

HICL Infrastructure PLC Sustainability Report 2022

Delivering Real Value.



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Main
Entrance

Front cover image: **Birmingham Hospital, UK**

Inside cover image: **Salford hospital, UK**

1 Introduction



Ian Russell, CBE Chairman

I am pleased to present HICL's Sustainability Report for the year to 31 March 2022.

Operating in a sustainable manner lies at the very heart of HICL's business model. As a trusted steward of essential core infrastructure assets, the Company's ability to deliver sustainable income to its shareholders over the long-term is intrinsically linked to delivering positive outcomes for the communities served by its assets.

Our approach to sustainability is reflected in HICL's vision of enriching lives through infrastructure. By delivering strong social foundations, connecting communities and supporting sustainable modern economies, the Company is especially well positioned to deliver the 'social' dimension of the ESG framework.

HICL is invested in, and manages, assets which over 20 million people globally interact with and rely on. This responsibility not only obliges the Company to provide high-quality essential infrastructure to the communities served by its assets, but also affords HICL a rare opportunity to pursue enhanced ESG outcomes for our end-users and wider stakeholders. The extent of the Company's contribution in the year has been demonstrated through the many social impact initiatives undertaken across HICL's portfolio, examples of which are included as case studies within this report, featured on pages 16–19.

Our long-term stewardship responsibilities also demand an inter-generational perspective on risk. This is most apparent in considering the demands posed by climate change and the drive towards decarbonisation across HICL's markets. Over the year, over 90% of HICL's portfolio companies fully incorporated the specific findings of InfraRed's 2021 portfolio-wide climate-change impact assessment. In turn, this enables monitoring of climate-related risks and opportunities across the portfolio by InfraRed and the HICL Risk Committee.

The Board welcomes InfraRed's decision in July 2021 to join the Net Zero Asset Managers initiative. This commits InfraRed to achieve net zero emissions across HICL's portfolio by 2050 or sooner, and also to set interim targets for 2030. Further details are provided in a detailed case study on pages 14–15.

For the second consecutive year, HICL reported in compliance with all 11 recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). I am pleased to report a number of enhancements to HICL's disclosures across all four pillars of the TCFD framework, including the full measurement and disclosure of Scope 1, 2 and 3 emissions for all of HICL's portfolio companies¹, which are set out on page 25.

In anticipation of the step up in disclosure required under the EU's Sustainable Finance Disclosures Regulation ("SFDR") from 1 January 2023, InfraRed engaged extensively with HICL's portfolio companies over the year to prepare for the enhanced data requirements under the regime. With the Company's clear mandate to invest exclusively in critical infrastructure, HICL intends to report as an Article 8 Fund under SFDR.

Continuing to meet the rising bar on sustainability disclosures, in a manner that is clear and provides accountability to investors, requires continuous improvement. Twelve months ago, HICL published its first set of sustainability-specific metrics and targets, with the aim of improving the objective measurement of the Company's ESG performance. This report sets out how these metrics have evolved over the year and how they compare with the targets set in 2021.

The Company's commitment to sustainability best practice is demonstrated through the progress made against its key sustainability objectives during the year. This is set out on pages 8-9, alongside the Company's key focus areas for the coming year; these will continue to drive our sustainability strategy forward and ensure that HICL delivers for all of its stakeholders, both today and in the long-term.

A handwritten signature in dark ink, appearing to read 'Ian Russell'.

Ian Russell, Chairman

¹ Emissions reported for the 2019 baseline year; see page 25 for further details

2

Approach to Sustainability

HICL's approach to sustainability

As a prominent long-term investor in core infrastructure, HICL has a role in society that extends beyond its shareholders.

The Company is a trusted steward of essential assets and has a responsibility towards the communities that the assets serve and, in many cases, to which the assets will be returned at the end of the defined contractual term.

The Board and Investment Manager recognise that operating in a sustainable manner lies at the very heart of the Company's business model, and is fundamental for the successful delivery of its investment proposition.

Our infrastructure supports the lives and livelihoods of the communities in which we operate. Around the world over 20m people have access to HICL's infrastructure; in the UK alone, HICL's assets touch the lives of one in four citizens. As a result, the Company has an exceptional opportunity to make a positive social contribution by enhancing the experience of its clients, end users and wider stakeholders.



HICL actively contributes to the United Nations ("UN") Sustainable Development Goals ("SDGs") through the delivery of reliable and resilient infrastructure that supports economic development and human wellbeing. The nature of HICL's investment proposition means the Company inherently contributes to developing industry, innovation and infrastructure (SDG 9); and building sustainable cities and communities (SDG 11).

"HICL's ability to deliver sustainable income to investors is intrinsically linked to delivering positive outcomes for the communities it serves"

Ian Russell CBE, Chairman

InfraRed's approach to sustainability

InfraRed aims to create better futures by developing and managing long-term, sustainable infrastructure.

The Investment Manager believes that long-term success for all stakeholders (including investors) can only be achieved by taking responsibility for the wider impacts of its investment activities. Sustainability has always been central to how InfraRed invests and manages HICL's portfolio, as well as the way in which it conduct its own business operations.

InfraRed's most recent sustainability report¹ sets out its strategy, which is built around four key objectives as set out to the right. These will allow the Investment Manager to best leverage its position and resources to create a positive impact now, but more importantly create better futures for the next generation.



Climate: Contribute to the energy transition to achieve net zero and deliver climate resilient infrastructure



Resources: Minimise environmental impacts, resource consumption and biodiversity loss



Communities: Make a positive social contribution by addressing the needs of sustainable communities



People: Promote safe and fair work that respects diversity and inclusion at InfraRed, our business partners and supply chains

"Creating Better Futures has always been at the very core of who we are. This is what drives our people and defines InfraRed."

Werner von Guionneau, CEO, InfraRed

¹ Available at: www.ircp.com/sustainability

3 Sustainability Highlights



InfraRed commits to **Net Zero Asset Manager initiative**

Page 14



Intention to report in line with **Article 8 of SFDR¹**

Page 23



Enhanced **investment process and exclusions list**

Page 20



Updated sustainability metrics and targets for HICL

Page 10



InfraRed maintains an **A+ PRI score²**



Focus on **driving social impact** through HICL's assets

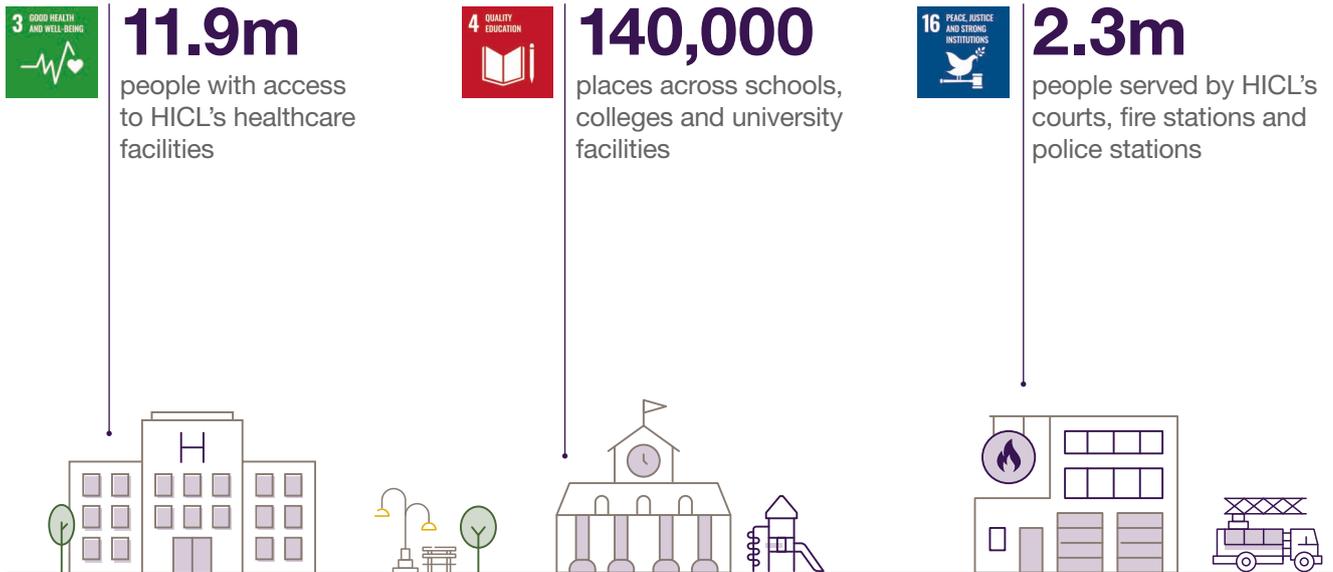
Page 16

¹ EU Sustainable Finance Disclosures Regulation

² Principles for Responsible Investment ("PRI") ratings are based on following a set of Principles, including incorporating ESG criteria into investment analysis, decision-making processes and ownership policies. More information is available at <https://www.unpri.org/about-the-pri>

Social impact in numbers

The graphic below demonstrates the reach of HICL's portfolio. By facilitating access to essential services in a socially responsible manner, our projects contribute to many of the UN SDGs and deliver an inherent social good. However, both the Board and the Investment Manager acknowledge that making a genuine social contribution involves going above and beyond the reliable provision of infrastructure. Some examples of specific initiatives undertaken by InfraRed or HICL's portfolio companies are highlighted here and expanding the Company's social impact will be a key priority going forward.



Social Initiative:
Community Fridge
 Further details on page 19



¹ At completion of fibre roll-out

Over 20 million with access to HICL's infrastructure worldwide, including **one in four** UK citizens



3.6m

people served with clean water by Affinity Water

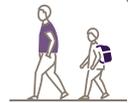
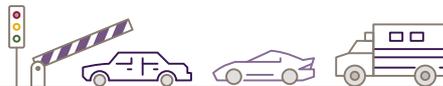
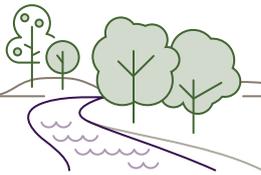
Social Initiative:
Affinity Water
Vulnerable
Customer Support

Further details on page 16



40,000

accommodation places



Over 1,200 staff are directly employed by HICL's portfolio companies, with thousands more jobs created through the supply chain



Social Initiative:
Northwest
Parkway
Fire Relief

Further details on page 16



4.5m

unique users of HICL's roads and railways



4 Sustainability Progress

Progress against our sustainability objectives

Over the course of the year, the Company and the Investment Manager have continued to enhance their disclosure and processes to ensure that HICL remains at the forefront of sustainability best practice. The table below sets out the progress that has been made against the key sustainability objectives that were set out in the HICL 2021 Sustainability Report.

