



# HICL Infrastructure PLC Annual Report

For the period from incorporation on 21 December 2018 to 31 March 2019

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**HICL Infrastructure Company Limited ("HICL Guernsey") announced on 21 November 2018 that, following consultation with investors, the Board was of the view that it would be in the best interests of shareholders as a whole to move the domicile of the investment business from Guernsey to the United Kingdom. This and related proposals were put to shareholders at an Extraordinary General Meeting ("EGM") of HICL Guernsey. The change of domicile was approved by shareholders and subsequently effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019. As a result of the Scheme, HICL Guernsey transferred its assets to HICL Infrastructure PLC ("HICL UK"). HICL UK will continue the investment activities of HICL Guernsey, as it has an identical Investment Policy to that of HICL Guernsey. HICL Guernsey has subsequently entered voluntary liquidation. "HICL" means HICL Infrastructure Company Limited prior to 31 March 2019 and HICL Infrastructure PLC from 1 April 2019.**

## Chairman's Statement

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I am delighted to present the first annual report for HICL Infrastructure PLC ("HICL UK"), the newly-listed UK investment trust successor to HICL Infrastructure Company Limited ("HICL Guernsey").

### Corporate Domicile

The Board of HICL Guernsey announced on 21 November 2018 that, following informal consultation with a significant number of institutional investors and private wealth managers, it was of the view that it would be in the best interests of shareholders as a whole to move the domicile of the investment business of HICL Guernsey to the United Kingdom. Following shareholder approval at an Extraordinary General Meeting of HICL Guernsey, the change of domicile was effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019.

HICL UK will continue the investment activities of HICL Guernsey and it has acquired HICL Guernsey's entire investment portfolio under the terms of the Scheme. HICL Guernsey has subsequently been placed into voluntary liquidation.

### Investment Policy

HICL<sup>1</sup> seeks to deliver long-term, stable income from a well-diversified portfolio of infrastructure investments positioned at the lower end of the risk spectrum. The entire investment portfolio of 118 investments previously owned by HICL Guernsey has been transferred to HICL UK, and HICL UK has also adopted not only the Investment Policy of HICL Guernsey, but also the business model and the acquisition strategy. (For a detailed explanation of HICL's Business Model and Strategy, please see the Strategic Report within HICL Guernsey's Annual Report for the year ended 31 March 2019, which is available on HICL's website.)

InfraRed Capital Partners Limited ("InfraRed", or the "Investment Manager"), previously Investment Adviser to HICL Guernsey, has been appointed as the alternative investment fund manager of HICL, under the Alternative Investment Fund Managers Directive ("AIFMD").

### Distribution Policy

HICL UK has adopted the target dividends previously communicated by HICL Guernsey, and I am pleased to reiterate these; 8.25 pence per Ordinary Share for the financial year to 31 March 2020 and 8.45 pence per Ordinary Share for the financial year to 31 March 2021.

HICL UK may designate dividends wholly or partly as interest distributions for UK tax purposes. The first dividend paid will be declared in May 2019 for payment in June 2019 in respect of HICL Guernsey's accounting period ended 31 March 2019, and will not be designated as an interest distribution for UK tax purposes. The Board currently expects to designate as interest distributions approximately 60 per cent of the dividends to be paid in respect of the financial year ending 31 March 2020, commencing with the first interim dividend which will be declared in July 2019 (payable in September 2019).

### Corporate Governance

A focus on strong governance is essential to foster the long-term, strategic thinking that will create and protect value for all stakeholders. Clients and communities benefit from well-run and well-maintained infrastructure, while shareholder value is protected and enhanced by prioritising what is right for the company in the long term. The Board is committed to following best practice corporate governance whenever applicable.

HICL UK is a UK-domiciled and tax-resident public limited company, which operates its affairs as a UK Investment Trust, and applies the tax, legal and regulatory regimes of the UK to its business.

The Board of HICL UK comprises six of the seven Directors of HICL Guernsey together with Frances Davies who, as previously announced, was appointed as a non-executive director with effect from 1 April 2019. Ms Davies has more than 30 years of experience across various roles within the banking and asset management industries, and I am pleased to welcome her to the Board.

Her experience complements the skillsets of the existing Directors, thereby strengthening the Board overall. The Board of HICL UK comprises two women and five men, which represents satisfactory progress towards achieving the aims of the Hampton-Alexander Review.

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<sup>1</sup> "HICL" meaning HICL Infrastructure Company Limited ("HICL Guernsey") prior to 31 March 2019 and HICL Infrastructure PLC ("HICL UK") from 1 April 2019.

## **Funding**

HICL UK will replicate HICL Guernsey's traditional model of funding investments by drawing on its £400m Revolving Credit Facility ("RCF") and then repaying this through subsequent capital raising. As before, when market conditions are not conducive to capital raising, the Board and InfraRed will actively seek to manage the funding position through a strategy of portfolio optimisation; taking advantage of favourable market conditions to dispose strategically of assets where it makes sense to do so and making selective accretive acquisitions in HICL's core market segments, using the flexibility of the RCF to smooth the timing of these transactions.

Both HICL's investment pipeline and general market conditions will be considered when assessing the timing of activities to manage HICL's funding position. HICL has cash drawings under the RCF of £90m.

## **Shareholders<sup>2</sup>**

In accordance with the terms of the Scheme, shareholders in HICL Guernsey were issued with one New Ordinary Share in HICL UK for each HICL Guernsey Ordinary Share that they held on the Record Date, being 29 March 2019.

## **Key Risks**

The key risks of an investment in HICL UK are consistent with those of HICL Guernsey, and indeed any investment in public infrastructure and include political/regulatory risk and counterparty risk. (The principal risks and uncertainties facing HICL can be found in HICL UK's March 2019 Prospectus which is available on the website at [www.hicl.com](http://www.hicl.com))

## **Outlook**

The Board and InfraRed regularly assess the pipeline and market conditions: asset pricing continues to be elevated due to the strong demand for assets, the limited supply of core infrastructure investment opportunities and the low interest rate environment. Nonetheless the Investment Manager continues to source deal flow in each of HICL's key market segments, albeit discipline around asset pricing remains critical to delivering accretive investments to shareholders.

While the UK infrastructure market remains subject to some political and regulatory uncertainty, the Board believes in HICL's business model and the Directors are confident that the strategic, long-term approach taken by HICL and the Investment Manager will continue to deliver value for shareholders.



**Ian Russell**

Chairman

21 May 2019

<sup>2</sup> At 31 March 2019 that the sole shareholder of the Company was HICL Guernsey and that on 1 April the shareholder base was modified by the Scheme to mirror HICL Guernsey's share register as at the record date of the Scheme.

# Strategic Report

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## **Business Model and Strategy**

For a detailed explanation of HICL's Business Model and Strategy, please see the Strategic Report within HICL Guernsey's Annual Report for the year ended 31 March 2019 (HICL Guernsey in voluntary liquidation).

## **Investment Policy**

HICL's Investment Policy is to ensure a diversified portfolio which has a number of similarly sized investments and is not dominated by any single investment. HICL will seek to acquire Infrastructure Equity with similar risk/reward characteristics to the current portfolio, which may include (but is not limited to):

- ▲ public sector, government-backed or regulated revenues;
- ▲ concessions which are predominantly "availability" based (i.e. the payments from the concession do not generally depend on the level of use of the project asset); and/or
- ▲ companies in the regulated utilities sector.

HICL will also seek to enhance returns for Shareholders by acquiring more diverse infrastructure investments. The Directors currently intend that HICL may invest in aggregate up to 35 per cent. of its total assets (at the time the relevant investment is made) in:

- ▲ Project Companies which have not yet completed the construction phases of their concessions but where prospective yield characteristics and associated risks are deemed appropriate to the investment objectives of HICL UK. This may include investment in companies which are in the process of bidding for concessions, to the extent that such companies form part of a more mature portfolio of investments which the HICL UK Group considers it appropriate to acquire;
- ▲ Project Companies with "demand" based concessions where the Investment Manager considers that demand and stability of revenues are not yet established, and/or Project Companies which do not have public sector sponsored/awarded or government-backed concessions; and
- ▲ to a lesser extent (but counting towards the same aggregate 35 per cent. limit, and again at the time the relevant investment is made) in limited partnerships, other funds that make infrastructure investments and/or financial instruments and securities issued by companies that make infrastructure investments, or whose activities are similar or comparable to infrastructure investments.

## **Geographic Focus**

The Directors believe that attractive opportunities for HICL to enhance returns for investors are likely to arise outside as well as within the UK (where the majority of the projects in the current portfolio are based). HICL may therefore make investments in the European Union, Norway, Switzerland, the Americas and selected territories in Asia and Australasia. HICL may also make investments in other markets should suitable opportunities arise. HICL will seek to mitigate country risk by concentrating on investment opportunities in jurisdictions where it considers that contract structures and enforceability are reliable and where (to the extent applicable) public sector obligations carry what the Investment Manager believes to be a satisfactory credit rating and where financial markets are relatively mature.

### **Single Investment Limit and Diversity of Clients and Suppliers**

For each new acquisition made, HICL will ensure that such investment acquired does not have an acquisition value (or, if it is a further stake in an existing investment, the combined value of both the existing stake and the further stake acquired is not) greater than 20 per cent. of the total gross assets of HICL immediately post acquisition.

The total gross assets will be calculated based on the last published gross investment valuation of the portfolio plus acquisitions made since the date of such valuation at their cost of acquisition.

The purpose of this limit is to ensure the portfolio has a number of investments and is not dominated by any single investment.

In selecting new investments to acquire, the Investment Manager will seek to ensure that the portfolio of investments has a range of public sector clients and supply chain contractors, in order to avoid over reliance on either a single client or a single contractor.

### **Restrictions under the Listing Rules**

In accordance with the requirements of the Financial Conduct Authority, HICL UK has adopted the policies set out below:

- a) HICL's primary objective is investing and managing its assets with a view to spreading or otherwise managing investment risk. HICL must, at all times, invest and manage its assets in a way which is in accordance with its Investment Policy;
- b) HICL will not conduct a trading activity which is significant in the context of HICL as a whole. HICL will not cross-finance businesses forming part of HICL's investment portfolio; and
- c) no more than 10 per cent., in aggregate, of HICL's assets will be invested in other listed closed-ended investment funds.

The Listing Rules may be amended or replaced over time. To the extent that the above investment restrictions are no longer imposed under the Listing Rules, those investment restrictions shall cease to apply to HICL.

### **Implementation of the Investment Policy**

HICL UK acquired the entire investment portfolio of HICL Guernsey with effect from 1 April 2019. The investment portfolio that was acquired spreads investment risk in accordance with HICL's Investment Policy.

### **Market Factors**

For a detailed explanation of the market factors which influence HICL's performance, please see the Strategic Report within HICL Guernsey's Annual Report for the year ended 31 March 2019.

