017 signed on its behalf by

Sd/-

.....
S. B. Nayar, Chairman

Sd/-

.....
S. Krishnan, Managing Director

Company registration number: 06496661

The notes on pages 19 to 41 form part of these financial statements

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		25,918,927	20,233,698
ADJUSTMENTS FOR:			
Depreciation of plant, property and equipment	11	22,529	25,313
Income tax expense	9	11,038,642	7,747,210
Deferred tax charge/(credit)	15	242,688	(1,733,846)
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL		37,222,786	26,272,375
CHANGES IN WORKING CAPITAL			
Decrease/(increase) in loan and other receivables (current and non-current)		6,635,223	(150,359,491)
Increase in interest and other payables		457,324	10,579,476
INCREASE/(DECREASE) IN WORKING CAPITAL		7,092,547	(139,780,015)
CASH GENERATED BY/(USED IN) OPERATIONS		44,315,333	(113,507,639)
Income tax paid		(11,038,642)	(7,747,210)
NET CASH FLOWS GENERATED BY/(USED IN) OPERATING ACTIVITIES		33,276,691	(121,254,849)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		(1,897)	-
NET CASH USED IN INVESTING ACTIVITIES		(1,897)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders		-	(20,000,000)
NET CASH (USED IN) FINANCING ACTIVITIES		-	(20,000,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		33,274,794	(141,254,849)
Cash and cash equivalents at 1 April		540,828,646	682,083,495
CASH AND CASH EQUIVALENTS AT 31 MARCH		574,103,440	540,828,646

The notes on pages 19 to 41 form part of these financial statements

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The company's financial statements for the year were authorised for issue on 30 May 2017 and the statement of financial position signed on behalf of the Board of Directors. India Infrastructure Finance Company (UK) Limited is a private company limited by shares and incorporated and domiciled in England and Wales. The address of the registered office is given on page 1.

A description of the company's principal activities and the nature of its operations are given in the Directors' Report and the Strategic Report.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the company are set out in note 2.

2. ACCOUNTING POLICIES

Adoption of new and revised standards, interpretations and amendments

The following new and revised standards, interpretations and amendments have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

- Disclosure Initiative: Amendments to IAS 1

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been endorsed by the EU):

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. The company is currently evaluating the effect of implementing this standard.

- IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected loss model for calculating impairment on financial assets and a new general hedge accounting requirements. It also carries guidance on recognition and de-recognition of financial instruments from IAS 39.

2. ACCOUNTING POLICIES (continued)

Adoption of new and revised standards, interpretations and amendments (continued)

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. The management have undertaken work to develop the company's approach to implementation, resources & employee training. IFRS9 adoption will result in impairment being recognised earlier than is the case under IAS 39 because it requires expected losses to be recognised before the loss event arises. Measurement will involve increased complexity and judgement including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of exposure at default and assessing increase in credit risk.

It is expected to have a material financial impact and therefore the key focus of the work underway will be the impact of IFRS 9 on the company's risk appetite statement and stress testing assumptions. At present it is not practical to disclose reliable financial impact estimates until the implementation programme is further advanced.

- IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) depreciation of lease assets separately from interest on lease liabilities in the Income Statement.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective are not considered to have a significant impact upon the company:

- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)
- Disclosure Initiative: Amendments to IAS 7
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Annual Improvements to IFRSs (2015-2017 Cycle)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfers of Investment Property

Going concern

The company has adequate resources to continue its operations for the foreseeable future, is profitable for the year ended 31 March 2017 and has a positive net worth position. The company has received sufficient operational support from the parent company from time to time and the same will continue to be received. Furthermore the company maintains adequate funds to finance loan disbursements as and when they fall due. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

2. ACCOUNTING POLICIES (continued)

Functional currency and foreign currency transactions

The US Dollar is regarded as being the functional currency, which is also the presentation currency of the company.

The Pound Sterling to US Dollar exchange rate at year end was £1:\$1.25.

Transactions in foreign currencies are recorded in US Dollars at the rate of exchange prevailing at the rates ruling at the end of the day in which the transaction arose. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the reporting date. Any resulting exchange differences are included in the Statement of Comprehensive Income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the benefits will flow to the company and the revenue can be reliably measured.

Interest income and expense for all interest bearing financial instruments are recognised in the Statement of Comprehensive Income using the effective interest rates of the financial assets or financial liabilities to which they relate

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The method applies where the loan repayment term is shortened for the same cash flow. When calculating the effective interest rate, the company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Upfront fees charged on execution of the loan are recognised over the life of the loan using the effective interest rate method.