Investment process



InfraRed has improved its understanding and assessment of human rights issues in certain markets, although these tend to be less relevant to HICL's asset classes, geographies and supply chains.

InfraRed has continued to engage with HICL's portfolio companies on policies related to the fair and safe treatment of workers, and going forward will engage a specialist advisor to ensure that its processes are aligned with external sustainability frameworks.

Engagement



Continued engagement with HICL's portfolio companies through a multitude of channels including InfraRed's bi-annual ESG workshop and sustainability best practice guides.

Enhanced focus on driving social impact through project-level engagement and initiatives.



Climate change



InfraRed has committed to achieve net zero greenhouse gas emissions across HICL's portfolio by 2050 and publish interim reduction targets for 2030.

Requirement to complete a climate change impact assessment for new acquisitions implemented in November 2021; material issues can be escalated to the HICL Risk Committee through InfraRed's quarterly reporting.

Disclosure



HICL intends to conform with Article 8 of SFDR and the EU taxonomy from 2023 in line with the regulatory timeline.

HICL will continue to evolve its sustainability reporting and metrics in line with SFDR as well as other emerging frameworks including the UK's Sustainability Disclosures Requirements.

¹ Under the proposed Regulatory Technical Standards of the SFDR, relevant firms will have to provide extensive disclosures on various ESG indicators (known as Principal Adverse Impact Indicators) in a standardised template format

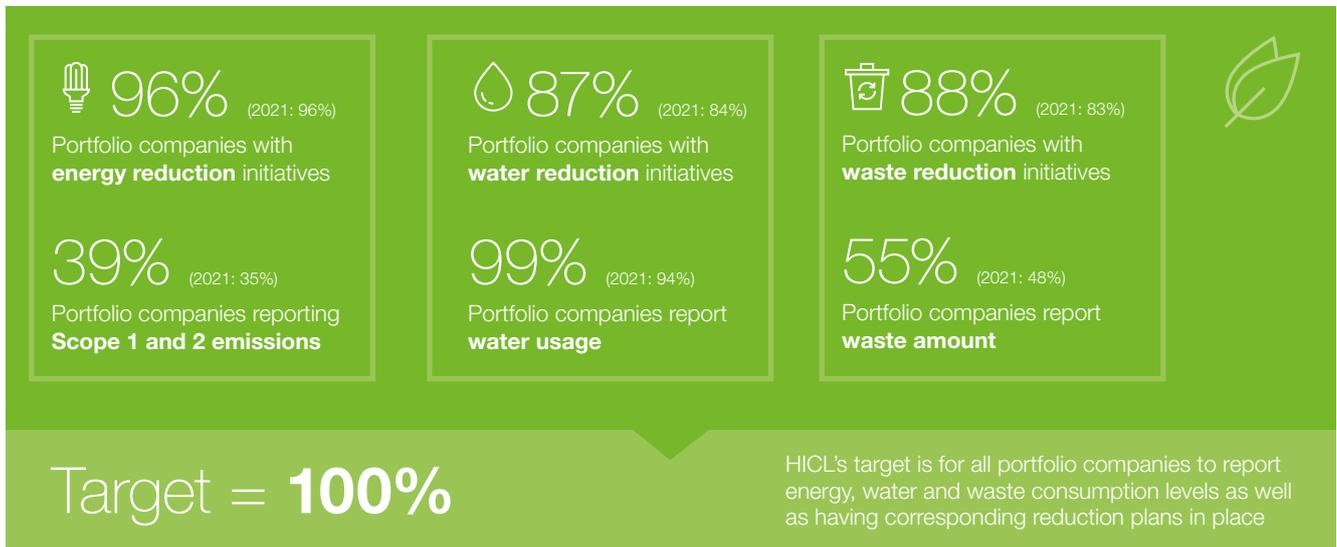


5 Sustainability Metrics and Targets

Tracking and reporting progress

Reporting on sustainability in a manner that is clear and easily absorbed by investors requires continuous improvement. Twelve months ago, HICL published its first set of sustainability-specific metrics and targets with the aim of improving the objective measurement of the Company’s Environmental, Social and Governance performance. In addition to publishing progress against these targets, which remain the same for the coming year, HICL has also introduced a number of new more prescriptive metrics and associated targets in preparation for the upcoming SFDR Level 2 disclosure requirements which are expected to come into effect in 2023.

Energy, Water and Waste Reduction



Biodiversity



Climate Change Action



Manager’s Comment: InfraRed is pleased to see the incremental improvements made over the year across energy, water and waste usage, as well as the high level of portfolio company engagement with the climate change impact assessment completed last year. This has only been possible thanks to the proactive approach taken by our asset managers over the year to engage with portfolio companies and push positive change through their board level representation.

Although only 39% of HICL’s portfolio companies reported their Scope 1 and 2 emissions for the 2021 calendar year, InfraRed engaged Mott MacDonald to measure the Scope 1, 2 and 3 greenhouse gas emissions of every HICL project in the 2019 baseline year as part of its broader net zero commitment. These emissions are disclosed on page 25 of this report. Going forward, InfraRed will ensure that greenhouse gas emissions are routinely measured outside of its annual ESG survey process.

Social Performance

22% (2021: 35%)

Of InfraRed appointed portfolio **company directors are women**

0.48 (2021: 0.38)

RIDDORs (and equivalent Health & Safety incidents in non-UK countries) per project, including project subcontractors

92% (2021: 83%)

Portfolio companies with voluntary **charitable contributions to environmental or social initiatives**

83%

Portfolio companies with **independent Health & Safety audit** completed during the year



Target = **90%**

Manager's Comment: The fall in the percentage of female InfraRed-appointed portfolio company directors reflects the continued evolution of InfraRed's Asset Management team during the year, including role changes, promotions, new hires and staff leaving the business or retiring. InfraRed has implemented measures to improve the diversity within its talent pool, and recognises that it will take time to fully realise the benefits of the actions it is taking today. The Investment Manager also notes a slight increase in RIDDORs per project, and has introduced a new metric to reflect HICL's focus on upholding the highest standards of health & safety across its portfolio companies.

Governance Performance

99% (2021: 98%)

Active Stewardship

Percentage of portfolio where InfraRed has:

- ▲ Attended all Board meetings
- ▲ Visited one of the project company's assets
- ▲ Actively monitored the project / company's performance

91% (2021: 81%)

Modern Slavery Act 2015 – Training and Audit

Train their staff to ensure they have an understanding of what the Act is and undertake audit procedures to ensure policies are effective

96% (2021: 96%)

Strong Corporate Governance

Portfolio companies with appropriate policies concerning:

- ▲ Conflicts of interest
- ▲ Whistleblowing
- ▲ Cyber-security
- ▲ Health & Safety
- ▲ Anti-bribery & corruption
- ▲ Recruitment diversity



Target = **100%**

Manager's Comment: Strong governance at the project company level plays a pivotal role in InfraRed's sustainability strategy. Actively engaging both formally through board meetings and informally with portfolio company management teams enables InfraRed's asset managers to progress sustainability initiatives and drive best practice. As such, strong governance scores facilitate positive ESG outcomes and increased scores in both the Environmental and Social pillars.

Metrics Look Ahead – Principle Adverse Impact Indicators

A key aspect of SFDR "level 2" measures coming into effect from 1 January 2023 is the disclosure of Principal Adverse Impact ("PAI") indicators. More specifically, companies aligning with SFDR are expected to report against 14 mandatory indicators and at least two additional voluntary metrics. HICL will continue to evolve its sustainability reporting and metrics in line with these new requirements, and the Investment Manager has enhanced its annual ESG data collection exercise in preparation. For more information, see page 23.



6 Environmental



For HICL, it is vital that the positive social contribution of the Group’s assets does not come at the expense of the natural environment.

The Investment Manager, portfolio company management teams and project sub-contractors are focused on reducing negative environmental impacts and wherever possible, implementing measures which act as a catalyst for positive change, either directly at the asset and/or for the wider community in which that asset is located. Although HICL does not have operational control over any of its subsidiaries, the Company nevertheless has a responsibility to use its influence, and that of the Investment Manager to promote environmental improvement.

Resources

For HICL’s PPP projects, resource consumption is driven by the client, with the portfolio company generally responsible for maintaining the equipment which provides the building’s heating, cooling and lighting. This separation in roles requires the Investment Manager to be creative and strategic in identifying ways to support HICL’s clients to improve efficiencies and minimise consumption. An example of InfraRed’s proactive approach includes the retrofitting of LED lighting and motion sensors across school buildings within HICL’s portfolio, reducing overall energy demand and delivering cost savings

The Company takes a holistic approach to assessing and improving its impact on the environment, which can be divided across three core themes:

- ▲ **Resources** – Reduce waste and the consumption of natural resources
- ▲ **Climate change** – delivering climate-resilient infrastructure, contributing to the energy transition and taking steps to achieve net zero
- ▲ **Biodiversity** – Minimise environmental impacts, pollution and loss of flora and fauna

for clients. In some cases, InfraRed partner with HICL’s service providers to deliver targeted initiatives at project level.

InfraRed monitors resource consumption and resource-saving initiatives across each of HICL’s investments through its annual ESG survey, the results of which inform the metrics published on page 10. Some of HICL’s non-PPP projects, including HS1 and Affinity Water, have greater scope to manage their resource consumption and set out their strategies, targets and initiatives on their websites.



Save our Streams (Affinity Water)

In April 2021, Affinity Water launched Save Our Streams (“SOS”), the UK’s largest water saving initiative, which revolved around a multi-channel media campaign to create awareness around water consumption and help reduce demand. By December 2021, over 170,000 people had signed up to participate, with over half receiving free water-saving devices. The campaign led to peak water savings of over 17m litres per day.

SOS was covered 90 times by local and national press, with a potential reach of 4.8m people. Affinity Water also worked with local Councillors, Mayors and MPs to further

spread the message. SOS has created significantly increased awareness by delivering important messages in an engaging way, and in December 2021, Affinity Water won The Drum Social Purpose Award for Best Integrated Campaign.



WasteWatch (Romford Hospital)

Romford Hospital and its facilities management provider Sodexo launched WasteWatch in May 2021, with the aim of reducing food waste by 50%. Before perishing food is thrown away, it is weighed and employees are required to answer a series of questions. This data provides insights into what is being wasted, why it might be wasted and tips to reduce food waste.