### **Risks and Uncertainties**

The principal risks and uncertainties facing HICL can be found in HICL UK's March 2019 Prospectus which is available on the website at [www.hicl.com](http://www.hicl.com).

### **Environmental, Social and Community Matters**

For a detailed explanation of HICL's approach to Environmental, Social and Governance/Responsible Investment, please see the Strategic Report within HICL Guernsey's Annual Report for the year ended 31 March 2019.

## Research and Development Activities

None

## Section 172(1) Statement

The Directors discharge their duties under section 172 of the Companies 2006 Act to act in good faith and to promote the success of the company for the benefit of shareholders as a whole. As a closed-ended investment company, HICL has no employees, however the Directors also assess the impact of HICL's activities on other stakeholders, in particular public sector clients and the end users of the infrastructure investments, as well as the community as a whole, recognising that the investments of HICL are often key community assets.

## Gender Diversity

At the period end, the Board of Directors comprised six non executives; five male and one female. Following the period end a seventh Director was appointed, effective 1 April 2019, and following this the male to female ratio is five to two, respectively.

HICL has no employees.

## Leverage

HICL is required to make available to investors information in relation to its leverage. Leverage is considered in terms of HICL's overall exposure to financial or synthetic gearing and includes any method by which its exposure is increased whether through borrowing of cash or securities, foreign currency holdings, leverage embedded in derivative positions or by any other means.

It is expressed as the ratio between the total exposure of HICL and its net asset value such that if its exposure was equal to its net asset value, leverage would be disclosed as 100%; a value above 100% means that HICL has leverage equal to the percentage amount above 100%. Exposure values are calculated by two methods, gross and commitment, as defined within the AIFMD. Exposure under the gross method represents the aggregate of all HICL's exposures other than cash balances held in base currency; the commitment method takes into account the effect of different treatment of certain cash and cash equivalent items and of offsetting instruments between eligible assets to reflect netting and hedging arrangements in line with regulatory requirements.

Maximum leverage levels have been set by the Board and InfraRed and are in accordance with the maximum borrowing allowed by HICL's Articles of Association.

The table below sets out the current maximum, and permitted limit and actual level of leverage for HICL as a percentage of its net asset value as at 31 March 2019.

Leverage	Gross Method	Commitment Method
Maximum limit	100%	100%
Actual level	100%	100%

## Key Performance & Quality Indicators

The Board has identified metrics against which to measure clearly HICL's performance against its strategic objectives.

KPI	Measure	Objective
<b>Dividends</b>	Aggregate interim dividends declared per share for the year	An annual distribution of at least that achieved in the prior year
<b>Total Shareholder Return</b>	NAV growth and dividends paid per share since IPO	A long-term IRR target of 7% to 8% as set out at IPO <sup>1</sup>
<b>Cash-covered Dividends</b>	Operational cash flow/dividends paid to shareholders	Cash covered dividends
<b>Positive Inflation correlation</b>	Changes in the expected portfolio return for 1% p.a. inflation change	Maintain positive correlation
<b>Competitive Cost Proposition</b>	Annualised ongoing charges/average undiluted NAV <sup>2</sup>	Efficient gross (portfolio level) to net (investor level) returns, with the intention to reduce ongoing charges where possible

<sup>1</sup> Set by reference to the issue price of 100p/share, at the time of HICL Infrastructure Company Limited's IPO in February 2006.

<sup>2</sup> Calculated in accordance with Association of Investment Companies guidelines. Ongoing charges excluding non-recurring items such as acquisition costs.

KQI	Measure	Objective
<b>Investment Concentration Risk</b>	Percentage of portfolio value represented by the ten largest investments <sup>1</sup>  Percentage of portfolio value represented by the single largest investment <sup>1</sup>	Maintain a diversified portfolio of investments (thereby mitigating concentration risk) and, at all times, remain compliant with HICL's Investment Policy
<b>Risk/Reward Characteristics</b>	Percentage of portfolio value represented by the aggregate value of projects with construction and/or demand-based risk <sup>2</sup>	Compliance with HICL's Investment Policy
<b>Unexpired Concession Length</b>	Portfolio's weighted-average unexpired concession length	Seek where possible investments that maintain or extend the portfolio concession life
<b>Treasury Management</b>	FX gain/(loss) <sup>3</sup> as a percentage of the NAV  Cash less current liabilities on an Investment Basis as a percentage of the NAV	Maintain effective treasury management processes, notably:  – Appropriate FX management (confidence in near-term yield and managing NAV gain/(loss) within Hedging Policy limits)  – Efficient cash management (low net cash position)
<b>Refinancing Risk</b>	Investments with refinancing risk as a percentage of portfolio value	Manage exposure to refinancing risk

<sup>1</sup> HICL's Investment Policy stipulates that any single investment (being, for this purpose, the sum of all incremental interests acquired by HICL in the same project) must be less than 20% (by value) of the gross assets of HICL, such assessment to be made immediately post acquisition of any interest in a project.

<sup>2</sup> 'More diverse infrastructure investments' which are made with the intention 'to enhance returns for shareholders' as permitted under the terms of HICL's Investment Policy – namely pre-operational projects, demand-based assets and/or other vehicles making infrastructure investments. Further details are set out in the Investment Policy, available from HICL's website.

<sup>3</sup> Impact of foreign exchange after hedging on NAV.



# Investment Manager

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## **The Investment Manager**

InfraRed is the investment manager and AIFM to HICL pursuant to an investment management agreement dated 4 March 2019 (the "Investment Management Agreement") and is the manager and operator of the partnership through which HICL conducts its investment activities. InfraRed is authorised and regulated in the UK by the Financial Conduct Authority ("FCA").

- ▲ InfraRed is an independent investment management firm;
- ▲ Headquartered in London with offices in New York, Hong Kong, Mexico City, Seoul and Sydney;
- ▲ 20-year track record of successful investment in infrastructure;
- ▲ 80+ infrastructure professionals with in-depth technical, operational and investment knowledge; and
- ▲ Authorised and regulated by the Financial Conduct Authority.

As Investment Manager to HICL, InfraRed has day-to-day responsibility for HICL and interfaces with HICL's key stakeholders.

InfraRed's activities include:

- ▲ The development of HICL's strategy;
- ▲ Investment due diligence and execution; and
- ▲ Capital raising, investor relations and preparation of key external communications.

As Operator of HICL's portfolio, InfraRed's Asset Management and Portfolio Management teams are responsible for preserving and, where possible, enhancing value for stakeholders and shareholders, with a heavy focus on client engagement. Following the transfer of HICL Guernsey's portfolio to HICL UK on 1 April 2019, InfraRed has continued in the role of Operator.

InfraRed takes its responsibilities to all stakeholders in public infrastructure seriously. It acknowledges its role in demonstrating responsible management of key public assets, furthering dialogue on the benefits of private investment and restoring trust in partnerships between the public and private sectors as a valid model to deliver services to tax payers and other stakeholders. InfraRed has been, since 2011, a signatory to the Principles for Responsible Investment ("PRI"), an investor initiative in partnership with UNEP Finance Initiative and UN Global Compact. The infrastructure business line achieved an A+ rating, the highest attainable, for the fourth successive year in its 2018 PRI assessment.

## Financial Review

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### Overview

These financial statements cover the period from incorporation on 21 December 2018 to 31 March 2019.

At 31 March 2019, HICL UK was a 100% directly owned subsidiary of HICL Guernsey (in voluntary liquidation), a Guernsey-based investment company that was publicly traded on the London Stock Exchange until 1 April 2019.

On 1 April 2019 via a scheme of reconstruction (the "Scheme"), as detailed in HICL UK's Prospectus dated 4 March 2019 and Note 9 of the financial statements, HICL Guernsey transferred its investment business to HICL UK, HICL Guernsey was placed into voluntary liquidation and HICL UK's shares were listed on the London Stock Exchange.

### Summary Balance Sheet

<b>£m</b>	<b>31 March 2019</b>
Working capital	2,000.1
<b>Net assets attributable to Ordinary shares and Redeemable shares</b>	<b>2,000.1</b>

In January 2019, HICL UK issued 1 £0.0001 Ordinary share at par, 50,000 £1 Redeemable shares at par and 1 £0.0001 Ordinary share at a premium of £2.0bn to HICL Guernsey. These amounts remained due to HICL UK at the reporting date and were settled as part of the Scheme on 1 April 2019.

### Gearing

Following completion of the Scheme, on 1 April 2019, HICL UK became party to the multi-currency £400m Revolving Credit Facility ("RCF"), held by one of the Corporate Subsidiaries.

The RCF is jointly provided by The Royal Bank of Scotland, National Australia Bank, Lloyd's Bank, Sumitomo Mitsui Banking Corporation, ING, HSBC and Santander. It has an expiry date of 31 May 2022 and has a margin of 1.65% over Libor. HICL is therefore able to confirm that sufficient working capital is available for the financial year ending 31 March 2020, without needing to refinance. The Investment Manager will, however, consider refinancing options periodically aligned to the pipeline of potential transactions.

## Valuation

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### **Valuation Methodology and Approach Overview**

InfraRed, as the Investment Manager, is responsible for carrying out the fair market valuation of HICL's investments, which will be presented to the Directors for their consideration and, if appropriate, approval. The valuation will be carried out on a six-monthly basis as at 31 March and 30 September each year, with the result, the assumptions used and key sensitivities published in the annual and interim results.

HICL Infrastructure Company Limited's ("HICL Guernsey" in voluntary liquidation) portfolio, which transferred to HICL on 1 April 2019, are predominantly non-market traded investments, such that these investments will be valued using a discounted cash flow analysis of the forecast investment cash flows from each project. The exception to this is any listed investments, which will be valued using quoted market prices. This valuation methodology is the same as that used at the time of HICL Guernsey's launch and in each subsequent six-month reporting period (further details can be found in HICL UK's March 2019 Prospectus which is available on the website at [www.hicl.com](http://www.hicl.com)).

The key external (macro-economic and fiscal) factors affecting the forecast of an infrastructure portfolio company's cash flows in local currency are inflation rates, interest rates, rates of gross domestic product growth and local corporation tax rates. The Investment Manager will make forecast assumptions for each of these external metrics, based on market data and economic forecasts. The Investment Manager will exercise its judgement in assessing the expected future cash flows from each investment based on the detailed financial models produced by each portfolio company and adjusting where necessary to reflect HICL's economic assumptions as well as any specific operating assumptions.

The fair value for each investment can then be derived from the application of an appropriate market discount rate and year end currency exchange rate. Discount rates take into account risks associated with the financing of an investment such as investment risks (e.g. liquidity, currency risks, market appetite) and any risks to the investment's earnings (e.g. predictability and covenant of the revenues), all of which may be differentiated by the phase of the investment. The Investment Manager will use judgement in arriving at the appropriate discount rate. This will be based on its knowledge of the market, taking into account intelligence gained from its bidding activities, discussions with financial advisers in the appropriate market and publicly available information on relevant transactions.