Finance costs

IIFC (UK) Limited issues bonds, subject to the terms and conditions in the subscription agreement, which are subscribed to by the Reserve Bank of India (RBI). Under the guarantee agreement with Government of India (GOI); GOI provides an unconditional, irrevocable and non-transferable guarantee in favour of the Bank for due repayment of the principal amount of the bond(s) and payment of interest as specified in the subscription agreement.

A guarantee fee is recognised in respect of fees paid to the GOI under the Guarantee Fee Agreement. The GOI has guaranteed the due and timely repayment of the principal amount and payment of normal interest accrued for the bonds subscribed to by Reserve Bank of India as per the subscription agreement. The guarantee fee is recognised in the accounts per amounts stated in the agreement.

Other operating income

Tax indemnities are recognised when an agreement is formed by a third party to indemnify the company for income tax liabilities. Movements in the indemnity is not included within the income tax line, instead they are recognised as other income within the Statement of Comprehensive Income.

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method on the following bases:

Short Leasehold property	10%
Plant and equipment	25%
Fixtures and fittings	25%

The estimated useful lives and residual values are reviewed annually.

Financial instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services to a debtor with no intention of trading the receivable. Loans and receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method less any impairment.

Interest and other receivables

Interest accrued on loans and receivables is measured using the effective interest method. Impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Other receivables include interest receivable on short term fixed deposits measured on an accruals basis.

Interest and other payables

Interest accrued on loans and payables is measured using the effective interest method.

Interest bearing borrowings

Interest bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

De-recognition of financial assets and liabilities

Financial assets are de-recognised when the rights to receive cash flows from the assets have expired; or where the company has transferred its contractual right to receive the cash flows of the financial assets and either (i) substantially all the risks and rewards of ownership have been transferred; or (ii) substantially all the risks and rewards have neither been retained nor transferred but control is retained.

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expired.

2. ACCOUNTING POLICIES (continued)

Impairment of financial assets

The company assesses at each year end whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate / cost of funds.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the Statement of Comprehensive Income.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the financial statements.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is charged to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is determined using the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when they relate to income taxed levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank in current accounts, other short term deposits and, for the purpose of the Statement of Cash Flows, bank overdrafts.

The short term deposits generally have maturities of more than three months; however they can be redeemed (subject to interest income being forfeited partially) and there is no significant risk of change in value as a result of an early withdrawal. These are therefore treated as cash equivalents since they form an integral part of the company's cash management. The bank overdrafts are shown within interest bearing borrowings in current liabilities in the statement of financial position.

Share capital

Called up share capital reserve represents the nominal value of the shares issued.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

2. ACCOUNTING POLICIES (continued)

Dividends

Dividends are recognised when they become legally payable. Interim dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the accounting policies, 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 and may make necessary provisions in accordance with their assumptions. 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 the current and future periods.

In preparing these financial statements the directors have made the following judgements:

Impairment of financial assets

Determine whether there are any indicators of impairment of the group's financial assets. The main consideration in reaching a decision is the likelihood of recovering each loans and receivables, including the financial performance of the loanee.

4. FINANCE INCOME

The company undertakes the business of commercial financial lending from the United Kingdom.

The company has one class of business and all other services are ancillary to this. The Chief Operating Decision Maker of the company is the Board of Directors. The Board reviews all of the information for the business as a whole as these ancillary activities do not have their own standalone reporting environment and protocols internally.

Segmental income

Revenue is derived from lending to borrowers located in India. Income is derived from:

	2017	2016
	\$	\$
Finance income		
Interest on term loans	66,255,560	55,357,584
Interest on impaired term loans	8,199,708	2,249,098
Late payment interest and charges	5,115,599	1,253,908
Fee income	5,021,200	4,524,411
	84,592,067	63,385,001
Other operating income		
Interest on deposits and tax indemnities income	11,167,312	9,813,456
	11,167,312	9,813,456

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

5. FINANCE COSTS

Financing charges payable on borrowings is made up of:

	2017	2016
	\$	\$
Interest on borrowings	33,471,579	20,941,438
Interest on overdrafts	530,541	489,321
Guarantee fee	8,956,068	8,953,584
	42,958,188	30,384,343

6. ADMINISTRATIVE EXPENSES

	2017	2016
	\$	\$
Employee remuneration and benefit expenses (note 7)	403,572	644,933
Depreciation and amortisation	22,600	25,313
Service charges	894,697	785,296
Auditor's remuneration – audit services	29,386	30,972
Auditor's remuneration – non-audit services	8,600	3,500
Other professional fees	120,448	81,826
Rent and rates	110,213	134,087
Operating lease expenses	144,429	160,637
Bank charges and interest	4,531	4,239
Foreign exchange (gain)/loss	(4,451)	4,248
Travelling expenses	30,489	51,650
General office expenses	17,796	46,841
Insurance	13,167	5,764
Training and recruitment	6,925	-
Other expenses	62,068	106,800
	1,864,470	2,086,106