All food waste is processed through on-site anaerobic digestion facilities. This process produces renewable energy as well as organic fertiliser, and results in a significant reduction in greenhouse gas emissions. This initiative has already achieved a 60% reduction in food waste, which is equivalent to over 5,500 meals.



Climate change

Climate change is emerging as a key risk for infrastructure investors, with the potential to significantly impact infrastructure assets around the world. In 2015, world governments committed through the Paris Agreement to curbing global temperature rise to below 2°C above pre-industrial levels in order to prevent the most severe consequences of climate change. Both HICL and InfraRed support the Paris Agreement.

During the year, InfraRed underlined its commitment to reducing greenhouse gas emissions by joining the Net Zero Asset Manager initiative, which includes an undertaking to achieve net zero emissions for HICL's entire portfolio by 2050 or sooner. Further details are provided in the case study on pages 14-15.

Since 1 January 2019, InfraRed has been a certified CarbonNeutral® company and will remain carbon neutral going forward, through the purchase of Verified Carbon Standard ("VCS") offsets.

Biodiversity

The Board and Investment Manager are cognisant that biodiversity plays a vital role in supporting life on earth and that all companies have a responsibility to arrest the general decline in biodiversity.

Given the nature of HICL's portfolio, biodiversity impacts and dependencies can vary significantly, making scalable strategies more difficult to implement in the short term. InfraRed is currently focused on implementing small-scale initiatives (such as installing bird and bat boxes, supporting bee colonies and planting local

InfraRed also continues to take steps to reduce its corporate emissions:

- ▲ InfraRed's Head Office in London has been awarded an 'Excellent' rating from BREEAM and a Gold rating by SKA. The office runs on renewable energy, and also benefits from energy-saving features such as district heat connectivity and motion sensor LED lighting throughout.
- ▲ Although InfraRed's corporate emissions from business travel have dropped significantly since the onset of the Covid-19 pandemic, the Investment Manager has sought to further reduce its impact through internal awareness, implementing new technology, and by refining its corporate travel policy.
- ▲ InfraRed also offsets all emissions associated with Directors' travel with an accredited scheme and will continue to do so going forward.

wildflowers and trees) which have an immediate impact. Over the coming years, the Investment Manager will devise a framework to formally assess the biodiversity dependencies and impacts of HICL's assets, which will provide a foundation from which to launch a broader biodiversity strategy.

Much like climate-related risks, biodiversity risks and impacts are expected become an integral part of InfraRed's investment process, which will provide a greater focus on opportunities to make a positive contribution to wildlife and nature.

Biodiversity Action Plan (HS1)

HS1's Biodiversity Action Plan focuses on protecting and improving the diverse range of habitats and species across its estate. During the year, the company commissioned Network Rail and Kent Wildlife Trust to commence a full survey of its natural asset, which has been divided into 136 discrete areas known as 'tiles'. Each tile is rated 'good', 'moderate' or 'poor', setting a biodiversity baseline, from which HS1 will develop upgrade plans for the tiles rated 'moderate' or 'poor'. Progress will be closely monitored and disclosed through KPIs, and will underpin HS1's ambition to create a 'Biodiversity Net Gain' by 2030.



of habitat 'tiles' surveyed



of habitat 'tiles' condition assessed



biodiversity tiles upgraded



Case Study:

The path to net zero

As a responsible Investment Manager, InfraRed believes that making a proactive and positive contribution to climate action is in the best interests of HICL’s shareholders, clients and wider stakeholders. As climate science advances and continues to highlight the growing threat posed by climate change, the need for specific and actionable decarbonisation strategies has become imperative.

In July 2021, InfraRed joined the Net Zero Asset Manager initiative, a group of 236 international asset managers representing over \$57 trillion of assets under management, who are committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. As part of these commitments, InfraRed will:

- ▲ Achieve net zero emissions for HICL’s entire portfolio by 2050 or sooner;
- ▲ Develop interim emissions reductions targets, to be achieved by 2030;
- ▲ Create and implement strategies to reduce emissions in line with these targets; and
- ▲ Ensure that new investments are assessed against InfraRed’s net zero commitments.

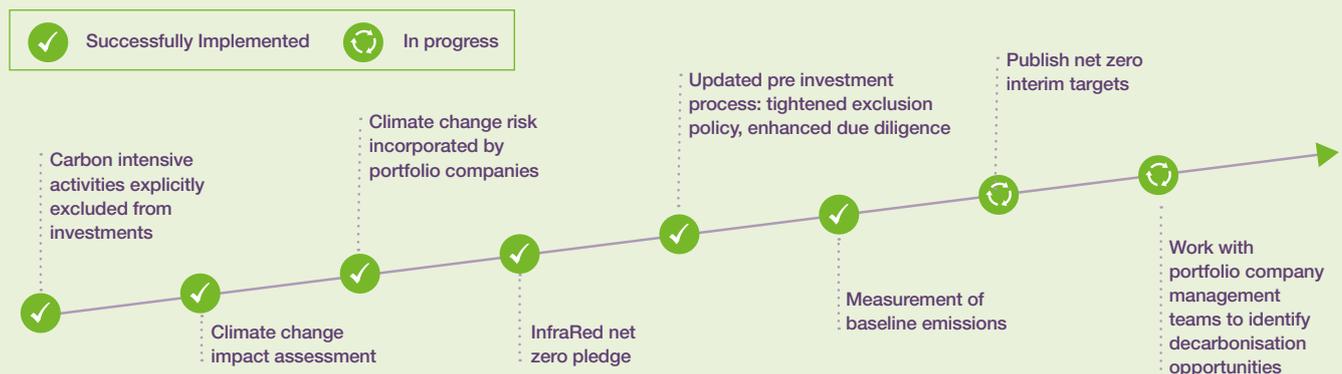
Progress on climate action

InfraRed’s net zero pledge is an important step in its broader climate strategy, which encompasses asset resilience, the investment process and portfolio company engagement.

As set out in the HICL 2021 Sustainability Report, the Investment Manager launched a portfolio-wide climate change impact assessment in September 2020, which was completed in early 2021. This covered both physical and transition risks, and the results informed HICL’s approach to risk management as well as the Company’s regulatory disclosures.

Over the year, HICL’s portfolio companies have incorporated the specific findings of the assessment, supported by InfraRed’s Climate Change Best Practices guidance. In turn, this allows the routine monitoring of climate-related risks and opportunities by InfraRed, the HICL Risk Committee, and the Board.

InfraRed has also updated its investment process and exclusion policy to ensure that future acquisitions are aligned with its net zero commitments. More details are provided on page 20.



Measuring HICL's portfolio emissions



InfraRed's net zero commitment relies on consistent and accurate emissions data for HICL's entire portfolio. This includes Scope 1, Scope 2 and Scope 3 emissions, calculated in accordance with the relevant standards laid out by Greenhouse Gas Protocol and the Partnership for Carbon Accounting Financials ("PCAF"). This is currently the only globally accepted standard for measuring and disclosing financed emissions.

During the year, InfraRed launched an unprecedented data collection process to ascertain the greenhouse gas emissions associated with HICL's portfolio. In order to avoid temporary distortion caused by the Covid-19 pandemic, 2019 was selected as the baseline year against which future emissions will be compared.

In order to ensure the accuracy of emissions measurement, InfraRed engaged consultants Mott McDonald to assist in the collection and analysis of emissions data from each of HICL's portfolio companies. For most projects it was possible to calculate the actual emissions, but in some cases proxies were estimated based on Mott MacDonald's expertise. A summary of HICL's baseline emissions is provided on page 25.

"Following our net zero commitment, we embarked on a journey with Mott MacDonald and HICL's portfolio companies, leveraging our relationships to undertake an extensive emissions data collection process. Working closely with the project companies has enabled us to set a detailed carbon baseline, hotspot emissions and integrate sector-specific decarbonisation trajectories into our modelling."

Kate McKeon, Head of Sustainability, InfraRed

Moving forward, InfraRed expects the accuracy and reliability of emissions measurement to improve through increased engagement with the portfolio company management teams and supply chains to increase their awareness of the data required to measure HICL's impact on the climate. This process will also be supported through InfraRed's bi-annual ESG workshops (see page 22) which include net zero as a key theme.

The Investment Manager is committed to maintaining transparency about the data collection process and any changes in emissions profiles. Effective data collection is a challenge faced by the industry at large and there is a distinct approach of 'learning by doing' as companies navigate this emerging field. While it will take some time to understand the full extent of HICL's greenhouse gas impact, InfraRed believes it is important to embrace the journey, which is reflected in the enhanced disclosure provided on page 25.

Next steps

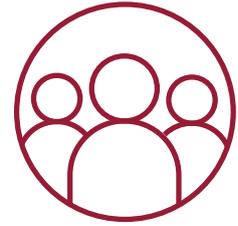
Following the measurement of the baseline year emissions, the key next step in InfraRed's net zero pledge is to set interim emissions reductions targets for 2030 or sooner. In line with the timetable set out under the Net Zero Asset Manager initiative, these will be finalised in July 2022, and will draw on the experience of Mott MacDonald to ensure that they are realistic and deliverable. Any targets relating to HICL's emissions will be subject to the company's usual governance processes, and ultimately approved and endorsed by the Board.

InfraRed will subsequently publish a Net Zero Pathway report, setting out these targets and its plan to achieve them. Direct engagement with HICL's portfolio companies will continue to be crucial, and InfraRed's active asset management approach will drive improvements in emissions reporting and the implementation of decarbonisation initiatives.

Two of HICL's larger projects, Affinity Water and HS1, have already set their own ambitious objectives, with both companies aiming to achieve net zero by 2030. Further details can be found on their websites.



7 Social



As a trusted steward of essential infrastructure assets, HICL sits at the heart of communities and plays a key role in modern society.

The Company's diverse range of projects have a tangible impact on the daily lives of their end users, by:

- ▲ Providing **essential services**, such as water or access to healthcare
- ▲ Facilitating **inter-regional connectivity**
- ▲ Performing important **social purposes**, through the provision of care and social housing
- ▲ Enabling **education and generational change**

By investing in assets that provide essential services to communities, HICL delivers an inherent social good. The Company's sustainability strategy seeks to build on this by driving improvements in the ESG performance of the assets in the portfolio, with a particular focus on creating a positive social impact.

Social Impact Initiatives

Examples of social engagement initiatives undertaken by HICL's portfolio companies in the year include:

Northwest Parkway. In response to the devastating Marshall Fire in December 2021, which destroyed over 1,000 structures in Boulder County, Colorado, the management team and shareholders of the Northwest Parkway created a toll-relief fund worth \$100,000 to facilitate travel for those impacted.