The Directors' Valuation will be the key component in determining HICL's NAV and so the Directors intend to seek, from a third-party valuation expert, an independent report and opinion on the valuation provided by the Investment Manager. The Directors' Valuation is the preferred valuation measure of the portfolio because it is the total value at risk for HICL, as compared to investments at fair value through profit or loss which excludes future commitments.

## Valuation Assumptions

Apart from the discount rates, the other key economic assumptions used in determining the Valuation of HICL Guernsey's portfolio are as follows:

		31 March 2019	31 March 2018
<b>Inflation Rates</b>	UK (RPI and RPIx) <sup>1</sup> CPIH <sup>2</sup>	2.75% p.a. 2.0% p.a.	2.75% p.a. 2.0% p.a.
	Eurozone (CPI)	1.0% p.a. to 2019, 2.0% p.a. thereafter	1.0% p.a. to 2019, 2.0% p.a. thereafter
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	USA (CPI)	2.0% p.a.	2.0% p.a.
<b>Interest Rates</b>	UK	1.0% p.a. to March 2022, 2.0% p.a. thereafter	1.0% p.a. to March 2021, 2.0% p.a. thereafter
	Eurozone	0.5% p.a. to March 2022, 1.5% p.a. thereafter	0.5% p.a. to March 2021, 1.5% p.a. thereafter
	Canada	2.0% p.a. to March 2021, 2.5% p.a. thereafter	2.0% p.a. to March 2021, 3.0% p.a. thereafter
	USA	2.0% p.a. to March 2021, 2.5% p.a. thereafter	2.0% p.a. to March 2021, 3.0% p.a. thereafter
<b>Foreign Exchange Rates</b>	CAD/GBP	0.57	0.55
	EUR/GBP	0.86	0.88
	USD/GBP	0.77	0.71
<b>Tax Rates</b>	UK	19% to March 2020, 17% thereafter	19% to March 2020, 17% thereafter
	Eurozone	Ireland 12.5% France 25% – 33.3% Netherlands 20.5% by 2025	Ireland 12.5% France 25% – 33.3% Netherlands 20% – 25%
	USA	21% Federal & 4.6% Colorado State	21% Federal & 4.6% Colorado State
	Canada	26% and 27%	26% and 27%
<b>GDP Growth</b>	UK	2.0% p.a.	2.0% p.a.
	Eurozone	1.8% p.a.	1.8% p.a.
	USA	2.5% p.a.	2.5% p.a.

<sup>1</sup> Retail Price Index and Retail Price Index excluding mortgage interest payments.

<sup>2</sup> Consumer Prices Index including owner occupiers' housing costs.

The Board of HICL UK intend to adopt these assumptions, updated as necessary.

### **Discounted Cash Flow Key Assumptions and Principles**

As described above, HICL intends to value its investments using a discounted cash flow (“DCF”) analysis of the forecast investment cash flows from each portfolio company. The following is an overview of the typical assumptions and principles that would be expected to be applied in the valuation and forecasting of future cash flows:

- ▲ Discount rates and other key valuation assumptions (as outlined above) continue to be applicable.
- ▲ Contracts for PPP projects and demand-based assets are not terminated before their contractual expiry date.
- ▲ A reasonable assessment is made of operational performance, including in relation to PPP projects, payment deductions and the ability to pass these down to subcontractors.
- ▲ Distributions from each portfolio company reflect reasonable expectations, including consideration of financial covenant restrictions from senior lenders.
- ▲ Lifecycle and capital maintenance risks are either not borne by the portfolio company because they are passed down to a subcontractor or, where borne by the portfolio company, are incurred per current forecasts.
- ▲ For demand-based assets a reasonable assessment is made of future revenue growth, typically supported by forecasts made by an independent third party.
- ▲ Where assets are in construction, a reasonable assessment is made as to the timing of completion and the ability to pass down any costs of delay to subcontractors.
- ▲ Where a portfolio company expects to receive residual value from an asset, that the projected amount for this value is realised.
- ▲ Non-UK investments are valued in local currency and converted to Sterling at the period end exchange rates.
- ▲ A reasonable assessment is made of regulatory changes in the future which may impact cash flow forecasts.
- ▲ Perpetual investments are assumed to have a finite life (e.g. Affinity Water is valued using a terminal value assumption).

In forming the above assessments, the Investment Manager will work with portfolio companies’ management teams, as well as engaging with suitably qualified third parties such as technical advisers, traffic consultants, legal advisers and regulatory experts.

## Risk & Risk Management

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### **Risk Management Framework**

HICL's risk management framework covers all aspects of HICL's business. The Board's approach to risk management and its risk management framework, including the evaluation of risk across seven risk classes, is aligned with that adopted by the Board of HICL Infrastructure Company Limited ("HICL Guernsey"). Further detail can be found in the Annual Report of HICL Guernsey. A full list of the risks facing HICL can be found in HICL UK's March 2019 Prospectus.

## Viability Statement

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The AIC Code of Corporate Governance (the “AIC Code”) requires the Directors to make a statement regarding HICL UK’s viability in the Annual Report, explaining how they have assessed the prospects of the Company, the period of time for which they have made the assessment and why they consider that period to be appropriate.

Subsequent to the reporting date on 1 April 2019, as detailed in HICL UK’s Prospectus dated 4 March 2019, HICL UK acquired the investment business of its parent, HICL Guernsey in its entirety via a scheme of reconstruction (“the Scheme”). Via the Scheme, HICL Guernsey’s shareholders were issued one Ordinary share in HICL UK for each Ordinary share held in HICL Guernsey. There is no expectation for the investment business’ activities to discontinue.

The Directors have determined that the five year period to March 2024 remains an appropriate period over which to assess the viability of HICL UK as this period accords with the Company’s business planning exercises, is appropriate for the investments owned by HICL and is consistent with the long-term objective of HICL.

### **Assessment of HICL’s Prospects**

The Directors’ primary assessment of HICL’s prospects is achieved through HICL’s annual strategic and business planning exercise. The Directors review a five-year budget and business plan, which is prepared by the Investment Manager and includes cash flow projections to aid strategic planning and provide support for the dividend approval process. The projections consider cash balances, key covenants and limits, dividend cover, investment policy compliance and other key financial indicators over the five-year period. These projections are based on the Investment Manager’s expectations of future asset performance, income and costs and are consistent with the methodology applied to provide the valuation of the investments.

Following the transfer of the investment business, HICL UK, as is common for an investment company, will have a low level of expenses relative to forecast receipts from its portfolio investments. The portfolio consists of companies whose underlying assets are predominantly fully constructed and operating PPP or similar projects with public sector counterparties in jurisdictions with established and proven legal systems. As a result, HICL UK will benefit from predictable long-term contracted cash flows and a set of risks that can be identified and assessed (see Risk & Risk Management). The projects are each financed on a non-recourse basis to HICL UK and supported by detailed financial models. The Directors believe that the non-recourse financing and diversification within the portfolio of investments helps to withstand and mitigate the risks it is most likely to meet.

### **Assessment of Viability**

In making this statement the Directors have considered the resilience of HICL UK, taking account of its current position and the principal risks facing the business, in severe but plausible downside scenarios, and the effectiveness of any mitigating actions. In particular, consideration has been given to the current market and political environment, including the various potential outcomes of Brexit for HICL UK.

The Investment Manager has prepared sensitivity analysis including various stress scenarios which have been considered previously by the HICL Risk Committee. These include increasing tax rate assumptions by 5%, increasing lifecycle costs by 10% and assuming that 10% of the portfolio is in lock-up. Individually, these scenarios pose little threat to HICL UK’s solvency. A severe scenario was also prepared to assess the loss in revenue necessary to cause insolvency. The analysis demonstrated that HICL UK should remain viable over the five-year assessment period.

### **Viability Statement**

The Directors have a reasonable expectation that HICL UK will be able to continue in operation and meet its liabilities as they fall due over the five-year period to March 2024, on the assumption that there is sufficient liquidity in the debt market to allow HICL UK to refinance or repay obligations becoming due under the Revolving Credit Facility and that its investments are not materially affected by retrospective changes to government policy, laws or regulations.

## Risk Committee Report

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The following pages set out the Risk Committee's report on its activities in respect of the period ended 31 March 2019. The Risk Committee of HICL Infrastructure PLC has been established to operate within clearly defined terms of reference, which are available on HICL's website. The Risk Committee is comprised of all the Directors. It met once in the period and will meet four times a year from HICL UK's first full financial year starting 1 April 2019, coinciding with the quarterly Board meetings.

The duties of the Risk Committee in discharging its responsibilities comprise defining a risk appetite for HICL and a robust assessment and monitoring of all matters relating to the risks to which HICL is exposed and their management and mitigation, in particular, in respect of risk exposure and controls, stress and scenario planning, regulatory compliance, project company controls, tax policies and matters and the three lines of defence.

I, or another member of the Risk Committee, will be available at the AGM to respond to any questions from shareholders regarding our activities.



**Simon Holden**

Risk Committee Chairman  
21 May 2019

### **Main Duties and General Approach**

The Risk Committee's main duties are, as set out in its Terms of Reference, to consider, and where necessary make recommendations to the Board in respect of:

- ▲ HICL's implementation of an effective risk governance structure and control framework which envelops key risk areas with appropriate reporting;
- ▲ HICL's risk appetite taking account of the current and prospective macro-economic and financial environment;
- ▲ risk limits, tolerances and management;
- ▲ ongoing regulatory compliance;
- ▲ HICL's risk profile, challenging the assessment and measurement of key risks whilst monitoring the actions taken to manage them;
- ▲ scenario assumptions to determine whether proposed mitigation is sufficient to manage the business risk profile within the Board's appetite; and
- ▲ the Investment Manager's advice on material changes to investment and strategy, the treasury policy, the tax policy, the hedging policy and the risk policy.



### **Statement of the Chairman of the Risk Committee**

HICL has a risk management framework covering all aspects of HICL's business. As HICL is an Alternative Investment Fund ("AIF"), the Investment Manager as Alternative Investment Fund Manager is responsible for risk management and has implemented systems and controls to manage and monitor risk. The Board places reliance on the Investment Manager's own systems and controls, details of which the Board has received and will review annually.