7. EMPLOYEE EXPENSES

	2017	2016
	\$	\$
Gross wages and salaries	321,536	555,346
Other employee benefits and income tax	46,165	14,915
Post-employment expenses for provident fund (India)	3,858	-
Social security costs	32,013	74,672
	403,572	644,933

The average monthly number of employees during the year was made up as follows:

	2017	2016
	No.	No.
Management	1	1
Administration	3	3
	4	4

8. DIRECTORS' REMUNERATION

	2017	2016
	\$	\$
Gross wages and salaries	85,436	218,504
Other employee benefits and income tax	52,029	62,984
Post-employment expense for provident fund (India)	3,858	3,669
Social security costs	11,457	20,566
	152,780	305,723

The directors' remuneration above relates to one director and is therefore the same as the highest paid directors' remuneration.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

9. INCOME TAX

	2017	2016
	\$	\$
Current income tax expense		
Current tax on profits for the year	8,373,155	6,480,823
Adjustment for under provision in prior periods	2,387,411	3,000,233
Double taxation relief	(7,906,237)	-
Foreign taxation	7,941,625	-
Total current tax	10,795,954	9,481,056
Deferred income tax charge/(credit)		
Relating to origination and reversal of temporary differences	174,527	409,177
Recognition of previously unrecognised deferred tax assets	-	-
Adjustments in respect of prior periods	(29,821)	(2,143,023)
Effect of tax rate change on opening balance	97,982	-
Total deferred tax (see note 15)	242,688	(1,733,846)
Income tax expense reported in Statement of Comprehensive Income	11,038,642	7,747,210

Reconciliation of income tax charge to accounting profit

		2017		2016
	%	\$	%	\$
Profit before tax		36,957,569		27,980,908
Tax at the domestic income tax rate	20.00	7,391,514	20.00	5,596,182
Tax effect of grossing up overseas income		1,572,706		1,370,211
Adjustments in respect of previous periods - current tax		2,387,411		3,000,233
Adjustments in respect of previous periods - deferred tax		(29,821)		(2,143,023)
Tax effect of non-deductible expenses		3,433		5,000
Tax effect of non-taxable income		(247,359)		(274,042)
Tax effect of change in rate of corporation tax		-		192,650
Recognition of transfer between corporation and deferred tax assets		-		-
Current tax exchange difference arising on movement between opening and closing spot rates		(39,242)		-
Tax expense	29.87	<u>11,038,642</u>	27.69	<u>7,747,210</u>

The effect of changes to the corporation tax rates substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016) includes reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. There were no other factors that may affect future tax charges.

For the purposes of deferred tax, the rate changes from 18% to 17% had been substantively enacted before the Balance Sheet date. This will reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
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FOR THE YEAR ENDED 31 MARCH 2017

10. DIVIDENDS

	2017	2016
	\$	\$
Interim Dividend		
Ordinary share paid during the year - nil cents per share (2016 – 40 cents)	-	20,000,000
	-	20,000,000

11. PROPERTY, PLANT AND EQUIPMENT

At 31 March 2017

	Short leasehold property \$	Plant equipment \$	and Fixtures and fittings \$	Total \$
Cost				
At 1 April 2016	122,799	37,475	63,888	224,162
Additions	-	1,897	-	1,897
At 31 March 2017	<u>122,799</u>	<u>39,372</u>	<u>63,888</u>	<u>226,059</u>
Depreciation				
At 1 April 2016	(24,560)	(34,313)	(27,951)	(86,824)
Charge for year	(12,280)	(1,265)	(8,984)	(22,529)
At 31 March 2017	<u>(36,840)</u>	<u>(35,578)</u>	<u>(36,935)</u>	<u>(109,353)</u>
Net book value				
At 31 March 2017	<u>85,959</u>	<u>3,794</u>	<u>26,953</u>	<u>116,706</u>
At 31 March 2016	<u>98,239</u>	<u>3,162</u>	<u>35,937</u>	<u>137,338</u>

At 31 March 2016

	Short leasehold property \$	Plant and equipment \$	Fixtures and fittings \$	Total \$
Cost				
At 1 April 2015 and 31 March 2016	122,799	37,475	63,888	224,162
Depreciation				
At 1 April 2015	(12,280)	(33,259)	(15,972)	(61,511)
Charge for year	(12,280)	(1,054)	(11,979)	(25,313)
At 31 March 2016	<u>(24,560)</u>	<u>(34,313)</u>	<u>(27,951)</u>	<u>(86,824)</u>
Net book value				
At 31 March 2016	<u>98,239</u>	<u>3,162</u>	<u>35,937</u>	<u>137,338</u>
At 31 March 2015	<u>110,519</u>	<u>4,216</u>	<u>47,916</u>	<u>162,651</u>

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors have overall responsibility of risk management of the company. The Board has formed a Risk Management Committee (RiMC) for overseeing the risk management function. The role and responsibilities of the RiMC are set out below.