"Our community is at the heart of everything we do. Many of our community have been impacted by the Marshall Fire, and we know that as we transition into a phase of long-term recovery, providing toll relief is a small way that we can give back."

Pedro Costa, CEO, Northwest Parkway

Affinity Water and UK Power Networks are working in partnership to support customers who are struggling financially and provide information on the help available to them. This new initiative is part of a wider package of measures that Affinity Water is offering to customers who may be struggling financially. To date, Affinity Water has offered payment breaks to over 7,300 customers and another 84,000 customers are now on its Low-Income Tariff.

"Supporting our customers has never been more important than it is today...Our partnership with Affinity Water demonstrates the true value of collaboration across the utility sector."

Dr Giulia Privitera, Social Sustainability Strategy and Programme Manager, UK Power Networks

Atlandes, the concessionaire for HICL's investment in the A63, has a long track record of social engagement underpinned by a dedicated community fund. Events held during the year include S(H)e works / I care, which promotes driver and worker safety, and a free music festival in aid of a local music school.

"It is very important for Atlandes to be considered as a local player, acting for local communities...we have to listen to the needs of our stakeholders and go above and beyond the requirements of the contract."

Olivier Quoy, CEO, Atlandes

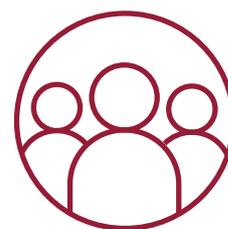
Health & Safety

The health and wellbeing of the end users of HICL's assets as well as the staff of our clients, delivery partners and other stakeholders is of paramount importance to the Board and the Investment Manager. At the project level, InfraRed ensures that the highest standard of Health & Safety compliance is being adhered to through external Health & Safety reviews as well as the annual ESG survey.

Over the year, InfraRed's Asset Management team proactively engaged with HICL's portfolio companies to improve performance against our Health & Safety metrics, three

of which are now at 100% compliance. Although RIDDORs (or equivalent non-UK measure) per project increased slightly from 0.38 to 0.48, this was not indicative of any specific shortcoming in health and safety standards across HICL's portfolio companies.

Moving forward, InfraRed will focus on increasing the percentage of the portfolio which have Health & Safety inspections by both the InfraRed Asset Manager and an independent party through a new metric and associated target as set out on page 11.



InfraRed Charitable Foundation

The InfraRed Charitable Foundation, which was launched in 2020 has partnered with charities working hard to improve social mobility. To date, the foundation has pledged £130,000 to the three charities listed below. As described on page 19, the donation to Magic Breakfast has already had a tangible impact on the lives of some of the children served by HICL's schools.

InfraRed has also pledged £100,000 to the selected organisations helping communities affected by the crisis in Ukraine. An initial £30,000 will be allocated to four small charities which can offer immediate humanitarian aid, with the remainder set aside to fund medium to long-term initiatives targeted at rebuilding the lives of those affected by the crisis.



Magic Breakfast's goal is for there to be no child in the UK too hungry to learn. They work with over 1,000 Primary, Secondary and ASL/Special Educational Needs schools, plus Pupil Referral Units, offering breakfasts to over 200,000 children each school day.

www.magicbreakfast.com

£50k pledged to Magic Breakfast



WORKING CHANCE
Unlocking women's potential

Working Chance is an organisation which supports women with convictions to develop the confidence, self-belief and skills they need to find meaningful employment and matches them with employers.

<https://workingchance.org>

£80k pledged to Working Chance



Switchback enables young men to find a way out of the justice system through education, training and long term work, enabling them to build a stable, rewarding life they can be proud of.

<https://switchback.org.uk>

£80k pledged to Switchback

Diversity & Inclusion

The Company maintained its focus on diversity and expertise at Board level. HICL meets the expectations of both the Hampton-Alexander Review and the Parker Review. As at 31 March 2022, 37% of the Directors were women, and 12% of the Directors were from an ethnic minority. At a project level, the percentage of female InfraRed-appointed portfolio company directors has fallen from 35% as at 31 March 2021 to 22% as at 31 March 2022. This reflects the continued evolution of InfraRed's Asset Management team during the year, including role changes, promotions, new hires and staff leaving the business or retiring. The Investment Manager has implemented measures to improve the diversity within its talent pool, and recognises that it will take time to fully realise the benefits of the actions it is taking today.

In August 2021, InfraRed launched a mandatory diversity & inclusion training programme for its UK employees which

achieved a 100% completion rate. The Investment Manager also has a Diversity & Inclusion committee with diverse representation which meets monthly to discuss and implement initiatives which foster a culture of open dialogue and awareness amongst our staff.

The small number of HICL portfolio companies who employ staff directly have a current and appropriate diversity and inclusion policy in place and regularly discuss the subject at board meetings. This ensures that the portfolio companies are promoting a culture of equal opportunities for their staff and for board appointments. For the majority of portfolio companies where there are no direct employees, InfraRed ensures that all direct service delivery partners, such as HICL's facilities management counterparties, have a diversity and inclusion policy in place.

Recirculate

In 2021, InfraRed, Bouygues Energies & Services and Vercity launched the Lifecycle project, which took unwanted bicycles, saw them renovated by prisoners as part of a rehabilitation and upskilling programme and donated them to NHS workers. The project leverages the extended corporate network of the three businesses to source unwanted products, upcycle them and give them to key workers and others who will benefit most. So far,

bikes have been donated to key workers at two of HICL's hospital projects.

Going forward, the three companies intend to develop the initiative, which is being rebranded as Recirculate, beyond bicycles to other products such as education equipment.

Case Study: Education



Overview

HICL's portfolio includes 43 schools, colleges and university facilities, serving over 140,000 students in any given year. The Company is therefore well placed to make a meaningful impact by improving the educational experience of young people. Fair and equal access to good education is an essential part of any modern society, since disadvantage at an early stage in a child's development has pervasive, long-lasting effects on their overall life outcomes.

While many factors determine individuals' and communities' social mobility, the Board and Investment Manager firmly believe that education is fundamental to improving it, particularly for younger generations. This is why InfraRed has initially targeted the schools within HICL's portfolio as part of its effort to improve social mobility within the communities served by the Company.

InfraRed Education Taskforce

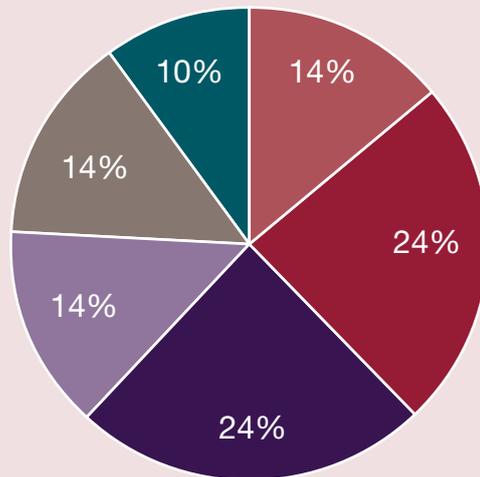
In 2021, the Investment Manager set up the InfraRed Education Taskforce, a working group aimed at engaging with the schools in HICL's portfolio to uncover the unique challenges they face and create targeted solutions to address the needs of teachers and students.

One of the first initiatives launched by the taskforce was to get new or recycled laptops into classrooms and assigned to disadvantaged learners in an effort to reduce the digital divide. This built on the success of InfraRed's own laptop donation programme, where 78 laptops were donated to three schools in the HICL portfolio to assist with remote learning during the height of the Covid-19 pandemic. Today, the taskforce is working with InfraRed and HICL's partners to continue the provision of laptops and roll out an IT training scheme, which will ensure that learning is maximised and pupil outcomes are improved.

Encouraged by this initial success, the taskforce reached out to headteachers across HICL's schools portfolio via a dedicated survey, with the aim of better understanding the greatest issues faced by their schools on a day-to-day basis. The findings revealed the sheer diversity and gravity of issues that schools across the UK are dealing with. Alarmingly one quarter of all respondents indicated that child hunger was the greatest issue they were experiencing while another quarter indicated that poor IT was most problematic.

In response to these findings, InfraRed worked with HICL's portfolio companies to implement a number of initiatives with a special focus on addressing child hunger, two of which are described overleaf. By doing so, HICL is directly addressing social mobility: adequate nourishment is integral to quality education and education in turn is key to improving social mobility.

Over the coming year, the Investment Manager plans to conduct further surveys covering a broader subsection of the portfolio. The responses will be used to drive future social engagement initiatives, and also measure the level of satisfaction felt by our clients and key stakeholders with respect to service delivery.



- Child hunger
- Scarcity of books
- Scarcity of musical instruments
- Scarcity of sports facilities
- Student wellbeing
- Poor IT



Community Fridge

The Community Fridge at Co-op Academy Failsworth School (part of HICL's Oldham Schools project) was one of the first projects of its type in the UK based at an education setting. It provides fresh food from local supermarkets, which would otherwise have gone to waste, to those most in need in the community, including the parents of children at school.

During the summer of 2021, the Community Fridge was open each day of the summer school holidays for two hours and was accessed every single day. The project has become a cornerstone of the community owing to the commitment from the pastoral team at Failsworth School to launch, develop and sustain the project over the last 12 months.

The scheme was supported financially by contributions from HICL's portfolio company and its service delivery partners, and has become an excellent case study within the Education Taskforce of a scalable project targeting food poverty, which could be implemented at other schools within the HICL portfolio.

"Failsworth is an incredibly close-knit community where people look out for each other. It is fantastic that Co-op Academy Failsworth has joined in this spirit by establishing this Community Fridge. No family should have to worry about where their next meal is going to come from but sadly the reality is that many still do, and this can impact upon children's education. It's nothing to be ashamed of to need this kind of help and I would encourage any members of the community who would benefit from accessing the Community Fridge to get in touch with the Academy."

Angela Rayner MP



Magic Breakfast

Magic Breakfast was founded in 2001 with a mission to ensure no child starts their day too hungry to learn. Pre pandemic, they estimated that 1.7m children were at risk; they now believe this has risen to c 2.3m children at risk. They are currently working with over 1,000 schools in England and Scotland.

As noted on page 17, The InfraRed Charitable Foundation has pledged an initial £50k to Magic Breakfast. The charity estimates that this will create an equivalent economic benefit of £2.5m to the communities served, through improved life-time earnings for the beneficiaries, reduced costs for Special Educational Needs, and a reduction in truancy.