The risk management framework utilises 'three lines of defence', being cascading approaches by which emerging risks are identified, and the interests of HICL and its shareholders are effectively safeguarded and protected:

- ▲ The first line is the development of systems. This is the day-to-day management of risk through effective controls. These are set out in documents such as HICL's and the Investment Manager's Policies and Controls Manuals. HICL must generally be satisfied that the Investment Manager has an appropriate risk management framework in place to ensure risk is effectively controlled and that the performance of the portfolio of investments is overseen. The Investment Manager and the Operator are responsible for the identification, assessment and management of risk for the existing portfolio as well as in seeking new investment opportunities.
- ▲ The second line is that of oversight, namely the challenge mechanism that is provided by the Risk Committee which reviews, challenges and monitors to ensure that policies are up-to-date and delegated authorities are respected/complied with and responds to new strategic priorities and emerging or changing risks. The Risk Committee conducts a robust assessment of HICL's emerging and principal risks at each quarterly meeting. This review includes an assessment of potential impact and probability of events related to the identified risks occurring, and the consideration of any new circumstances that could arise creating additional risks for HICL. For each material risk identified, a mitigation strategy is, where appropriate, developed and implemented, together with appropriate monitoring by the Investment Manager and other key service providers, as appropriate.
- ▲ The third and final defence is third party assurance which is utilised on an as-needed basis to provide an independent challenge to the risk management framework of HICL, an audit of key controls and guidance as to best practice, with the results reported to the Risk Committee and the Audit Committee where appropriate.

The Committee will consider, at each meeting, various regulatory compliance reports from the Investment Manager and from the Administrator. Similarly, the Committee will conclude each meeting with an assessment of whether HICL is compliant with its risk appetite.

### **Significant Activity**

As of 1 April 2019, HICL UK received the investment business of HICL Guernsey, and in return gave its shareholders one share in HICL UK for each share they held in HICL Guernsey.

This structure reduces the risk that changes to the cross-border tax landscape adversely impact HICL's investment business and leaves HICL well positioned for the future.

## Sustainability Report

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The Directors believe that Responsible Investment (“RI”) principles and practices are essential for HICL to deliver long-term investment performance. A sustainable business can only be delivered if environmental, social and governance (“ESG”) considerations are made alongside economic factors in the investment process.

In managing HICL, the Directors have ensured that procedures and policies have been integrated within the core functions of service providers, including the Investment Manager, to manage HICL effectively and responsibly with respect to all HICL’s stakeholders.

Further information on HICL’s approach to ESG and examples of ESG initiatives in the portfolio being acquired, which demonstrate the importance of working in partnership with public sector clients and regulators to deliver infrastructure for local communities and to support the delivery of essential services, can be found in the Annual Report of HICL Guernsey.

At a Company level, as reported in the Chairman’s Statement, the Board recognises the importance of a culture of corporate governance that meets the requirements of the UK Listing Authority as well as other regulatory bodies.

The incorporation of HICL UK and the transfer of HICL Guernsey’s investment business to HICL UK reflects an important act in the best interests of investors, and responsibly positions HICL for the long term.

The Board believes that a diversity of viewpoints and personal experiences, along with broad professional expertise, lead to better decisions, are critical to innovation and provide a competitive advantage in HICL’s marketplace. When recruiting new Directors, the Board searches for candidates from a diverse range of backgrounds and communities to attract the widest breadth of talent, skills and outlook. The Board’s policy is to appoint individuals on merit, based on their skills, experience and expertise.

HICL aims to achieve that the key targets of the Hampton-Alexander Review and the Parker Review. These are that 33% of the Board of Directors should be women by the end of 2020 and that HICL should have at least one Director from an ethnic minority by 2024. As at 1 April 2019, 29% of the Board of Directors were women.

HICL is an investment company and as such does not have a senior management team. Day-to-day management of HICL is delegated to the Investment Manager. InfraRed’s diversity policy and statistics are published at: [www.ircp.com/responsibility/diversity.html](http://www.ircp.com/responsibility/diversity.html).

Additionally, a sense of corporate social responsibility is also reflected across HICL’s whole operational structure including within the portfolio companies.

# Directors' Report

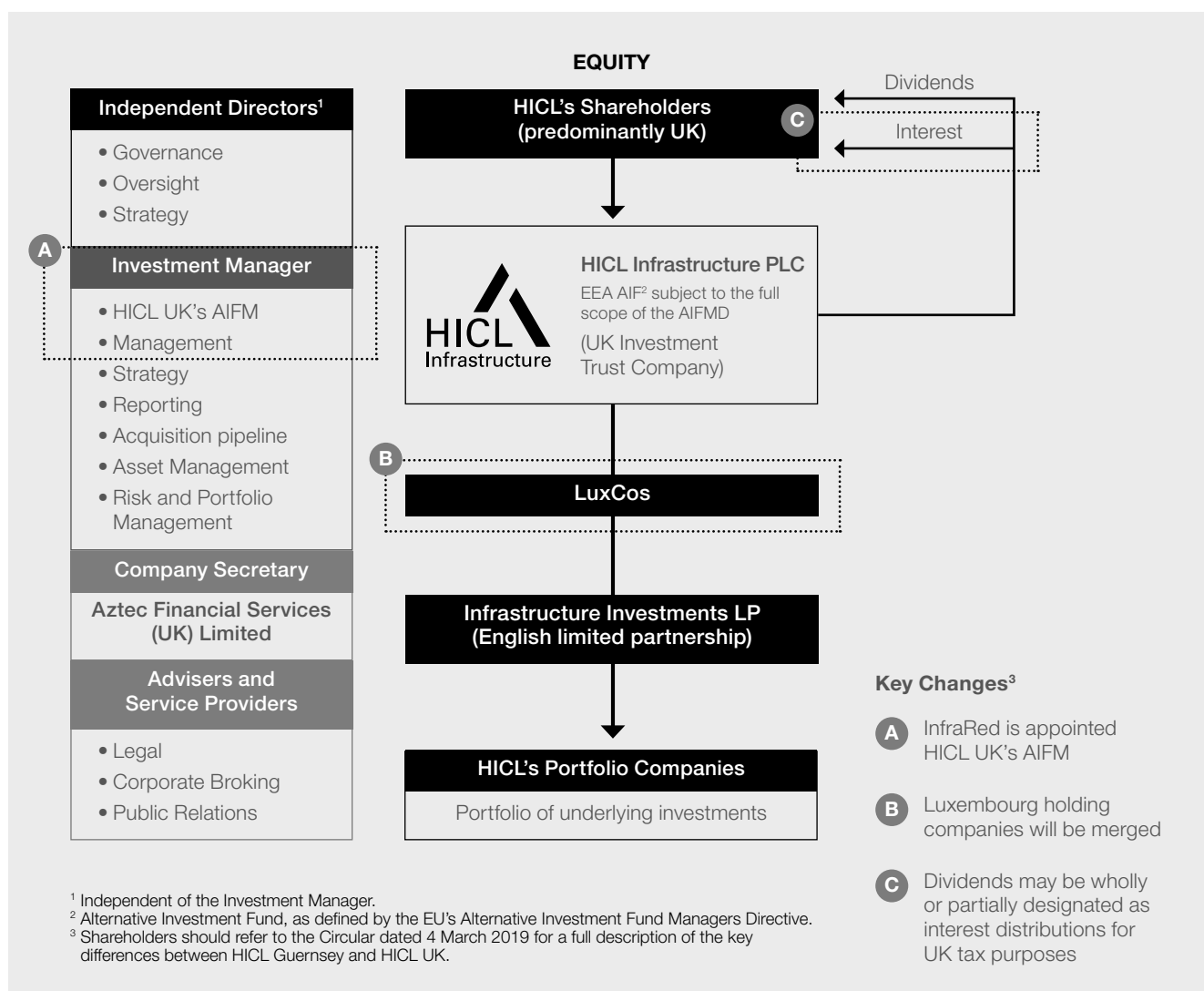
## Operational Structure

HICL Infrastructure Company Limited (“HICL Guernsey” and, together with its subsidiaries, the “Group”, in voluntary liquidation) announced on 21 November 2018 that, following consultation with investors, the Board was of the view that it would be in the best interests of shareholders as a whole to move the domicile of the investment business of HICL from Guernsey to the United Kingdom. This and related proposals were put to shareholders at an Extraordinary General Meeting (“EGM”). The change of domicile was approved by shareholders and subsequently effected by way of a scheme of reconstruction (“the Scheme”) on 1 April 2019. As a result of the Scheme HICL Guernsey transferred its assets to HICL UK and HICL Guernsey has subsequently entered voluntary liquidation.

HICL UK is a registered investment company with an independent Board of Directors. HICL’s shares are listed on the London Stock Exchange.

HICL’s portfolio comprises 118 infrastructure investments. Its strategy to protect and enhance the value of the existing portfolio and to source appropriately-priced new investments utilises the expertise of its Investment Manager, InfraRed Capital Partners Limited (“InfraRed”). HICL has a 31 March year end and will announce its full year results in May and interim results in November. It also intends to publish two Interim Update Statements each year, normally in February and July. This communications strategy and timetable have been adopted from that of HICL Guernsey.

## Organisational Structure following the move of domicile by way of the Scheme on 1 April 2019:



## Group Structure

Investments are made via the Corporate Subsidiaries, which comprise a group structure involving two Luxembourg-domiciled investment companies and an English limited partnership. HICL's assets are therefore held indirectly through the Corporate Subsidiaries and any subsidiaries are wholly owned by the general partner of the English limited partnership on behalf of the English limited partnership. InfraRed Capital Partners Limited ("InfraRed") has been appointed the Investment Manager of HICL and Operator of the Partnership. InfraRed has been appointed AIFM in accordance with the AIFM Directive, and also provides the registered office of HICL UK.

HICL invests in infrastructure investments indirectly via the Corporate Subsidiaries:

- ▲ HICL invests in equity and debt of Luxco 1, a société à responsabilité limitée established in Luxembourg, which in turn invests in equity and debt of a similar entity, Luxco 2. Both of the Luxcos are wholly owned subsidiaries of HICL.
- ▲ Luxco 2 is the sole limited partner in the Partnership, an English limited partnership which has a special purpose vehicle, the General Partner, as its general partner. The General Partner is a wholly owned indirect subsidiary of InfraRed Partners LLP. The General Partner, on behalf of the Partnership, has appointed InfraRed as operator of the Partnership. Luxco 2 invests the contributions it receives from Luxco 1 in capital contributions and partner loans to the Partnership, which acquires and holds the infrastructure investments.

The two Luxembourg entities (Luxco 1 and Luxco 2) have independent boards, on which a HICL Board Director sits, and take advice on administration matters from RSM Tax & Accounting Luxembourg. As stated in the March 2019 Prospectus, Luxco 1 and Luxco 2 intend to merge during the coming financial year.

Aztec Financial Services (UK) Limited is the Administrator to HICL and also provides company secretarial services.

HICL's infrastructure investments are registered in the name of the General Partner, the Partnership or wholly-owned subsidiaries of the Partnership.

Each of the underlying investments is made by a portfolio company (not shown in the structure diagram), which through its contractual structure ensures no cross-collateralisation of the liabilities (being, principally, the debt repayment obligations).