The objective of the company's Risk Management Strategy is to ensure that the company maintains strong credit ratings and capital ratios. This will ensure that the business is correctly supported and shareholder value is maximised.

Risk Management Committee (RiMC)

The RiMC is formed as an executive committee of the Board of Directors (the Board) and is responsible for:

- Oversight of management of Operational Risk, Market Risk, Credit Risk and residual risks;
- Recommending the modification of policies and submitting for the approval of the Board; and
- Periodically apprising the Board on risk management issues.

Risk Governance

The Board, comprising of five directors, is responsible for governance and approval of all loan proposals. The Board is also responsible for the periodical review of assets, finalising provisioning requirements, taking stock of any breaches in any of the policies and identifying the resolution. The Board is also responsible for periodic review of business strategy and expansion plans and has the responsibility of oversight of the compliance aspects of the company. The status of the required compliance is reviewed by the Board on a quarterly basis.

Compliance

The Board supports the senior management in fulfilling their regulatory obligations and helps to maintain the company as a 'fit and proper' institution in whatever form of business it undertakes; by helping to ensure compliance with the voluntary codes, principles, rules and regulations established by the various financial services regulatory organisations.

The Board sets the overall regulatory governance arrangements and provides information, advice and guidance to business on financial services regulations. It also monitors business activities to ensure that improper conduct and failures to comply with regulatory requirements are brought to the attention of management for appropriate corrective action.

The Board provides a focal point to coordinate communications and consultations with regulatory authorities and also carries out review of business against applicable rules, guidance and the company's internal policies and procedures.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The company extends financial assistance in accordance with the terms of a Government of India approved Scheme for Financing Viable Infrastructure Projects through IIFCL (SIFTI). IIFC (UK) Limited conducts its business operations within the broad contours laid down under the SIFTI. IIFC (UK) Limited considers only those projects which are found commercially viable based on the appraisal undertaken by reputable appraising institutions. All the proposals are processed by the company for their compliance with SIFTI and other guidelines. All the proposals are approved by the Board of Directors of the company.

The carrying value of financial assets recorded in the financial statements represents the company's maximum exposure to credit risk.

The top five exposures per company as at 31 March 2017 are as follows:

Sr. No	Company	Country of exposure	Type of account	Amount of Loan \$
1	Sasan Power Ltd.	India	Syndication	319,926,692
2	Adani Power Rajasthan Ltd	India	Syndication	214,387,500
3	Lalitpur Power Generation Co Ltd	India	Syndication	150,000,000
4	M.B. (Madhya Pradesh) Limited	India	Syndication	126,404,220
5	Prayagraj Power Generation Co Ltd	India	Syndication	115,000,000

In accordance with paragraph 5.2 of SIFTI, for a project to be eligible for funding from IIFC (UK) Limited, it should be implemented (developed, financed and operated for the project term) by (i) a Public Sector Company, or (ii) a Private Sector Company selected under a Public Private Partnership (PPP) initiative or (iii) a Private Sector Company. The projects awarded under the PPP route are accorded priority for lending.

Further, as per the mandate, IIFC (UK) Limited can lend to Private sector projects subject to the conditions that

(i) the service to be provided by the infrastructure project is regulated or the project is being set up under an MOU arrangement with the Central Government, any State Government or a public sector undertaking (PSU),

(ii) the tenor of loan extended by IIFC (UK) Limited is longer than that of the longest term commercial debt/loan tenor by at least two years, and

(iii) the lending to private sector companies not under competitive bidding shall remain within the limit of 50 percent of the total lending by IIFC (UK) Limited in any accounting year.

Only such projects, which are implemented by the borrower company directly, or through a special purpose vehicle on a nonrecourse basis, and where an escrow account or other suitable mechanism for securing servicing of debt obligations (e.g. DSRA) is in place, are eligible for financing by IIFC (UK) Limited.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

IIFC (UK) Limited considers approval of loans to a project based on the appraisal of the Lead Bank or of any other reputed appraising banks and international financial institutions. The company considers only those projects which are found to be commercially viable and these proposals are reviewed for their compliance with SIFTI and other guidelines.

The SIFTI guidelines and other operating norms provide adequate checks and balances to limit the company's exposure to the projects/groups as per the prescribed limits. In accordance with terms of paragraph 7.2 of SIFTI, the total lending by IIFC (UK) Limited to any Project Company shall not exceed 20 percent of the total cost of the project. Besides following the above stipulations, the company adheres to the exposure norms for approval of loans to a single borrower and Group. Presently, the Loan exposure limit to a single borrower is USD 275 million and USD 440 million for a Group.