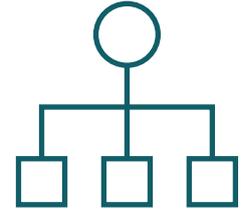
Magic Breakfast is currently working with 5 schools in the HICL portfolio. Supporting a charity with the reach of Magic Breakfast will also allow InfraRed to support schools beyond HICL's portfolio, thereby leveraging the Investment Manager's position to make a greater social impact.

InfraRed is exploring further partnerships with the charity and also held a breakfast in its London office to raise awareness of child food poverty and Magic Breakfast, and in the process helped raise additional funds for the charity.

"Providing breakfast for our children has removed barriers to learning for so many children and changed the start of the school day for our whole community. It has revolutionised the atmosphere in our Academy in the mornings: children come in, eat their bagel and are ready to learn!"

Headteacher at a Magic Breakfast School

8 Governance



For HICL to act in a sustainable manner, it is critical that its Board, Investment Manager and portfolio companies are accountable for their actions.

HICL's robust and ambitious corporate governance framework helps to ensure this is delivered, and provides investors with transparency on the Company's sustainability strategy and the wider impact environmental and societal impact of their investment.

The Board is responsible to shareholders for the overall direction and oversight of the Company, including sustainability matters. Further details on the Company's general approach to corporate governance can be found in the Corporate Governance section of HICL's Annual Report 2022.

Role of the Board and Committees

The Board has overall responsibility for sustainability and ensuring it is fully integrated into all aspects of the Company's operations. It also has responsibility for HICL's Sustainability Policy and other related policies (including Modern Slavery, Health & Safety and Anti-Bribery), which are subject to continued development.

Sustainability is a theme which runs across HICL's business, and as such it forms an integral part of the Board's role. This stems from its Terms of Reference where "sustainability, including the potential impact of climate change" is set out as a key strategic and financial consideration.

The Board is supported in its role by HICL's various committees, who provide discussion, support and challenge. Some of these have specific responsibilities in relation to sustainability, for example:

- ▲ The Risk Committee oversees and challenges InfraRed's risk management processes and analysis, and has a specific remit to examine 'horizon' risks such as the long-term consequences of climate change;
- ▲ The Management Engagement Committee considers how HICL service providers adhere to HICL's Sustainability Policy; and
- ▲ The Audit Committee reviews the Company's approach to disclosures, including regulatory disclosures, HICL's sustainability metrics and targets, and disclosures relating to climate change.

Role of InfraRed

The application of HICL's Sustainability Policy and wider sustainability strategy is undertaken by InfraRed. InfraRed publishes its own sustainability policy, and sets out its strategy, roles and responsibilities in its Sustainability Report¹.

The Investment Manager has a dedicated Sustainability team, which is responsible for developing and implementing InfraRed's sustainability programme. InfraRed's Head of Sustainability, Kate McKeon, reports directly to the CEO, who is ultimately accountable for InfraRed's sustainability strategy and policy. InfraRed has also appointed Sarah Gledhill as Director, Stakeholder Engagement, who co-ordinates InfraRed's approach to stakeholder engagement in combination with the Asset Management team.

It is the responsibility of all InfraRed staff to incorporate sustainability considerations into the delivery of their day-to-day role. Their contributions to sustainability are measured against specific sustainability performance objectives which have been established for the various business functions at InfraRed, as well as specific objectives for the members of our senior leadership team and Investment Committees. In turn, these performance objectives are linked to discretionary compensation. In the future, InfraRed will communicate to staff what proportion of their annual compensation was related to sustainability, and intends to introduce more quantitative indicators to measure sustainability performance.

Investment Policy and Screening

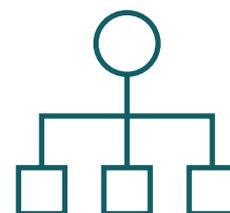
During the year InfraRed's Sustainability and Origination & Execution teams worked together to review and further enhance the sustainability requirements in the Investment Manager's pre-investment processes.

Key changes included the requirement to complete a climate change risk assessment for new investments and the incorporation of KPIs from InfraRed's annual ESG survey into the pre-investment due diligence process. These changes will help to provide a more accurate assessment of sustainability performance prior to investment, which can be addressed in either the valuation and/or risk mitigation plans, and ensure regulatory compliance. The updated sustainability investment and management framework is set out below.

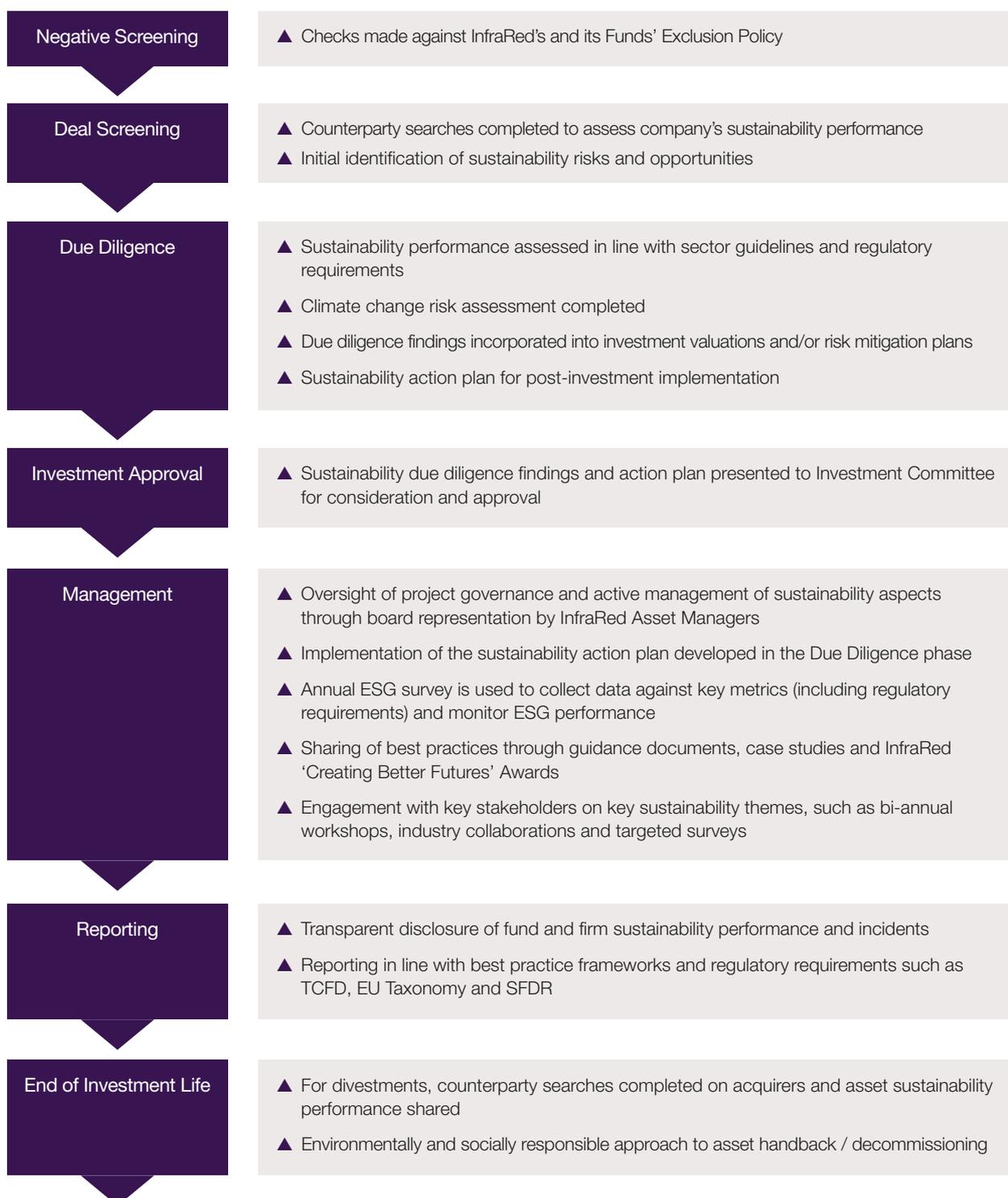
As a responsible investor, InfraRed has a responsibility to ensure that HICL's assets do not have a negative impact on the environment or the communities served by the Company. During the year, InfraRed updated its exclusions policy, which sets out business activities, products and conduct that the Investment Manager will not facilitate through acquiring assets on behalf of HICL. The policy is underpinned by extensive due diligence and upheld by the Investment Committee following consultation with the Sustainability team.

InfraRed's exclusions policy is a key part of HICL's broader sustainability governance framework. It is published on InfraRed's website and will continue to be reviewed on a regular basis.

¹ Available at: www.ircp.com/sustainability

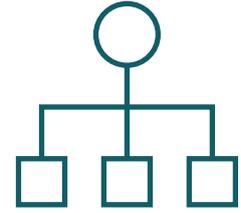


InfraRed sustainability investment and management framework



Sharing of best & continuous improvement

8 Governance (continued)



Governance of Portfolio Companies and Active Management

In order to ensure that HICL's partners adhere to the highest standards of corporate conduct, InfraRed conducts an annual ESG survey. First launched in 2014, it seeks to ensure that each of the Group's portfolio companies and sub-contractors have appropriate sustainability policies in place and that these are followed in the delivery of the services to clients and end users. Project companies are required to provide a copy of each of policy, which is then verified by an independent auditor, to ensure that the policy is sufficient and has been updated within the last 18 months.