## The Board and the Committees

The Board of HICL comprises seven independent, non-executive Directors (details of whom can be found in the Report of the Directors) whose role is to manage HICL in the interests of shareholders and other stakeholders. In particular, the Board will approve and monitor adherence to the Investment Policy and Acquisition Strategy, determine risk appetite, set policies, agree levels of delegation to key service providers and monitor their activities and performance (including, specifically, that of the Investment Manager) against agreed objectives. The Board will take advice from the Investment Manager, where appropriate – for example on matters concerning the market, the portfolio and new acquisition opportunities.

The Board intends to meet regularly – at least five times a year, each time for two consecutive days – for formal Board and Committee meetings. One of these Board meetings will be devoted to considering the strategy of HICL, both in terms of potential acquisitions and the management of the current portfolio. There may also be ad hoc meetings dependent upon business needs. In addition, the Board has formed six committees which manage risk and governance.

Management of the portfolio, as well as investment decisions within agreed parameters, is delegated to InfraRed as the Investment Manager, which will report regularly to the Board. At the quarterly Board and committee meetings, the operating and financial performance of the portfolio, its valuation and the appropriateness of the risk and controls will be reviewed.

## **The Investment Manager**

InfraRed Capital Partners Limited (“InfraRed”) was appointed as the Investment Manager to HICL in accordance with the Scheme. In addition, it was appointed as the Operator of the Partnership by the General Partner, on behalf of the Partnership. Under the terms of the Limited Partnership Agreement, the Operator has full discretion to acquire, dispose of or manage the assets of the Partnership, subject to investment guidelines set out by the Board.

InfraRed is part of the InfraRed Group, a privately-owned property and infrastructure investment business, managing a range of infrastructure and property funds and investments. InfraRed’s infrastructure investment team has a strong record of delivering attractive returns for its investors, which include pension funds, insurance companies, funds of funds, asset managers and high net worth investors domiciled in the UK, Europe, North America, Middle East and Asia.

Since 1990, the InfraRed Group (including predecessor organisations) has launched 19 investment funds investing in infrastructure and property, including HICL.

The InfraRed Group currently manages six infrastructure funds (including HICL) and six real estate funds. The InfraRed Group currently has a staff of around 150 employees and partners, based mainly in offices in London and with smaller offices in Hong Kong, New York, Seoul and Sydney. Its infrastructure team comprises over 80 professional staff who have, on average, over 10 years of relevant industry experience.

Within the infrastructure team, there are:

- ▲ a Management team with overall responsibility for the activities provided to HICL;
- ▲ an Origination and Transaction team responsible for business development and sourcing new investments;
- ▲ an Asset Management team responsible for managing the portfolio of investments; and
- ▲ a Portfolio Management team responsible for financial reporting, cash flow management, debt, foreign exchange hedging and tax.

Six senior members of the InfraRed team make up InfraRed’s Investment Committee on behalf of HICL. The Investment Committee has combined experience of over 145 years in making infrastructure investments and managing investments and projects.

Further details on the InfraRed Group can be found at [www.ircp.com](http://www.ircp.com).

# Corporate Governance Statement

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## Introduction

The Board recognises the importance of a strong corporate governance culture that meets the requirements of the UK Governance framework, including the UK Listing Authority as well as other relevant bodies such as the Association of Investment Companies (“AIC”) of which HICL is a member. The Board has put in place a framework for corporate governance which it believes is appropriate for an investment company. All Directors contribute to the Board discussions and debates. The Board believes in providing as much transparency for investors and other stakeholders as is reasonably possible within the boundaries of client and commercial confidentiality.

## AIFM Directive

The Alternative Investment Fund Managers Directive seeks to regulate alternative investment fund managers (“AIFM”) and imposes obligations on Managers who manage alternative investment funds (“AIF”) in the EU or who market shares in such funds to EU investors. HICL is categorised as an externally managed AIF for the purposes of the AIFM Directive. In order to maintain compliance with the AIFM Directive, HICL complies with various organisational, operational and transparency obligations, including the pre-investment disclosure information required by Article 23 of AIFM Directive.

## Non-Mainstream Pooled Investments

HICL intends to conduct its affairs as an investment trust. On this basis, the Ordinary Shares should qualify as an “excluded security” and therefore be excluded from the FCA’s restrictions in COBS 4.12 of the FCA Handbook that apply to non-mainstream pooled investment products.

## The AIC Code of Corporate Governance

As a member of the AIC, Board has considered the Principles and Provisions of the 2019 AIC Code of Corporate Governance (the “AIC Code”), a framework of best practice in respect of the governance of investment companies. The 2019 AIC Code applies to accounting periods beginning on or after 1 January 2019, however the Board decided that early adoption, as a matter of best practice, is desirable and therefore reports against the revised and extended standards this period. The Board also confirms that HICL is compliant with the 2016 AIC Code of Corporate Governance.

The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to investment companies. The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council and the Guernsey Financial Services Commission, provides more relevant information to shareholders. HICL has complied with the Principles and Provisions of the AIC Code. The AIC Code is available on the AIC website ([www.theaic.co.uk](http://www.theaic.co.uk)<sup>3</sup>). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The following sections set out the Board’s evaluation of HICL’s compliance with the provisions of the AIC Code.

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<sup>3</sup> [www.theaic.co.uk/system/files/policy-technical/AIC2019AICCodeofCorporateGovernanceFeb19.pdf](http://www.theaic.co.uk/system/files/policy-technical/AIC2019AICCodeofCorporateGovernanceFeb19.pdf)

## Board Leadership and Purpose

- A. A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. (Incorporates relevant content from UK Code Principle A)
- B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. (UK Code Principle B)
- C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. (UK Code Principle C)
- D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. (UK Code Principle D)
- E. Intentionally left blank by the AIC

**1. The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy. For an investment company, the annual report should also include the company's investment objective and investment policy. (Incorporates relevant content from UK Code Provision 1)**

The Board intends to consider formal strategy reports prepared by the Investment Manager at a separate meeting at least once a year.

In addition to the strategy days, adherence to the Acquisition Strategy and HICL's overall risk appetite will be discussed regularly at Board and Risk Committee meetings. As well as considering acquisitions, the Board will also consider disposals, portfolio performance, levels of gearing and likely achievable dividend growth.

HICL's business model, investment objective and a summary of the Investment Policy, and a description of how these interact to deliver shareholder value, are outlined in the Strategic Report within HICL Guernsey's Annual Report for the year ended 31 March 2019. The business model is constructed to deliver long-term, stable income from long-term contracts with valued stakeholders, and as such the Directors consider the business model sustainable in the long term.

**2. The board should assess and monitor its own culture, including its policies, practices and behaviour to ensure it is aligned with the company's purpose, values and strategy. (Incorporates relevant content from UK Code Provision 2)**

The Board will undertake a rigorous evaluation of its own performance and that of its advisers.

The Board believes that the composition of the Board and its Committees reflects a suitable mix of skills and experience.

**3. In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the company's investment objective and investment policy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should ensure that the board as a whole has a clear understanding of the views of shareholders. (Incorporates relevant content from UK Code Provision 3)**

The Board welcomes the views of shareholders and places great importance on communication with HICL's shareholders.

The Board intends to make every effort to engage with shareholders and other stakeholders. HICL will report formally to shareholders twice a year and intends to hold an AGM in July each year. The Secretary and Registrar will monitor the voting of the shareholders and proxy voting will be taken into consideration when votes are cast at the AGM.

The Board's intention is to foster open, two-way communication on the development of HICL.

Shareholders may contact any of the Directors via the Company Secretary – including any in his or her capacity as chairman of one of HICL's committees, as appropriate – whose contact details are on HICL's website.

It is the intention of the Board that the Chairman and the Senior Independent Director will make themselves available to meet major shareholders at least once a year.

**4. When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.<sup>4</sup> (UK Code Provision 4)**

HICL intends to comply with this provision, should this situation arise.

**5. The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.<sup>5</sup> The board should keep engagement mechanisms under review so that they remain effective. (Incorporates relevant content from UK Code Provision 5)**

The Directors discharge their duties under section 172 of the Companies 2016 Act to act in good faith, to promote the success of the company for the benefit of shareholders as a whole. As a closed-ended investment company, HICL has no employees, however the Directors also assess the impact of HICL's activities on other stakeholders, in particular public sector clients and the end users of the infrastructure investments, as well as the community as a whole, recognising that the investments of HICL are often key community assets.

**6. The board should take action to identify and manage conflicts of interest, including those resulting from significant shareholdings, and ensure that the influence of third parties does not compromise or override independent judgement. (UK Code Provision 7)**

The Board consists of seven non-executive Directors, all of whom are independent of the Investment Manager. None of the Directors sit on Boards of other entities managed by the Investment Manager.

Each Director is required to inform the Board of any potential or actual conflicts of interest prior to any Board discussion.

It is expected that further investments for HICL will be sourced by InfraRed and it is likely that some of these will be investments that have been originated and developed by, and may be acquired from InfraRed or from a fund managed by InfraRed. In order to deal with these potential conflicts of interest, detailed procedures and arrangements have been established to manage transactions between HICL, InfraRed or funds managed by InfraRed (the "Rules of Engagement"). If HICL invests in funds managed or operated by InfraRed, HICL shall bear any management or similar fees charged in relation to such fund provided, however, that the value of HICL's investments in such funds shall not be counted towards the valuation of HICL's investments for the purposes of calculating the management fees payable to InfraRed.

It is possible that in future HICL may seek to purchase certain investments from funds managed or operated by InfraRed once those investments have matured and to the extent that the investments suit HICL's investment objectives and strategy. If such acquisitions are made, appropriate procedures from the Rules of Engagement will be put in place to manage the conflict.

Key features of the Rules of Engagement are described in the March 2019 Prospectus, available on the website at [www.hicl.com](http://www.hicl.com).

**7. Where directors have concerns about the operation of the board or the company that cannot be resolved, their concerns should be recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chair, for circulation to the board, if they have any such concerns. (Incorporates relevant content from UK Code Provision 8)**

Board minutes record the major points of all discussions, including any concerns raised by the Directors regarding Board decisions or courses of action undertaken.

To date, no written statement of concern has been provided to the Chair by any retiring Board member.

<sup>4</sup> Details of significant votes against and related company updates are available on the Public Register maintained by The Investment Association – [www.theinvestmentassociation.org/publicregister.html](http://www.theinvestmentassociation.org/publicregister.html)

<sup>5</sup> The Companies (Miscellaneous Reporting) Regulations 2018 require directors to explain how they have had regard to various matters in performing their duty to promote the success of the company in section 172 of the Companies Act 2006. The Financial Reporting Council's Guidance on the Strategic Report supports reporting on the legislative requirement.