Cash and cash equivalents are held with branches/subsidiaries of Indian public sector banks where the majority shareholding is directly/indirectly held by the Government of India. The company has no exposure to the real estate sector as at 31 March 2017 (2016 – USD nil).

Exposure to Credit Risk and Availability of Collateral Security

The table below presents the company's maximum exposure to credit risk of its on-Balance Sheet financial instruments at 31 March 2017, before taking into account any collateral held or other credit enhancements. For on-Balance Sheet instruments, the maximum exposure to credit risk is the carrying amount reported in the Statement of Financial Position. The company does not have any off-Balance Sheet instruments, except for the issue of Letters of Comfort (LoCs) in favour of the banks on behalf of the borrowers. Such LoCs are a commitment to lend as and when the Banks in favour of whom such LoCs are issued demands a payment. The LoCs are issued within the overall cap of the approved amount of loans. The issuance of LoCs has the same comfort of security/collaterals, which are available for the on-Balance Sheet transactions. The company's exposure to credit risk is spread across different sectors.

IIFC (UK) Limited considers sanction of loans primarily based on the Credit Risk Assessment of the Lead Bank or of reputed appraising instructions/banks/international financial institutions. In addition, internal risk rating is also undertaken based on the appraisal of the Lead Bank/ reputed appraising instructions/banks/international financial institutions of the Consortium and IIFC (UK) places reliance on this.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Exposure to Credit Risk and Availability of Collateral Security

The company's exposure to credit risk has decreased by USD 8,645,399 during the year (2016 – USD increase of 141,441,165) due to repayments/prepayments during the financial year.

	2017 \$	2016 \$
On-Balance Sheet exposure:		
Loans and advances to customers	1,685,546,614	1,695,207,207
Off-Balance Sheet exposure:		
Commitment to lend	82,917,660	81,902,466
Total exposure subject to credit risk	<u>1,768,464,274</u>	<u>1,777,109,673</u>
Impairment provisions:	2017	2016
	\$	\$
Balance at beginning of the year	17,802,852	5,055,752
Provisions recognised	13,979,152	16,364,334
Provisions reversed as no longer required	-	(3,617,234)
Balance at the end of the year	<u>31,782,004</u>	<u>17,802,852</u>

Collateral

Infrastructure Projects are typically implemented on a non-recourse basis by Special Purpose Vehicles (SPVs). While the security package for different projects is different, generally, the security for IIFC (UK) Limited, as a part of a consortium includes first ranking pari-pasu charge on Borrower's:

- All immovable properties, present and future including land, plant and machinery, equipment, furniture, fixtures, vehicles and all other movable assets to the extent permissible.
- Cash, receivables and other assets under various contracts.
- All rights, titles, interests, benefits, claims and demands, whatsoever of the Borrower in the project documents, letters of credit, guarantees, performance bonds, insurance contracts, insurance proceeds.
- Pari-pasu charge on trust and retention account, debt service reserve account and other bank accounts of the Borrower.
- Pari-pasu pledge of equity shares

Further, typically, in case of Public Private Partnership (PPP) Project, there is an availability of the termination payment in Concession Agreement which is also treated as a part of the Security package.

Wherever required, as a part of risk mitigation, other securities usually in the form of personal/corporate guarantees, undertakings from the promoters/sponsors etc. are also envisaged.

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. For loans and advances to customers, the company held the following amounts of collateral.

The collateral, along with guarantees, fully safeguard against the credit risk with remote possibility of any loss. The primary consideration for lending to infrastructure projects is commercial viability in terms of expected future cash flows of the Project and collateral is held in excess of amounts outstanding.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
Liquidity risk

IIFC (UK) Limited has in place an approval to draw an aggregate amount up to USD 5 billion from the Reserve Bank of India, of which a total of USD 2.1 billion has been drawn. Further funds can be drawn in two tranches in a calendar month corresponding to the extent of incremental deployment. These funds are repayable in bullet payments on a 10 year maturity, with a prepayment facility without any financial penalty. The loans sanctioned by IIFC (UK) Limited stipulate repayment in instalments ensuring steady cash flows over period of time. Hence, IIFC (UK) Limited has an assured availability of funds and does not perceive any liquidity risk in the short to medium term.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of the bonds liability:

	Bonds \$	Interest on bonds \$	Total \$
31 March 2017			
Less than one year	-	40,314,692	40,314,692
In more than one year but not more than two years	250,000,000	40,314,692	290,314,692
In more than two years but not more than three years	-	36,719,142	36,719,142
In more than three years but not more than five years	423,000,000	72,507,230	495,507,230
Over 5 years	1,427,000,000	74,679,198	1,501,679,198
Total	<u>2,100,000,000</u>	<u>264,534,954</u>	<u>2,364,534,954</u>
31 March 2016			
Less than one year	-	29,443,876	29,443,876
In more than one year but not more than two years	-	29,443,875	29,443,875
In more than two years but not more than three years	250,000,000	29,443,875	279,443,875
In more than three years but not more than five years	-	54,300,751	54,300,751
Over 5 years	1,850,000,000	84,203,610	1,934,203,610
Total	<u>2,100,000,000</u>	<u>226,835,987</u>	<u>2,326,835,987</u>

All other financial liabilities, including contractual obligations in respect of financial guarantee contracts, are payable within twelve months from the year end.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

IIFC (UK) Limited does not have a trading book. The borrowing and lending are based on LIBOR linked floating rates and are in US Dollar denomination, the functional currency of the company.

The company charges floating interest on all loans and receivables linked to LIBOR and pays floating interest on bond liabilities linked to LIBOR. The net exposure to interest rate risk at the balance sheet date was limited to LIBOR movement on the net of borrowings less lending as per below. The directors consider 100 basis points to be reasonable given the current market conditions and expectation of the maximum likely change in interest rates over the next years.

	2017	2016
LIBOR linked Bonds	2,100,000,000	2,100,000,000
Loans and receivables	1,685,546,614	1,695,207,207
Net gap subject to interest rate exposure	414,453,386	404,792,793
Sensitivities are:	Per annum	Per annum
1% movement in LIBOR	4,144,534	4,047,928

However, the net gap in the form of surplus funds (pending utilisation) subject to interest rate exposure are held in fixed rate deposits on a six month or twelve months rolling basis. With a 1% movement both increase and decrease in USD 6 month LIBOR, the impact on profit and loss and equity will be decrease and increase by USD 4,144,534 and (2016:USD 4,047,928) respectively.

The company is exposed to nominal foreign exchange risk mainly on account of administrative expenses incurred in the United Kingdom which is the country of operation.

The loans receivables, cash and cash equivalents and borrowings are all denominated in USD and therefore no exchange risk arise on these. As the risk is considered immaterial no sensitivity analysis has been provided.

Operational risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process systems, people or external events.

Major sources of operational risks for the company are identified as IT security, internal and external fraud, process errors, money laundering risks and external events like failure of transportation, non-availability of utilities.

The company has identified each of such possible eventualities and established mitigation processes and internal controls. Documentation of processes and procedures are reviewed periodically.

The company conducts its operations under the Government of India Scheme for Infrastructure Financing. The scheme stipulates a series of operational norms which the company follows in its lending operations. All the lending powers vest with the Board of directors. The company has an investment policy in place which is based on the terms and conditions issued by the Government of India and the Reserve Bank of India.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Operational risk (continued)

To address the risks relating to money laundering, the company has put into place a Know Your Client policy; a maker-checker for all financial transactions; a system for the review and monitoring of activities at the Board and management level; record retention; and an internal control process to ensure that the Board, the Government of India and the Reserve Bank of India and promoter companies are kept informed of the company's operations.

The company also draws on the policies of its parent company to identify operational risk in terms of credit risk, corporate governance, fraud detection and prevention and the compliance code of conduct.

Capital management

The company's capital consists of share capital and reserves. The company manages its capital structure through adjustments that are dependent on economic conditions. In order to maintain or adjust the capital structure, the company may choose to change or amend dividend payments to shareholders or issue new share capital to shareholders. There were no changes to the objectives, policies or processes during the year ended 31 March 2017.

	2017 \$	2016 \$
Interest bearing loans and borrowings	2,100,000,000	2,100,000,000
Overdrafts	86,260	-
Less: Cash and short term deposits	(7,019)	(959,759)
Less: Fixed deposits with banks	(574,182,682)	(539,868,887)
Net debt	1,525,896,559	1,559,171,354
Equity including reserves carried forward	149,957,311	124,038,384
Total capital	149,957,311	124,038,384
Capital and net funds	1,675,853,870	1,683,209,738
Net funds to equity ratio	11.2	13.6

The company has an authorised share capital of USD 500,000,000 of which an amount of USD 50 million has been subscribed by the holding company. During the financial period to 31 March 2017, the company has increased its retained earnings by USD 25,918,927 (2016 - USD 20,233,698). As such, the company does not perceive any difficulty in capital management.

The liability of IIFCL is limited to its equity contribution in IIFC (UK) Limited and the fund based commitments of IIFCL to IIFC (UK) Limited.