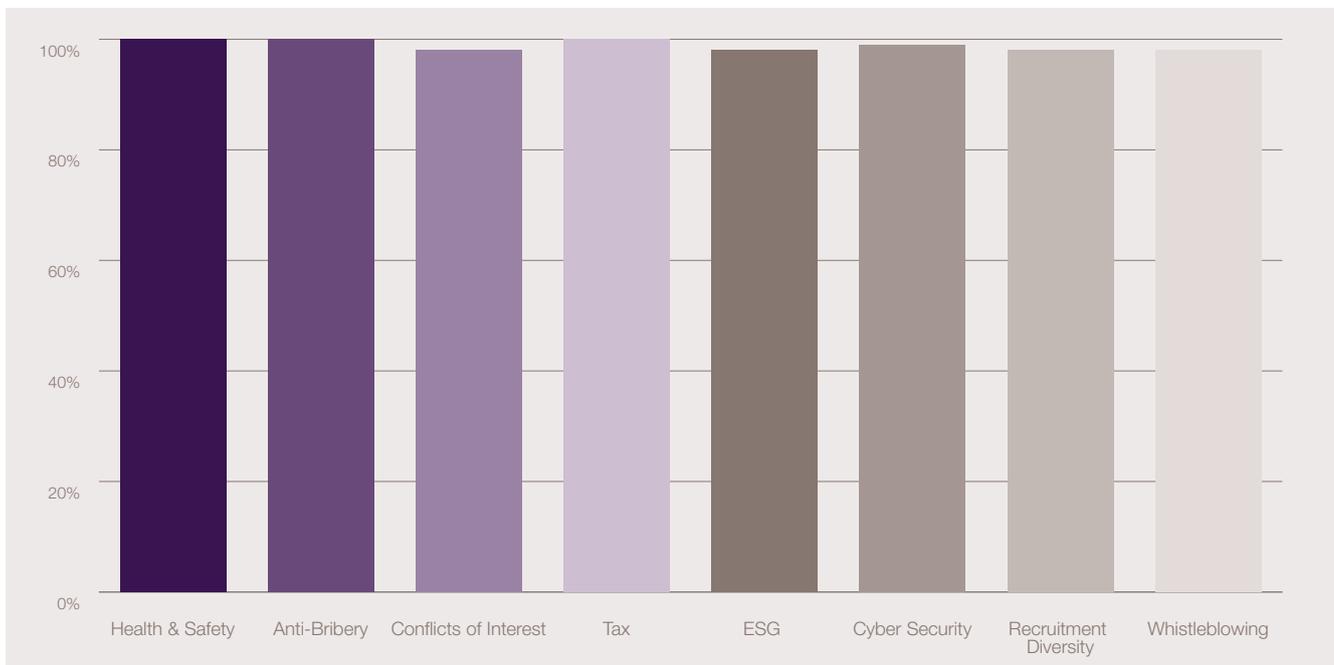
More generally, the ESG survey is a key governance tool. The data collected forms the basis of a number of the metrics and targets on pages 10-11, and will also underpin InfraRed's alignment with the EU's SFDR requirements which are described in more detail overleaf.

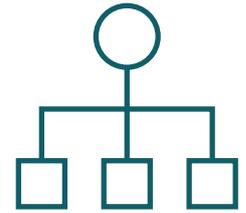
InfraRed takes an active role in ensuring that HICL's portfolio companies, delivery partners and stakeholders are aligned with the Company's high standards for sustainability. Over the year,

the Investment Manager hosted two ESG workshops which were open to the management service providers, facilities management providers and management teams of all of the Company's projects. InfraRed also facilitates a number of initiatives to support the implementation of sustainability best practice, including:

- ▲ **InfraRed Asset Management portal:** a cloud based information management system that enables the simplification and streamlining of storage and accessibility of the project companies reporting, records and administrative tasks
- ▲ **The Knowledge Centre:** a library to share best practice and lessons learnt for the project companies and contribute to a continuous feedback loop
- ▲ **Sustainability Best Practice Guidance:** sets out best practice guidelines that InfraRed expects all project companies to adhere to in terms of sustainability
- ▲ **Climate Change Best Practice document:** guidance on how to implement the findings of the climate change risk assessment in order to improve the climate resilience of the project

Percentage of portfolio companies with the following policies in place





Regulatory Frameworks

HICL and InfraRed's commitment to sustainability best practice is demonstrated through the Company's continued alignment with a number of key regulatory frameworks in the period.

Sustainable Finance Disclosure Regulations ("SFDR")

During the year, the Company has continued to embrace the requirements set out under the EU Sustainable Finance Disclosures Regulations ("SFDR") regime, and has been compliant with the relevant provisions of the Level 1 requirements of SFDR since they came into force in March 2021. The Board notes that as a UK-listed, UK-domiciled investment trust, HICL is not legally required to meet these requirements but sees them as best practice.

InfraRed engaged a specialist sustainability consultant to undertake a detailed review of HICL's alignment with SFDR. This involved identifying material ESG considerations for each of HICL's sub-sectors, based on standards set out by the Sustainability Accounting Standards Board ("SASB"), which then informed the overall environmental or social characteristics promoted by the fund.

The results of this review indicated that because it provides access to critical social infrastructure, HICL should be categorised as an Article 8 Fund, which is defined as:

"a Fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices"

On 6 April 2022, the European Commission adopted the final Regulatory Technical Standards ("RTS") under SFDR, which are expected to apply from 1 January 2023². As a result, the Company will be required to significantly enhance its disclosure in May 2023 in line with its classification as an Article 8 Fund. This is particularly relevant in the case of Principal Adverse Impact ("PAI") indicators, which will need to be provided in a standard template format based on data for the calendar year to 31 December 2022.

The data required to calculate HICL's PAIs will be gathered from InfraRed's annual ESG survey. In order to help HICL's portfolio companies prepare for this significant data collection exercise, InfraRed included the relevant questions in its most recent survey. This will enable the Investment Manager to provide targeted support where required. The Company intends to report this data in HICL's 2023 Sustainability Report, which will build upon and enhance the disclosure currently provide by the Company's existing sustainability metrics, which are set out on pages 10-11.

Over the coming year, InfraRed will be taking steps to calculate HICL's degree of alignment with the EU Taxonomy. The EU Taxonomy is a tool which seeks to classify economic activities as environmentally sustainable, based on a detailed set of criteria.

The existing EU Taxonomy is primarily focused on environmental impact, which is likely to be more relevant for renewable infrastructure funds. However, the Investment Manager welcomes the proposed introduction of a Social Taxonomy, and will also assess the Company's alignment with this framework when more information is available.

The Board and the Investment Manager will continue to closely monitor UK's emerging approach to similar non-financial disclosures, including the recently announced Sustainability Disclosures Requirements ("SDR").

Task force on Climate-related Financial Disclosures



The recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), of which both HICL and InfraRed are supporters, is the established framework for consistent, comparable and clear reporting on a company's approach to climate change and assessing its potential impact on the company.

HICL began voluntarily reporting against a subset of the 11 TCFD disclosure recommendations in its 2020 Annual Report & Financial Statements. For the second successive year, HICL is able to report across all 11 recommended disclosures, despite full compliance with the recommendations only becoming mandatory in the most recent financial year.

The Company's full disclosure is set out on pages 26-31. Both the Board and Investment Manager share the view that TCFD should be viewed through the lens of continuous improvement, and are pleased to report a number of enhancements to HICL's disclosure across all four pillars of the TCFD framework:



Governance: Climate change impact assessment incorporated into InfraRed's pre-investment framework as a formal requirement



Strategy: InfraRed's Climate Change Best Practice guidance issued to project companies



Risk: Climate risks adopted by 88% of HICL portfolio companies and embedded into InfraRed's quarterly reporting



Metrics: Full measurement and disclosure of Scope 1, 2, 3 emissions for all of HICL's project companies for 2019; InfraRed commitment to achieve net zero for HICL by 2050 and publish interim targets for 2030

² The European Commission has invited the European Supervisory Authority to develop further amendments to SFDR, but this is not expected to materially impact the final RTS

9 Emissions Reporting

This is the Company’s first year of measuring and disclosing the Scope 1, 2 and 3 greenhouse gas emissions for its entire portfolio

As set out in the case study on pages 14-15, InfraRed undertook an extensive data collection exercise during the year to measure HICL’s portfolio emissions for the calendar year to 31 December 2019, which will act as a baseline. Moving forward, InfraRed will continue to work with HICL’s portfolio company management teams, and in their supply chains, to improve the availability and quality of future emissions data which will be collected and reported on an annual basis.

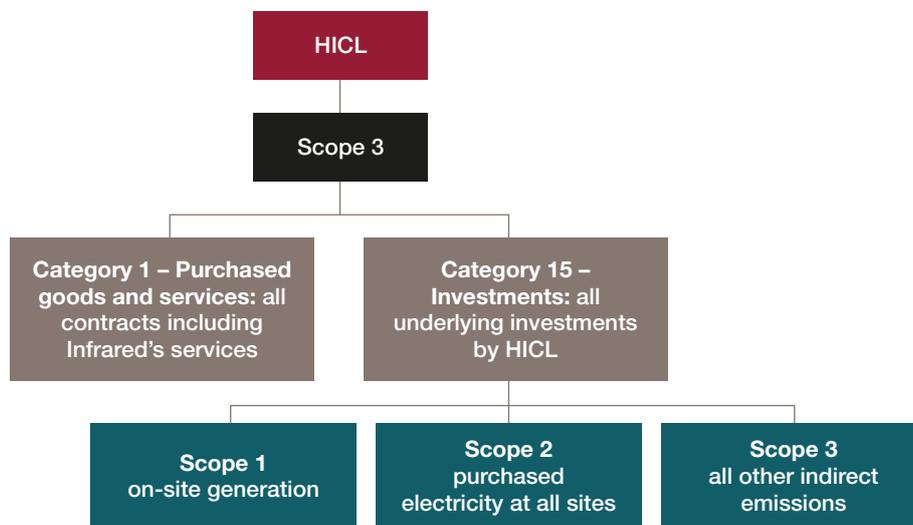
HICL has measured its Scope 1, Scope 2 and Scope 3 emissions in accordance with the GHG Protocol and the Partnership for Carbon Accounting Financials (PCAF), both of which are recognised standards for accounting on corporate emissions methodology.

Organisational and operational boundaries

In accordance with the guidance developed by PCAF, HICL has adopted the operational control approach as the Directors believe this reflects the level of emissions that can be actively controlled and reduced. There are no subsidiaries where HICL has operational control. As a result, HICL does not have any emissions under its Scopes 1 and 2 and all emissions will be solely reported as part of Scope 3.

As HICL is an investment fund, its emissions fall under two categories within Scope 3 as defined by PCAF:

- ▲ Category 1: Purchased goods and services, which relates to the office use and travel of the employees of the Investment Manager, the Board of Directors, and the Company Secretary
- ▲ Category 15: Investments, which relates to the emissions of HICL’s assets



Within Category 15 – Investments, the emissions can be further split by Scope 1, Scope 2 and Scope 3 for the underlying portfolio companies. Current guidance recommends that within Category 15 – Investments, that investments funds should measure and disclose the Scope 1 and 2 emissions of all portfolio companies. We are aware, however, that best practice is to incorporate the Scope 3 emissions.

Given InfraRed’s net zero commitments, it has elected to incorporate Scope 3 emissions of the portfolio companies within its overall emissions reporting for HICL.