## Division of Responsibilities

- F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. (UK Code Principle F)
- G. The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision making. (Incorporates relevant content from UK Code Principle G)
- H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third party service providers to account. (Incorporates relevant content from UK Code Principle H)
- I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. (UK Code Principle I)

**8. The responsibilities of the chair, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available. The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors. (Incorporates relevant content from UK Code Provision 14)**

The Chairman is Mr I Russell, who met the independence criteria upon appointment and has continued to meet this condition throughout his term of service. In his role of Chairman, Mr I Russell acts as HICL's representative, directs the Board's discussions towards a consensus view, takes a leading role in determining the composition of the Board and seeks to ensure effective communications with shareholders and other stakeholders.

In accordance with guidance in Provision 14, the Board has a Senior Independent Director ("SID"), Mr F Nelson. In his role as the SID, Mr F Nelson takes the lead in the annual evaluation of the Chairman at which the Chairman's performance and continuing independence is discussed.

As well as regular Board meetings, the following committees have been formed: Audit, Management Engagement, Market Disclosure, Nomination, Remuneration and Risk. The formal terms of reference for each Committee have been approved by the Board and are available on the Investor Relations section of HICL's website.

The Chairman and members of each committee are as follows:

	<b>Audit Committee</b>	<b>Management Engagement Committee</b>	<b>Market Disclosure</b>	<b>Nomination Committee</b>	<b>Remuneration Committee</b>	<b>Risk Committee</b>
<b>Chairman</b>	Mrs S Farnon	Mr F Nelson		Mr I Russell	Mr M Bane	Mr S Holden
<b>Members</b>	Mr M Bane	Mr M Bane	Mr I Russell	Mr M Bane	Ms F Davies	Mr M Bane
	Ms F Davies	Ms F Davies	Mr M Bane	Ms F Davies	Mrs S Farnon	Ms F Davies
	Mr S Holden	Mrs S Farnon	Ms F Davies	Mrs S Farnon	Mr S Holden	Mrs S Farnon
	Mr F Nelson	Mr S Holden	Mrs S Farnon	Mr S Holden	Mr F Nelson	Mr F Nelson
	Mr K Reid	Mr K Reid	Mr S Holden	Mr F Nelson	Mr K Reid	Mr K Reid
		Mr I Russell	Mr F Nelson	Mr K Reid	Mr I Russell	Mr I Russell
			Mr K Reid			
<b>By invitation</b>	Mr I Russell					

\*Ms. Davies was appointed to the Committees on 15 May 2019.

For efficiency and as all Directors are non-executive, all committees (apart from the Audit Committee) comprise all the Directors of the Board.

The respective reports of the Remuneration Committee, the Risk Committee and the Audit Committee are set out within the Directors' Report.

The Management Engagement Committee and the Nomination Committee are discussed in the sections relating to Principle 17 and Principle 22, respectively.

A statement of the Directors' responsibilities is set out the Directors' Report.

**9. When making new appointments, the board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. (Incorporates relevant content from UK Code Provision 15)**

This principle is reflected in the Nomination Committee's Terms of Reference.

**10. At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent. The majority of the board should be independent of the manager. There should be a clear division of responsibilities between the board and the manager. (Incorporates relevant content from UK Code Provision 11)**

As per Provision 6, the Board consists of seven non-executive Directors, all of whom are independent of the Investment Manager. None of the Directors sit on Boards of other entities managed by the Investment Manager.

The independence of each Director will be considered during the annual self-evaluation of the Board.

**11. The chair should be independent on appointment when assessed against the circumstances set out in Provision 13. (Incorporates relevant content from UK Code Provision 9)**

At the date of his appointment to the Chair, Mr I Russell was considered to be independent considered by the Board.

**12. On appointment, and throughout the chair's tenure, the chair should have no relationships that may create a conflict of interest between the chair's interest and those of shareholders:**

- ▲ being an employee of the manager or an ex-employee who has left the employment of the manager within the last five years;
- ▲ being a professional adviser who has provided services to the manager or the board within the last three years; or
- ▲ serving on any other boards of an investment company managed by the same manager.

As Chairman of the Board, Mr I Russell continues to be considered independent and has no relationships that may create a conflict of interest between the Chair's interest and those of shareholders.

**13. The board should identify in the annual report each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a non-executive director's independence include, but are not limited to, whether a director:**

- ▲ has, or has had within the last three years, a material business relationship with the company or the manager, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company or the manager;
- ▲ has received or receives additional remuneration from the company apart from a directors' fee;
- ▲ has close family ties with any of the company's advisers, directors or the manager;
- ▲ holds cross-directorships or has significant links with other directors through involvement in other companies or bodies. Directors who sit on the boards of more than one company managed by the same manager are entitled to serve as directors; however, they will not be regarded as independent for the purposes of fulfilling the requirement that there must be an independent majority;
- ▲ represents a significant shareholder; or
- ▲ has served on the board for more than nine years from the date of their first appointment.

**Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided. (Incorporates relevant content from UK Code Provision 10)**

As per Provision 10, all of the Directors are considered to be independent, and the Board is not aware of any circumstances which are likely to impair, or could appear to impair, the independence of any of the Directors.

**14. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary. (UK Code Provision 12)**

As set out in Provision 8, the Board has a Senior Independent Director ("SID"), Mr F Nelson. In his role as the SID, Mr F Nelson will take the lead in the annual evaluation of the Chairman at which the Chairman's performance and continuing independence is discussed.

**15. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, attribution analysis, marketing/investor relations, peer group information and industry issues.**

The Board intends to meet quarterly, and in addition to the statutory matters discussed at each quarterly Board meeting, the principal focus will be on the reports provided by the Investment Manager, as well as those put forward by HICL's brokers and financial public relations ("PR") Agent. These will be standing agenda items.

Papers will be sent to Directors normally at least a week in advance of the Board meetings by the Company Secretary. Board papers are likely to include:

- ▲ a review of the infrastructure market detailing key developments;
- ▲ investment activity in the period and the pipeline of potential new investment opportunities;
- ▲ a review of portfolio performance in the period with material issues identified and discussed;
- ▲ a review of any Health and Safety matters in the period;
- ▲ a detailed financial review, including detailed management accounts, valuation, and treasury matters;
- ▲ reports from HICL's brokers and from the financial PR company; and
- ▲ matters relating to Company's risk management and internal control systems (including associated stress tests), are considered by the Risk Committee (which, in turn, reports any significant matters/findings to the Board) and are set out in more detail in the Risk Committee Report.

The Board may request further information on topics of interest to allow informed decisions to be taken.

On a semi-annual basis, the Board, through the Audit Committee, will consider the interim and annual reports as well as the detailed valuation of the investment portfolio prepared by the Investment Manager and the third-party expert opinion on the proposed valuation. On at least an annual basis, the Board will consider more detailed analysis of HICL's Budget and Business Plan for the prospective year.

**16. The board should explain in the annual report the areas of decision making reserved for the board and those over which the manager has discretion. Disclosure should include:**

- ▲ a discussion of the manager's overall performance, for example, investment performance, portfolio risk, operational issues such as compliance etc;
- ▲ the manager's remit regarding stewardship, for example voting and shareholder engagement, and environmental, social and corporate governance issues in respect of holdings in the company's portfolio.
- ▲ The board should also agree policies with the manager covering key operational issues.

The Directors are responsible for managing the business affairs of HICL in accordance with its Articles and Investment Policy and have overall responsibility for HICL's activities, including its investment and capital raising activities and for monitoring the performance of the portfolio and reviewing and supervising its delegates and service providers.

The Directors may delegate certain functions to other parties. In particular, HICL delegates the majority of the day-to-day activities required to deliver the business model, including responsibility for the majority of HICL's risk and portfolio management to the Investment Manager, InfraRed, subject to the overall control and supervision of the Directors. InfraRed also operates and manages the Partnership and its assets in accordance with and subject to the Investment Policy, investment guidelines and approved investment parameters that are adopted by the Directors from time to time in conjunction with (and with the agreement of) InfraRed.

The strategies and policies which govern the delegated activities have been set by the Board in accordance with section 172 of the Companies Act 2016.

HICL and InfraRed also have detailed policy and control manuals which cover operational issues.

**17. Non-executive directors should review at least annually the contractual relationships with, and scrutinise and hold to account the performance of, the manager.**

**Either the whole board or a management engagement committee consisting solely of directors independent of the manager (or executives) should perform this review at least annually with its decisions and rationale described in the annual report. If the whole board carries out this review, it should explain in the annual report why it has done so rather than establish a separate management engagement committee.**

**The company chair may be a member of, and may chair, the management engagement committee, provided that they are independent of the manager. (Incorporates relevant content from UK Code Provision 13)**

The Management Engagement Committee (“MEC”) of the Board is responsible for reviewing all major service providers to HICL, which includes in particular the Investment Manager. The terms of reference of this Committee are on HICL’s website.

**18. The board should monitor and evaluate other service providers (such as the company secretary, custodian, depositary, registrar and broker).**

**The board should establish procedures by which other service providers, should report back and the methods by which these providers are monitored and evaluated.**

The MEC will meet at least once a year to review the performance of the key service providers including the Investment Manager.

**19. All directors should have access to the advice of the company secretary, who is responsible for advising the board on all governance matters. Both the appointment and removal of the company secretary should be a matter for the whole board. (UK Code Provision 16)**

The MEC makes recommendations to the Board in relation to all service providers and it is the Board that considers the appointment and removal of all service providers, including the Company Secretary.

**20. The directors should have access to independent professional advice at the company’s expense where they judge it necessary to discharge their responsibilities properly.**

Specialist advisers will be invited to join the Board meetings to brief the Board on relevant topics. All members of the Board have access to these specialist advisers where necessary to discharge their responsibilities properly.

**21. Where a new company has been created by the manager, sponsor or other third party, the chair and the board should be selected and brought into the process of structuring a new launch at an early stage.**

The Chair and Board were an integral part of the decision-making process in respect of the listing of the shares of HICL UK required to effect the transfer of the HICL Guernsey’s investment portfolio from Guernsey to the UK.

## **Composition, Succession and Evaluation**

- J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. (Incorporates relevant content from UK Code Principle J)
- K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. (UK Code Principle K)
- L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. (UK Code Principle L)

**22. The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to the board and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. If the board has decided that the entire board should fulfil the role of the nomination committee, it will need to explain why it has done so in the annual report. The chair of the board should not chair the committee when it is dealing with the appointment of their successor. (Incorporates relevant content from UK Code Provision 17)**

The Board has a Nomination Committee, the terms of reference of which are available from HICL's website. It is composed of all seven Board Directors and it is chaired by Mr I Russell who is also the Chairman of the Board.

The Board believes that its composition with respect to the balance of skills, gender, experience and knowledge, coupled with the mixed length of service, provides for a sound base from which the interests of investors will be served to a high standard. There is a good spread of skills on the Board and a good level of knowledge of regulatory requirements and regulations, generally, as well as a number of Directors with accounting qualifications and a good understanding of investment companies.