The company does not have any regulatory capital requirements.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

13. FINANCIAL INSTRUMENTS

	<i>Carrying amount</i>		<i>Fair value</i>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	574,103,440	540,828,646	574,103,440	540,828,646
Loans and receivables	1,685,546,614	1,695,207,207	1,685,546,614	1,695,207,207
Interest and other receivables	9,613,019	8,949,511	9,613,019	8,949,511
	<u>2,269,263,073</u>	<u>1,747,985,364</u>	<u>2,269,263,073</u>	<u>1,747,985,364</u>
Financial liabilities				
Borrowings	(2,100,000,000)	(2,100,000,000)	(2,100,000,000)	(2,100,000,000)
	<u>(2,100,000,000)</u>	<u>(2,100,000,000)</u>	<u>(2,100,000,000)</u>	<u>(2,100,000,000)</u>
Out of above:				
Non-Current:				
Financial assets				
Loans and receivables	1,630,012,925	1,636,546,594	1,630,012,925	1,636,546,594
	<u>1,630,012,925</u>	<u>1,636,546,594</u>	<u>1,630,012,925</u>	<u>1,636,546,594</u>
Financial liabilities				
Borrowings	(2,100,000,000)	(2,100,000,000)	(2,100,000,000)	(2,100,000,000)
	<u>(2,100,000,000)</u>	<u>(2,100,000,000)</u>	<u>(2,100,000,000)</u>	<u>(2,100,000,000)</u>
Current:				
Financial assets				
Cash and cash equivalents	574,103,440	540,828,646	574,103,440	540,828,646
Loans and receivables	55,533,689	58,660,613	55,533,689	58,660,613
Interest and other receivables	9,613,019	8,949,511	9,613,019	8,949,511
	<u>639,250,148</u>	<u>608,438,770</u>	<u>639,250,148</u>	<u>608,438,770</u>

The fair value of all financial instruments approximate the carrying values as all non-current financial instruments are either floating rate instruments (which equal the market rates) or held as cash and cash equivalents.

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

13. FINANCIAL INSTRUMENTS (continued)

Provision on Impaired Financial Assets

Loans, receivables and other receivables as in above note include impaired assets as below:

	Loans and receivables	Other receivables
	\$	\$
Gross balance of Impaired Assets	45,234,200	14,002,560
Less: specific impairment	(17,779,444)	(14,002,560)
Net Balance	<u>27,454,756</u>	<u>-</u>

Movement in impairment provision during the year:

Specific allowances for impairment	2017	2016
	\$	\$
Balance at 1 April	17,802,852	5,055,752
Impairment loss for the year:		
Charge for the year	13,979,152	16,364,334
Recoveries/write offs	-	(3,617,234)
	<u>31,782,004</u>	<u>17,802,852</u>
Out of above		
Opening Balance	17,802,852	5,055,752
<i>Amounts provided for impairment of loans during the year</i>	5,779,444	12,000,000
<i>Amounts provided for impairment of interest and other receivables during the year</i>	8,199,708	747,100
Closing Balance	<u>31,782,004</u>	<u>17,802,852</u>

There are no collective allowances for impairment.

The total charge to profit and loss in respect of impairment is as below:

Impairment charge on loans and receivables	5,779,444	12,000,000
Impairment charge on interest and other receivables	8,199,708	4,364,334
Reversal of impairment charge	-	(3,617,234)
	<u>13,979,152</u>	<u>12,747,100</u>

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
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14. INTEREST AND OTHER RECEIVABLES

	2017 \$	2016 \$
Current		
Interest and other receivables	18,654,625	9,010,135
Tax receivables	1,374,183	7,993,301
	<u>20,028,808</u>	<u>17,003,436</u>
 Tax receivable comprises:		
	2017 \$	2016 \$
VAT recoverable	(78,350)	(80,064)
Corporation tax recoverable	1,452,533	8,073,365
	<u>1,374,183</u>	<u>7,993,301</u>

15. DEFERRED TAX

The standard rate of corporation tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2016. The Finance (No.2) Bill 2016, which provides for reductions in the main rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020 were announced in the July 2016 budget were substantively enacted on 26 October 2016.

For the purposes of deferred tax, the rate changes from 20% to 18% had been substantively enacted before the reporting date. This will reduce the company's future current tax charge and reduce the company's deferred tax assets accordingly.

The movement on deferred tax account is as shown below:

	2017 \$	2016 \$
At 1 January	1,733,846	-
<i>Recognised in Statement of Comprehensive Income (note 9)</i>		
Origination and reversal of temporary timing differences	(174,527)	409,177
Tax credit for recognition of previously unrecognised deferred tax asset	-	(2,143,023)
Adjustments in respect of prior periods	29,821	-
Effect of tax rate change on opening balance	(97,982)	-
At 31 December	<u>1,491,158</u>	<u>1,733,846</u>

Deferred tax assets have been recognised in respect of other timing differences which give rise to deferred tax assets for the upfront fee income booked for the financial years 2009, 2010 and 2011; where the directors believe it is probable that these assets will be recovered. There were no unrecognised deferred tax assets or liabilities at year end (2016 –none).