Comparison against previous approach

In prior years, HICL has voluntarily reported Category 15 emissions solely where individual investments had operational control over their emissions, which is applicable only to Affinity Water, HS1, Belfast College and Northwest Parkway. On this basis, HICL’s total Scope 3 emissions for the year ending 31 December 2021 were **20,437 tCO₂e**, a slight reduction from the **20,835 tCO₂e** previously reported for the year ending 31 December 2020.

This year the Company is going further by disclosing emissions for the entire portfolio, despite the fact that the majority of HICL's portfolio companies do not have control over their emissions. This represents a substantial improvement in disclosure reflects the Company's commitment to become a leader across the industry in terms of sustainability disclosures more generally.

Emissions data

In accordance with the PCAF methodology, financed emissions should be attributable to the investment fund based on the proportional share of equity held in the portfolio companies. HICL's attributable emissions have been calculated in accordance

with the PCAF attribution factor for project finance as set out below:

$$\text{Attribution Factor} = \frac{\text{HICL Equity Value}}{\text{Total Equity Value} + \text{Total Debt}}$$

The following table sets out HICL's absolute and attributable emissions for the calendar year ending 31 December 2019. Emissions from HICL's construction assets, namely Paris Sud University and Blankenburg Tunnel, have been reported separately as they account for a disproportionate amount of the total portfolio emissions.

| Scope | Definition | 31 December 2019 | |
|---|---|---------------------------------|-------------------------------------|
| | | Absolute Emissions | Attributable Emissions ¹ |
| Scope 1 | Direct GHG emissions – occur from sources that are owned or controlled by the organisation | Nil | Nil |
| Scope 2 | Indirect GHG emissions – occur from the generation of purchased electricity, heating, cooling and steam | Nil | Nil |
| | Category 1, emissions from indirect purchased goods and services | 127 tCO ₂ e | 127 tCO ₂ e |
| Scope 3 | Category 15, emissions from all operational investments | 169,271 tCO ₂ e | 28,000 tCO ₂ e |
| | Category 15, emissions from all investments under construction | 311,690 tCO ₂ e | 35,694 tCO ₂ e |
| Total emissions from Scopes 1, 2 and 3 | | 481,088 tCO₂e | 63,821 tCO₂e |

Key Assumptions

In order to inform InfraRed's net zero target setting process, the Investment Manager has chosen to measure and report the emissions associated with the 2019 baseline year. In its Sustainability Report 2023, HICL will disclose the emissions associated with the 2022 calendar year. 2019 was selected as a baseline year as 2020 was not a representative year given the distorting effects of the Covid-19 pandemic.

Due to the lack of information provided, refrigerant emissions were not included as part of the baseline emissions. However, these emissions are not expected to be material for the portfolio. The intention is to work with the portfolio companies to improve data collection for refrigerants in the future. With the exception of refrigerants, all other greenhouse gases have been measured.

Most of the Scope 1 and 2 emissions related to investments have been calculated using the physical activity-based approach (PCAF data quality score of 3). The emissions factors from the UK Department of Business, Energy & Industrial Strategy (BEIS) were used. For international assets, the relevant internal emission factors from the International Energy Agency were used.

The GHG Protocol Quantis tool was used for calculating Scope 3 emissions where activity data was not available (PCAF data quality score of 5). As this was the first year this exercise had completed, there were several challenges faced in respect to the availability and reliability of the data provided, particularly for Scope 3 emissions related to the project supply chain. It is recognised that this is an industry-wide challenge in an emerging field and will improve over time.

¹ Equity valuation and debt figures calculated as at 31 March 2022

10 Sustainability Disclosures

Task Force on Climate-related Financial Disclosures



The tables below set out the Company's disclosure against the 11 TCFD recommendations. The information set out below provides key climate-related information and cross-references to where additional information can be found. We confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, we acknowledge there are certain areas where the Company is in the process of gathering and publishing more data. More information on these areas can be found in the below disclosures.



Governance

| Recommendation | Disclosure |
|---|--|
| <p>1 Describe the Board's oversight of climate-related risks and opportunities</p> | <p>The Board has overall responsibility for the oversight of HICL's sustainability risks and opportunities, of which climate change is an important subset. The Board and the Investment Manager meet on a quarterly basis, during which they review the risks facing the Company, including risks related to climate change. Sustainability is also a key topic at the Board's annual strategy meetings.</p> <p>Some of the Board's committees also have key roles:</p> <ul style="list-style-type: none"> ▲ The Risk Committee oversees and challenges InfraRed's risk management processes and analysis, and has a specific remit to examine 'horizon' risks such as the long-term consequences of climate change; ▲ The Management Engagement Committee considers how HICL service providers, including InfraRed, adhere to HICL's Sustainability Policy; ▲ The Audit Committee reviews the Company's approach to disclosures, including those relating to climate change. <p>In relation to climate-related opportunities, the Investment Manager presents a review of the market to the Board on a quarterly basis. As part of this review, potential new acquisition opportunities are highlighted, including those which directly support the transition to a low-carbon economy. Although management of the portfolio, as well as investment decisions within agreed parameters, is delegated to InfraRed as the Investment Manager, the Board has overall responsibility for the Company's Investment Policy.</p> |



Governance (continued)

Recommendation

Disclosure

2 Describe management's role in assessing and managing climate-related risks and opportunities

The application of HICL's Sustainability Policy to making new investments and the management of HICL's portfolio is undertaken by InfraRed, as Investment Manager and Operator. This includes the day-to-day monitoring, evaluation and management of risks, including those linked to climate change. The Investment Manager's risk framework explicitly considers climate-related risks across its Portfolio Performance, Political and Operational – Execution risk classes.

In 2020, InfraRed commissioned a detailed climate change impact assessment to identify and assess climate-related risks and opportunities in the portfolio. The Investment Manager used the results of this exercise to transform the management and reporting of climate-related risks at portfolio company level. The vast majority of HICL's portfolio companies have adopted the findings of the assessment by discussing climate-related risks and opportunities at board level and including these on their risk registers.

InfraRed's Asset Management Team ensures the timely reporting of project-specific risks relating to climate change to the HICL Fund Management Team as and when they arise; the HICL Investment Committee also undertakes a formal review of all project-specific risks on a quarterly basis. This process ensures that material climate-related risks feed into the Investment Manager's quarterly reporting to the Risk Committee, which in turn reports to the Board.

InfraRed is also responsible for incorporating climate-related risks and opportunities into the investment process, which applies for all new acquisitions. During the year InfraRed's Sustainability and Origination & Execution teams worked together to review and enhance the sustainability requirements in the Investment Manager's pre-investment processes. One of the key changes included the requirement to complete a climate change risk assessment, which is now a formal condition of transaction approval. The results of this assessment are factored into the valuation and/or risk management processes (where relevant) and presented to the Fund's Investment Committee as part of the formal investment approval process.

10 Sustainability Disclosures (continued)



Strategy

Recommendation

Disclosure

3 Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

Through its detailed climate change impact assessment, the Investment Manager has identified that in the short term, based on current climate conditions, a subset of assets in which HICL has invested are exposed to acute and chronic physical risks arising from different extreme weather events, but the overall exposure is limited and mitigations are in place. The Company may also be exposed to transition risks if there are rapid, unexpected changes to government policy.

Beyond 2040, based on a 4°C scenario, there is slightly increased exposure to physical risks. Under a 1.5°C scenarios the impact of transition risks could be greater, but many assets have inherent protection as they provide vital services and have low direct emissions. Conversely, there is likely to be greater scope to take advantage of opportunities arising from the energy transition, such as asset repurposing and additional investment.

HICL's main physical risk exposures based on both current and future conditions are to winter storms, river flooding and coastal flooding, which is expected based on the weighting of the portfolio towards Northern Europe. Geographical location is also an inherent mitigant against other physical risks such as drought and heat stress. Although some assets have very high exposure to flooding, significant physical mitigation already exists in the form of flood defences, particularly in low-lying countries such as the Netherlands. The potential annual loss across the portfolio from wind storms and flooding is not expected to be material, with mitigation measures further reducing any impact in 'severe' years. HICL's assets benefit from comprehensive insurance policies, which include physical damage as a result of climate-related events.

Examples of potential transition risks under a 1.5°C scenario include increased public transport use, a reduction in overall journeys, car sharing, which could impact some of HICL's demand-based assets. Such a scenario is also likely to present a number of opportunities for the Company at both the asset and market level, some of which are set out in section five below.

4 Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

The primary impact of climate change for HICL is likely to be borne by its portfolio companies: increased operating costs or reduced revenues as a result of physical risks materialising. In many cases physical mitigation measures already exist and there is a degree of contractual protection from increased costs to implement further measures. Such risks are likely to be exacerbated under a 4°C scenario, whereas under a 1.5°C scenario assets are more likely to be impacted by transition risks.

The results of the climate impact assessment feed into the Company's strategy in a number of ways. During the year, InfraRed rolled out its Climate Change Best Practices guidance to portfolio companies, and provided support through regular ESG workshops. In conjunction with Mott MacDonald, InfraRed will also produce guidance for portfolio companies to enable them to reduce their greenhouse gas emissions. Finally, understanding the risks and opportunities from climate change (including under a 1.5°C scenario) instructs future acquisition screening and strategic portfolio construction.

During the year, a review of insurance costs was undertaken across the portfolio. As is common with real assets, insurance is one of the primary risk mitigants against the financial impact of physical damage. In the future, and particularly under a 4°C scenario, it is possible that the cost of obtaining insurance increases as a result of the increased likelihood of severe weather events, although this is likely to be limited to a small number of assets.

In March 2022, HICL renegotiated a £400m Revolving Credit Facility ("RCF") which continues to link the margin on the facility to performance against five ESG targets. This demonstrates HICL's commitment to its wider sustainability strategy by embedding it within the financing structure of the Company.