**23. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success. (UK Code Provision 18)**

The Directors are not subject to automatic reappointment.

As a general policy, all Directors will retire, and, if appropriate and willing to act, offer themselves for re-election by shareholders at each AGM. Each of the Directors will retire and offer themselves for re-election (or election in the case of Ms F Davies) at the forthcoming AGM on 16 July 2019.

Succession planning for key roles, including the Chair and the Chair of the Audit Committee, as well as the mix of skills and experience on the Board more generally with respect to Director recruitment, are explicitly considered and discussed by the Nomination Committee.

**24. Each board should determine and disclose a policy on the tenure of the chair. A clear rationale for the expected tenure should be provided, and the policy should explain how this is consistent with the need for regular refreshment and diversity. (Incorporates relevant content from UK Code Provision 19)**

Other than in exceptional circumstances, it is the policy of the Board that Directors, including the Chair, will not serve more than nine years on the Board, including time spent on the Board of HICL Guernsey. As a general rule, a Director who has served more than nine years will not be considered independent.

**25. Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is engaged it should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. (UK Code Provision 20)**

As outlined in respect of Provision 22, the Nomination Committee will use external search consultancies to assist with recruitment of new Directors.

**26. There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. The external evaluator should be identified in the annual report and a statement made about any other connection it has with the company or individual directors. (UK Code Provision 21)**

HICL intends to comply with this provision.

**27. The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified. (UK Code Provision 22)**

The Directors intend to proactively engage in the Board evaluation process, and act on development needs which are identified. The Chairman will take the lead in recognising the strengths and addressing any weaknesses of the Board as a whole.

**28. The annual report should describe the work of the nomination committee, (including where the whole board is acting as the nomination committee) including:**

- ▲ the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;
- ▲ how the board evaluation has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition; and
- ▲ the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives. (Incorporates relevant content from UK Code Provision 23)

The work of the Nomination Committee is described in Provision 22, and the Board evaluation process is outlined in Provision 26.

HICL has adopted a Diversity Policy, which the Nomination Committee will take regard of in decision making.

### **Diversity Policy**

The Board believes that a diversity of viewpoints and personal experiences, along with broad professional expertise, lead to better decisions, are critical to innovation and provide a competitive advantage in HICL's marketplace. When recruiting new Directors, the Board searches for candidates from a diverse range of backgrounds and communities to attract the widest breadth of talent, skills and outlook. The Board's policy is to appoint individuals on merit, based on their skills, experience and expertise.

HICL aims to achieve that the key targets of the Hampton-Alexander Review and the Parker Review. These are that 33% of the Board of Directors should be women by the end of 2020 and that HICL should have at least one Director from an ethnic minority by 2024.

HICL is an investment company and as such does not have a senior management team. Day-to-day management of HICL is delegated to InfraRed Capital Partners ("InfraRed"), HICL's Investment Manager. InfraRed's diversity policy and statistics are published at [www.ircp.com/responsibility/diversity.html](http://www.ircp.com/responsibility/diversity.html).

As at 21 May 2019, 29% of the Board of Directors were women and 0% were from ethnic minorities.

### **Audit, Risk and Internal Control**

- M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements. 4 (Incorporates relevant content from UK Code Principle M)
- N. The board should present a fair, balanced and understandable assessment of the company's position and prospects. (UK Code Principle N)
- O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. (UK Code Principle O)

**29. The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies two<sup>6</sup>. The chair of the board should not chair the committee but can be a member if they were independent on appointment. If the chair of the board is a member of the audit committee, the board should explain in the annual report why it believes this is appropriate. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates. (Incorporates relevant content from UK Code Provision 24)**

As set out in respect of Provision 8, the Audit Committee comprises all of the Directors, with the exception of the Chairman, who attends by invitation.

The Board has satisfied itself that at least one member has recent and relevant financial experience and that the Committee as a whole has competence relevant to both the infrastructure sector and the investment trust sector (see the Directors' biographies in the Report of the Directors).

**30. The main roles and responsibilities of the audit committee should include:**

- ▲ monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;
- ▲ providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
- ▲ reviewing the company's internal financial controls and internal control and risk management systems, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself;
- ▲ conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- ▲ reviewing and monitoring the external auditor's independence and objectivity;
- ▲ reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- ▲ developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required; and
- ▲ reporting to the board on how it has discharged its responsibilities. (Incorporates relevant content from UK Code Provision 25)

HICL complies with this provision. See the Audit Committee Report and the Risk Committee Report.

<sup>6</sup> A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.



**31. The annual report should describe the work of the audit committee including:**

- ▲ the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed;
- ▲ an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
- ▲ in the case of a board not accepting the audit committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment); and
- ▲ an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services. (Incorporates relevant content from UK Code Provision 26)

HICL complies with this provision. See the Audit Committee Report.

**32. The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy. (UK Code Provision 27)**

HICL complies with this provision. See the Statement of Directors' Responsibilities.

**33. The board should carry out a robust assessment of the company's emerging and principal risks.<sup>7</sup> The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. (UK Code Provision 28)**

HICL complies with this provision. See the Risk Committee Report.

<sup>7</sup> Principal risks should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.

**34. The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls. (UK Code Provision 29)**

The Board is responsible for HICL's system of internal control and for reviewing its effectiveness. To help achieve this end, the Board has a designated Risk Committee. It follows a process designed to meet the particular needs of HICL in managing the risks to which it is exposed.

The key findings and updates from the Risk Committee are, as with the other Committees, reported to the Board after the relevant meeting.

At each Board meeting, the Board also monitors HICL's investment performance in comparison to its stated objectives and it reviews HICL's activities since the last Board meeting to ensure adherence to approved investment guidelines. The pipeline of new potential opportunities is considered and the prices paid for new or incremental investments during the quarter are also reviewed.

The Investment Manager prepares management accounts and updates business forecasts on a quarterly basis, which allow the Board to assess HICL's activities and review its performance.

The Board has reviewed the need for an internal audit function and it has decided that the systems and procedures employed by the Investment Manager and the Secretary, including their own internal review processes, and the work carried out by HICL's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards HICL's assets, is maintained. An internal audit function specific to HICL is therefore considered unnecessary albeit, from time to time, independent assurance assignments may be commissioned by the Board.

The Board recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss, and rely on the operating controls established by both the Company Administrator and the Investment Manager.

The Board and the Investment Manager have agreed clearly defined investment criteria, return targets, risk appetite, and exposure limits. Reports on these performance measures, coupled with cash projections and investment valuations, are submitted to the Board and the relevant committees at each quarterly meeting.

**35. In annual and half-yearly financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. (UK Code Provision 30)**

HICL complies with this provision. See the Report of the Directors.

**36. Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. (UK Code Provision 31)**

HICL complies with this provision. See the Viability Statement.

## Remuneration

- P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. (Incorporates relevant content from UK Code Principle P)
- Q. A formal and transparent procedure for developing policy remuneration should be established. No director should be involved in deciding their own remuneration outcome. (Incorporates relevant content from UK Code Principle Q)
- R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. (UK Code Principle R)

**37. The board should establish a remuneration committee of independent non-executive directors with a minimum membership of three, or in the case of smaller companies, two.<sup>8</sup> In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the board should satisfy itself that the appointee has relevant experience and understanding of the company. If the board has decided that the entire board should fulfil the role of the remuneration committee, it will need to explain why it has done so in the annual report. (Incorporates relevant content from UK Code Provision 32)**

HICL complies with this provision. See the Remuneration Report.

**38. The remuneration committee should have delegated responsibility for determining the policy and setting the remuneration for the chair. (Incorporates relevant content from UK Code Provision 33)**

This is reflected in the Remuneration Committee's Terms of Reference.

**39. The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements. Provision should be made for additional directors' fees where directors are involved in duties beyond those normally expected as part of the director's appointment. In such instances the board should provide details of the events, duties and responsibilities that gave rise to any additional directors' fees in the annual report. (Incorporates relevant content from UK Code Provision 34)**

HICL complies with this provision. See the Remuneration Report.

**40. Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties. (Incorporates relevant content from UK Code Provision 35)**

HICL complies with this provision. See the Remuneration Report.

**41. The main role and responsibilities of the remuneration committee should include:**

- ▲ in conjunction with the chair, setting the directors' remuneration levels; and
- ▲ considering the need to appoint external remuneration consultants.

This is reflected in the Remuneration Committee's Terms of Reference.

**42. There should be a description of the work of the remuneration committee in the annual report. (Incorporates relevant content from UK Code Provision 41)**

HICL complies with this provision. See the Remuneration Report.

<sup>8</sup> A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

## Audit Committee Report

The following pages set out the Audit Committee's report on its activities in respect of the first accounting period ended 31 March 2019 for HICL Infrastructure PLC (the "Company"). Subsequent to the period end, on 1 April 2019, the investment business of HICL UK's parent, HICL Guernsey, was transferred to HICL UK.

The Audit Committee has been established to operate within clearly defined terms of reference, which are substantially the same as HICL Guernsey's and are available on HICL's website, in the Investor Relations section. The Committee comprises all the Directors except for Mr Ian Russell, which is consistent with HICL Guernsey other than Frances Davies who was appointed on 1 April 2019. The Committee met formally once in the period and will meet at least four times per year for all future accounting periods.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual and Interim Reports, the valuation of HICL's investment portfolio, the system of internal controls and the terms of appointment and remuneration of the external auditor, KPMG LLP ("KPMG" or the "external auditor").

It is also the formal forum through which KPMG reports to the Board of Directors and will meet at least twice yearly. The objectivity of the external auditor is reviewed by the Audit Committee, which also reviews the terms under which the external auditor is appointed to perform non-audit services and the fees paid to them or their affiliated firms overseas, in accordance with HICL's Non-Audit Services policy.

We have reviewed the independence, objectivity and effectiveness of KPMG and recommended to the Board that KPMG be appointed as external auditor of HICL UK in respect of the coming financial year.

I, or another member of the Audit Committee, will be available at each AGM to respond to any questions from shareholders regarding our activities.



### Susie Farnon

Audit Committee Chairman  
21 May 2019

## Responsibilities

The main duties of the Audit Committee are:

- ▲ giving full consideration and recommending to the Board for approval the contents of the half yearly and annual financial statements and reviewing the external auditor's report thereon;
- ▲ reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor;
- ▲ reviewing the valuation of HICL's investments prepared by the Investment Manager, receiving an independent review of the valuation from a third-party expert and making a recommendation to the Board on the valuation of HICL's investments;
- ▲ establishing policies for the provision of non-audit services by the external auditor;
- ▲ reviewing and recommending to the Board for approval the audit, audit related and non-audit fees payable to the external auditor and the terms of their engagement, in accordance with HICL's Non-Audit Services policy;
- ▲ reviewing and approving the external auditor's plan for the following financial year, including a review of appropriateness of proposed materiality levels;
- ▲ reviewing HICL's procedures for the prevention, detection and reporting of fraud, including the procedures for handling allegations from whistleblowers;
- ▲ reviewing the appropriateness of HICL's accounting policies; and
- ▲ ensuring the standards and adequacy of the internal control systems.