16. RELATED PARTY TRANSACTIONS

Ultimate controlling party and immediate parent company

The company's immediate parent company and ultimate controlling party is India Infrastructure Finance Company Limited, a company incorporated in India. The financial statements will be consolidated with those of its parent company and are publicly available from Hindustan Times Building, Kasturba Gandhi Marg, New Delhi, Delhi 110001, India.

Transactions with related party

The company is related to IIFCL Projects Limited, a company incorporated in India, by virtue of a common parent company. During the year the company paid USD 894,697 (2015 – USD 785,296) to IIFCL Projects Limited, for pre and post sanction services provided in India, including financed projects' rating and monitoring, attending consortium meetings and marketing of the business on behalf of the company. This expenditure was included within administrative expenses and no amounts were outstanding at the year-end (2016 – USD nil).

Key management compensation

The company defines key management personnel as being individuals who have authority to directly plan and control business operations.

Total key management compensation comprised:

	2017	2016
	\$	\$
Gross wages and salaries	85,436	218,504
Other employee benefits and income tax	52,029	62,984
Post-employment expense for provident fund (India)	3,858	3,669
Social security costs	11,457	20,566
	152,780	305,723

17. CASH AND CASH EQUIVALENTS

	2017	2016
	\$	\$
Cash on hand	1	6
Overdrafts	(86,260)	-
Cash at bank in current accounts	7,019	959,753
Other short term deposits with banks	574,182,680	539,868,887
	574,103,440	540,828,646

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18. SHARE CAPITAL

Authorised share capital at 31 March 2017, 31 March 2016 and 31 March 2015

	No.	\$
Ordinary share capital of \$1 each	500,000,000	500,000,000

Issued and fully paid share capital at 31 March 2017, 31 March 2016 and 31 March 2015

	No.	\$
Ordinary share capital	50,000,000	50,000,000

The company has one class of ordinary shares which carry no right to fixed income.

All issued share capital is classified as equity.

19. RESERVES

Retained earnings are all net gains and losses and transactions with owners which are not recognised elsewhere.

20. FINANCIAL LIABILITIES

	2017	2016
	\$	\$
Bonds issued	2,100,000,000	2,100,000,000

The bonds issued refer to nine tranches of ten year bonds maturing at various dates as shown below bearing interest linked to the USD six month LIBOR. The bonds are secured by the sovereign guarantee of the Government of India. The bonds are repayable on maturity by way of a bullet payment. An option to repay the bond earlier is available without any financial penalties.

Tranche	Issue Date	Maturity Date	2017	2016
			\$	\$
1 st	19 Mar 2009	19 Mar 2019	250,000,000	<i>250,000,000</i>
2 nd	16 Sep 2011	16 Sep 2021	130,000,000	<i>130,000,000</i>
3 rd	27 Feb 2012	27 Feb 2022	170,000,000	<i>170,000,000</i>
4 th	30 Mar 2012	30 Mar 2022	123,000,000	<i>123,000,000</i>
5 th	5 Jul 2012	5 Jul 2022	117,000,000	<i>117,000,000</i>
6 th	4 Mar 2013	4 Mar 2023	160,000,000	<i>160,000,000</i>
7 th	6 Mar 2014	6 Mar 2024	231,000,000	<i>231,000,000</i>
8 th	15 Sept 2014	15 Sept 2024	387,000,000	<i>387,000,000</i>
9 th	26 Mar 2015	26 Mar 2025	532,000,000	<i>532,000,000</i>
			2,100,000,000	<i>2,100,000,000</i>

INDIA INFRASTRUCTURE FINANCE COMPANY (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

21. OTHER PAYABLES – NON CURRENT

	2017	2016
	\$	\$
Withholding tax creditor	15,154,776	14,099,939

22. INTEREST AND OTHER PAYABLES - CURRENT

	2017	2016
	\$	\$
Interest payable on bonds	2,003,381	1,464,535
Withholding tax creditor	13,378,754	9,624,780
Corporation tax creditor	-	4,585,015
Interest received in advance	792,504	1,097,820
	16,174,639	16,772,150

23. OPERATING LEASE COMMITMENTS

The company had the following commitments in respect of total future lease payments due as follows:

	2017	2016
	\$	\$
Less than one year	66,692	66,692
Between two and five years	333,461	333,461
More than five years	66,692	133,385
	466,845	533,538

24. OTHER COMMITMENTS AND CONTINGENCIES

The company has an outstanding commitment of USD 82,917,660 (2016 – USD 81,902,466) on commitments to lend to customers for loans to be disbursed after the financial reporting date.

25. EVENTS AFTER THE END OF THE REPORTING PERIOD

There have been no reportable events after the end of the reporting period.