Strategy (continued)

| Recommendation | Disclosure |
|--|---|
| <p>5 Describe the resilience of the organisation's strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario</p> | <p>The portfolio-level findings of the climate change impact assessment demonstrate that the Company's strategy is highly resilient to both physical and transition risks associated with climate change.</p> <p>Under a 'current' climate scenario, only eight assets have an unmitigated physical impact index above 3.0 (medium) This rises to 19 assets under a 4°C scenario, demonstrating the resilience of the portfolio even in the event of extreme climate change. Under a 1.5°C scenario, the Group is more exposed to transition risks, but these are mitigated through the essential nature HICL's investments, and the contractual risk allocation that exists through concession agreements.</p> <p>A transition to a low carbon economy also presents a number of opportunities. The primary example is the need for related investment such as rapid charging or retrofitting of energy efficiency solutions. A key tenet of HICL's vision is to support sustainable modern economies by investing in assets linked to the energy transition, and a 1.5°C scenario is likely to increase the number of investable opportunities in this space.</p> |



Risk

| Recommendation | Disclosure |
|--|---|
| <p>6 Describe the organisation's processes for identifying and assessing climate-related risks</p> | <p>For new acquisitions, climate-related risks are considered throughout the investment process by the Investment Manager. At the deal screening phase, the identification of climate-related risks (physical or transition) and the potential impact (positive or negative) are mandatory requirements.</p> <p>During the year InfraRed's Sustainability and Origination & Execution teams worked together to review and enhance the sustainability requirements in the Investment Manager's pre-investment processes. One of the key changes included the requirement to complete a climate change risk assessment, which is now a formal condition of transaction approval.</p> <p>Further details are provided in HICL's Sustainability Report 2022.</p> <p>For existing projects, risks have been identified and assessed through a detailed climate change impact assessment, as set out in the HICL 2021 Sustainability Report¹. The Company's portfolio companies use the results of this assessment to undertake proactive monitoring and assessment at the project level.</p> |

¹ <https://www.hicl.com/wp-content/uploads/2021/06/HICL-Sustainability-Report-2021.pdf>

10

Sustainability Disclosures (continued)



Risk (continued)

Recommendation

Disclosure

7 Describe the organisation's processes for managing climate-related risks

Over the year, InfraRed's Asset Management team engaged with the management teams of HICL's portfolio companies. Using the climate change impact assessment, the vast majority of HICL's portfolio companies have adopted the findings by discussing climate-related risks and opportunities at board level, updating risk matrices and developing and implementing mitigation and resilience strategies as appropriate.

InfraRed's Asset Management Team ensures the timely reporting of project-specific risks relating to climate change to the HICL Fund Management Team as and when they arise; the HICL Investment Committee also undertakes a formal review of all project-specific risks on a quarterly basis. This process ensures that material climate-related risks feed into the Investment Manager's quarterly reporting to the Risk Committee, which in turn reports to the Board.

The Company's positioning with respect to a transition to a low-carbon economy is primarily considered through the Investment Manager's active approach to asset management and portfolio construction. HICL's core infrastructure investments provide essential services to communities, and as a result are inherently well positioned. For HICL's PPP projects, energy use is driven by the client, with the portfolio company generally responsible for maintaining the equipment which provides the building's heating, cooling and lighting. Any changes to these systems required under a 1.5 degrees scenario would usually be accounted for under existing lifecycle budgets or alternatively treated as a contract variation. In relation to HICL's GDP-correlated demand-based assets such as toll roads, which may be exposed to transition risks and opportunities under a 1.5 degrees scenario, these benefit from strong strategic positioning. The Company also invests directly in assets which are likely to benefit from a low-carbon transition, such as OFTOs.

More broadly, InfraRed's exclusion policy specifically covers carbon-intensive industries such as coal, oil and gas (where not aligned to a low-carbon transition) and HICL does not invest in assets whose primary purpose is electricity generation.

8 Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Sustainability considerations are incorporated into the Investment Manager's risk management framework, which is used as the basis of risk reporting to the HICL Risk Committee. In particular, sustainability features as a material risk in the following risk classes:

- ▲ Political risk: in particular, policies associated with the transition to net zero carbon emissions;
- ▲ Operational risk – execution: through transaction due diligence and investment decisions;
- ▲ Portfolio performance risk: sustainability risks can affect operational performance, including transitional and physical risks associated with adverse climate change.

Climate change risk is an explicit building block of portfolio performance risk. Individual project companies submit regular progress reports to InfraRed on the mitigation measures they are taking in response to the climate change impact assessment. In turn, this enables the HICL Risk Committee to consider the overall impact and opportunities of climate change at fund level.

Further details are provided in Section 3.4 – Risk & Risk Management



Metrics

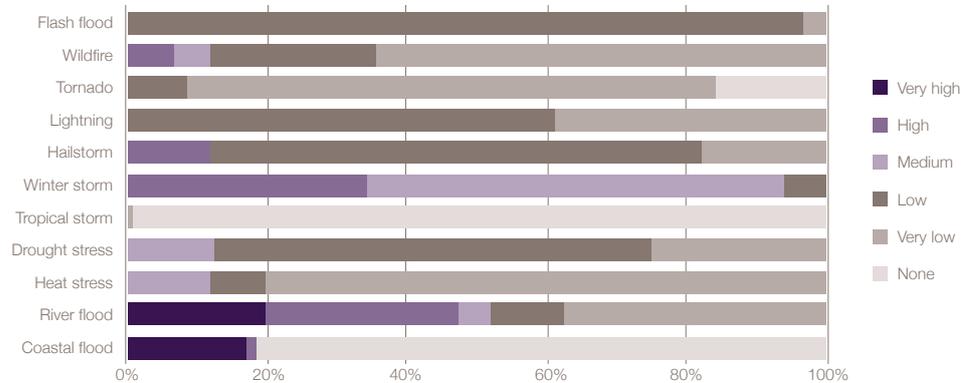
Recommendation

Disclosure

9 Disclose the metrics used by the organisation to assess climate-related risks and opportunities

As noted below, HICL has disclosed the combined Scope 1, 2 and 3 greenhouse gas emissions of its entire portfolio for the 2019 baseline year. These can be found on page 25 of HICL's Sustainability Report 2022. The accurate measurement and disclosure of emissions forms an important part of InfraRed's wider strategy relating to InfraRed's net zero commitments, further details of which are provided in HICL's Sustainability Report 2022. Although only 39% of portfolio companies reported their Scope 1 and 2 emissions as part of InfraRed's most recent ESG survey, the data collection exercise as part of InfraRed's net zero commitment will ensure that Scope 1, 2, and 3 emissions are routinely captured for all projects in future years.

As set out in section 7, HICL's portfolio is well positioned for a 1.5 degrees scenario, although the degree of alignment varies by sector and also by remaining concession length. Currently, 14% of the portfolio by value is fully aligned, representing Affinity Water and High Speed 1 which have already committed to achieve net zero by 2030. InfraRed's commitment to achieve net zero for HICL's entire portfolio by 2050 will ensure that this percentage rises to 100% over time. The chart below sets out the portfolio exposure (by number of projects) to physical climate risks based on current climate conditions, without mitigation:



10 Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions, and the related risks

Due to the nature of its business, HICL has no Scope 1 or Scope 2 greenhouse gas emissions. The Company's Scope 3 emissions primarily relate to the emissions of its portfolio companies, although there is also a small contribution from office use and business travel (which is offset using an accredited scheme). In previous years, HICL voluntarily disclosed certain Scope 3 emissions based on an operational control boundary approach. This year, the significant data collection exercise undertaken as part of InfraRed's net zero commitment allows for significantly enhanced disclosure. The combined Scope 1, 2 and 3 greenhouse gas emissions of HICL's entire portfolio for the 2019 baseline year can be found on page 25.

11 Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

One of the key ways in which climate-related risks can be reduced in the long term is through a global reduction in greenhouse gas emissions. By joining the Net Zero Asset Manager initiative, InfraRed has committed to achieve net zero greenhouse gas emissions for HICL's portfolio by 2050. It is also required to set interim reduction targets, which will include for HICL's portfolio. These will be published over the coming year. The Company has considered the sensitivity of its business strategy to a 1.5 degrees scenario, and does not assess this to be material due to the reasons described in sections seven and nine.

Given the importance of the climate change impact assessment as a risk management tool, HICL has set clear targets relating to its implementation; these are set out on page 10.

11

Looking Forward



Edward Hunt
Head of Core Income Funds, InfraRed

Sustainability remains central to how InfraRed undertakes investments, how it manages HICL's portfolio and is firmly embedded within the Company's business model.

HICL's assets sit at the heart of their communities and play a key role in modern society. By providing essential services, facilitating connectivity or performing important social functions, the Company's infrastructure has a tangible impact on the daily lives of its end users and delivers an inherent social good.

However, making a genuine social contribution often involves going above and beyond the reliable provision of infrastructure. InfraRed therefore recognises the equal benefit that is derived from an active sustainability strategy that seeks to drive improvements in the ESG performance of the underlying assets in the portfolio.

Both of these elements will continue to play an important role in the Company's strategy to provide sector leadership on sustainability. InfraRed's enhanced investment processes ensure a systematic evaluation of asset-level sustainability credentials when making acquisitions, and we will continue to ensure that our processes are aligned to recognised industry standards. Equally importantly, InfraRed's active asset management enables robust measurement of, and tangible improvements across, the Company's reported sustainability metrics over time.

Developing solutions for complex sustainability challenges is by no means a simple task, nor one that can be tackled by an organisation alone. The extensive collaboration required extends beyond InfraRed and invites the cooperation and commitment of our external stakeholders. We are pleased to see the green shoots of effective collaboration, especially around the drive to net zero emissions, and look forward to further substantive engagement with our clients, peer group and delivery partners.

Through industry partnerships, we can faster develop innovative solutions to address some of the defining issues of our time, such as net zero and social mobility. InfraRed's membership of the Infrastructure and Projects Authority's Net Zero Working Group and the Net Zero Asset Managers initiative, demonstrate our commitment to collaborative responses to collective challenges.

InfraRed's Education Taskforce is a fantastic example of the benefits of genuine partnership. By listening to our key stakeholders InfraRed was able to better direct its efforts towards the most pressing issues that HICL's schools were experiencing. Identifying major barriers to education, such as digital and food poverty, has led us to enhance our focus and resources towards impactful and targeted initiatives to address these. Moving forward, we will replicate this targeted approach for other sectors within HICL's portfolio.

The coming year will bring further expansion of HICL's sustainability disclosure and reporting, particularly in relation to SFDR. Through its semi-annual ESG workshops, Knowledge Centre and sustainability best practice guidance, InfraRed will continue to work closely with HICL's portfolio companies to prepare them for the step-up in disclosure obligations applicable from 1 January 2023. From this date, InfraRed intends to report for HICL in accordance with Article 8 of the regulations. InfraRed will be taking steps to calculate HICL's degree of alignment with the EU Taxonomy and will continue to closely monitor UK's emerging approach to similar non-financial disclosures.

This 2022 Sustainability Report showcases the significant progress we have made in the past year and signals our intent to continue to tackle the challenges ahead. The bar for sustainability performance and disclosures continues to rise and we strive to ensure that we exceed growing expectations. InfraRed remains firm in the belief that long-term success for all of HICL's stakeholders is reliant on a steadfast commitment to sustainability and responsible stewardship.



Delivering Real Value.

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