The external auditor and the third-party valuation expert will be invited to attend the Audit Committee meetings at which the Annual and Interim Reports are considered, and at which they will have the opportunity to meet with the Audit Committee without representatives of the Investment Manager being present. The Audit Committee has direct access to KPMG and to key senior staff of the Investment Manager, and it will report its findings and recommendations to the Board, which retains the ultimate responsibility for the financial statements of HICL.

## External Auditor

KPMG Channel Islands Limited ("KPMG CI") was the external auditor of HICL Guernsey, having been reappointed as auditor at the completion of a tender process for the years commencing after 31 March 2015. Following the transfer of the investment business of HICL Guernsey to HICL UK, and the voluntarily liquidation of HICL Guernsey post year end, KPMG (the UK equivalent of KPMG CI) has been appointed as external auditor of HICL UK as the continuing entity. It is expected that the audit will be tendered within the next six years.

KPMG's fee for the audits of HICL UK's financial statements to 31 March 2019 and initial accounts to 28 February 2019 was £38,500.

## Non-audit Services

HICL has adopted a Non-Audit Services policy, which is available to view on HICL's website within the Audit Committee's terms of reference.

The Audit Committee notes KPMG's announcement in November 2018 to phase out the provision of non-audit work for FTSE 350 audit clients.

The Audit Committee reviews the scope and results of the audit, its effectiveness and the independence and objectivity of the external auditor, with particular regard to the level of non-audit fees. No non-audit services were provided during the period.

The Audit Committee considers KPMG to be independent of HICL. KPMG confirmed their compliance with their standard independence and objectivity procedures to the Audit Committee.

## Assessment of Independence and Effectiveness

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest. No non-audit services were provided by the external auditor and its member network firms.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- ▲ the external auditor's fulfilment of the agreed audit plan and variations from it;
- ▲ reports highlighting the major issues that arose during the course of the audit;
- ▲ feedback from the Investment Manager evaluating the performance of the audit team; and
- ▲ the Financial Reporting Council's annual report on audit quality inspections.

The Audit Committee is satisfied with KPMG's effectiveness and independence as auditor having considered the degree of diligence and professional scepticism demonstrated by them.

## Directors' Remuneration Report

I chair HICL's Remuneration Committee. The Remuneration Committee operates within clearly defined terms of reference and comprises all the Directors including the Chairman of the Board, all of whom are independent and non-executive.

The terms of reference of the Committee (available from HICL's website) are to determine and agree the Board policy for the remuneration of the Directors, including the approval of any ad hoc payments in respect of additional corporate work required such as the issuance of new shares.



### Mike Bane

Remuneration Committee Chairman  
21 May 2019

## Directors' Remuneration Policy

The Remuneration Committee's policy is to set Directors' remuneration at a reasonable level, commensurate with the skills and experience necessary to attract and retain Directors of the appropriate quality and experience for the effective stewardship of HICL, and the expected contribution of the Board as a whole in continuing to achieve HICL's objectives. Time committed to HICL's business and the specific responsibilities of the Chairman, Senior Independent Director, Directors and the chairmen and members of the various committees of the Board and their retention are taken into account. The policy aims to be fair and reasonable in relation to comparable investment trusts and other similar sized financial companies, and to take account of the prevailing rate of inflation, if appropriate. This includes provision for HICL's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and committee meetings, including those treated as a benefit in kind subject to tax and national insurance.

HICL's articles of association limit the aggregate fees payable to the Board to a total of £500,000 per annum (or such sums as HICL in general meeting shall from time to time determine). Within that limit, it is the responsibility of the Remuneration Committee as a committee of the Board to determine and approve the Directors' fees, following a recommendation from the Chairman and, in his case, from the Senior Independent Director. Appropriate comparative information is considered in forming these recommendations. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The Board considers the level of Directors' fees annually.

The Remuneration Committee may amend the level of remuneration paid to individual Directors within the parameters of the Remuneration Policy.

The Board is composed solely of Non-Executive Directors, none of whom has a service contract with HICL. Each new Director is provided with a letter of appointment. There is no provision for compensation for loss of office. The letters of appointment are available for inspection at HICL's registered office during business hours and will be available for 15 minutes before and throughout the forthcoming AGM, at which all Directors will stand for re-election.

Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

It is intended that the policy will be reviewed annually by the Remuneration Committee, and will apply with effect from 1 April 2019.

## Directors' Remuneration Report

The Remuneration Committee receives independent professional advice in respect of the Directors' roles, responsibilities and fees as and when appropriate.

All Directors of HICL are non-executive and as such there are:

- ▲ no service contracts;
- ▲ no annual bonus or short-term incentives;
- ▲ no long-term incentive schemes;
- ▲ no pension 'rights';
- ▲ no options or similar performance incentives.

In accordance with Principles P, Q and R of the 2019 AIC Code, the Remuneration Committee is tasked with ensuring that Directors' remuneration:

- ▲ reflects the time commitment and responsibilities of the role;
- ▲ reflects the additional time commitment, responsibility and accountability for the positions of Chairman of the Board, the Senior Independent Director, the Chairman of the Risk Committee and Chairman of the Audit Committee;
- ▲ includes remuneration for additional, specific corporate work which shall be carefully considered and only become due and payable on completion of that work; and
- ▲ is reviewed by an independent professional consultant with experience of Investment Companies and their fee structures, at least every three years.

#### **Statement of the Chairman of the Remuneration Committee**

As all Directors of HICL are non-executive they receive an annual fee appropriate for their responsibilities but no other incentive programmes or performance-related emoluments.

HICL UK has adopted the recommendations for the Directors' remuneration from an independent professional consultant, Trust Associates, as detailed in the Remuneration Report of HICL Guernsey, in HICL Guernsey's Annual Report for the year ended 31 March 2019. Their recommendations included an assessment for the financial year to 31 March 2020. These were debated by the Remuneration Committee in February 2019 and recommended to the Board which adopted them. They will be put to shareholders for approval at the AGM on 16 July 2019.

Trust Associates noted the workload and time involved is significant, driven by the increasing size and complexity of HICL and its operations.

For routine business, Trust Associates' recommendations for the financial year to 31 March 2020 were:

- ▲ Directors' fees to be £47,000 p.a.
- ▲ The Chairman of the Audit Committee's fee to be £59,000 p.a.
- ▲ The Chairman of the Risk Committee's fee to be £54,500 p.a.
- ▲ The Senior Independent Director's fee to be £60,000 p.a.
- ▲ The Chairman of the Board's fee to be £78,000 p.a.

The applicable premium to the base Directors' fee for each of the latter four roles is calibrated to recognise the additional responsibility involved in performance of the task. In particular, as concerns the Chairman of the Board, the premium is in recognition not only of the considerably greater weight of responsibility but also his involvement in meetings with shareholders and the Investment Manager each year.

In addition, an additional £6,000 annual fee is paid to the Director who also acts as Director of the two Luxembourg subsidiary company boards.

The fees proposed relate to the roles performed, and not to individuals per se.

#### **Statement of Implementation of Remuneration Policy in the Current Financial Year**

The Board have approved the fees as recommended by the Remuneration Committee and will seek shareholder approval for the Directors' Remuneration Policy at the AGM on 16 July 2019 with a view to implementing it back-dated to 1 April 2019.

## Report of the Directors

The Directors present their annual report on the affairs of HICL, together with the financial statements and Auditor's Report, for the period ended 31 March 2019. The Corporate Governance Statement forms part of this report.

Details of significant events since the balance sheet date are contained in Note 9 to the financial statements. An indication of likely future developments in the business of HICL and details of research and development activities are included in the strategic report. Information about the use of financial instruments by HICL and its subsidiaries is given in Note 2 to the financial statements.

## Principal Activity

HICL UK is a registered investment company under section 833 of the Company's Act 2006, incorporated in the UK. Its shares have a premium listing on the Official List of the UK Listing Authority and began trading on the main market of the London Stock Exchange on 1 April 2019.

## Directors

The Directors of HICL UK are:

	Role(s)	Years of Service*	Background and experience	Other public company directorships**
Mr I Russell	Chairman of the Board  Chair of Nomination Committee	5 years 11 months	Ian Russell CBE (British), resident in the UK, is a qualified accountant. He was appointed to the Board on 1 May 2013. Ian worked for Scottish Power plc between 1994 and 2006, initially as Finance Director and, from 2001, as its CEO. Prior to this he spent eight years as Finance Director at HSBC Asset Management in Hong Kong and London. Ian is chairman of Scottish Futures Trust and Herald Investment Trust plc.	Herald Investment Trust plc
Mr F Nelson	Senior Independent Director  Chair of Management Engagement Committee	4 years 10 months	Frank Nelson (British), resident in the UK, is a qualified accountant. He has over 25 years of experience in the construction, contracting, infrastructure and energy sectors. He was appointed to the Board on 1 June 2014. Frank was Finance Director of construction and housebuilding group Galliford Try plc from 2000 until October 2012. He was previously Finance Director of Try Group plc from 1987, leading the company through its flotation on the London Stock Exchange in 1989 and the subsequent merger with Galliford in 2001. Following his retirement, Frank was appointed as the Senior Independent Director of McCarthy & Stone and Eurocell. He is also Chair of a privately-owned contracting and property development group.	McCarthy & Stone plc  Eurocell plc



	<b>Role(s)</b>	<b>Years of Service*</b>	<b>Background and experience</b>	<b>Other public company directorships**</b>
Mr M Bane	Chair of the Remuneration Committee	0 years 9 months	Mike Bane (British) is a chartered accountant and retired from public practice on 29 June 2018. He has been a Guernsey resident for over 20 years. He has more than 35 years of audit and advisory experience in the asset management industry including in relation to infrastructure investment companies. He led EY's services to the asset management industry in the Channel Islands and was a member of EY's EMEA Wealth and Asset Management Board. Prior to EY, Mike was at PwC, in both London and Guernsey. Mike was President of the Guernsey Society of Chartered and Certified Accountants from 2015 to 2017. Mike graduated with a BA in Mathematics from the University of Oxford and is a long-standing member of the Institute of Chartered Accountants in England and Wales.	Apax Global Alpha Limited
Ms F Davies	Director	0 years 1 month	Frances Davies (British) has more than 30 years of experience across various roles within the banking and asset management industries. Since 2007, she has been a partner of Opus Corporate Finance, a corporate finance advisory business. Prior to that she served as Head of Global Institutional Business at Gartmore Investment Management where she was responsible for Gartmore's relationships with pension funds and other institutions within the UK, Europe and the US. Previously she held roles at Morgan Grenfell Asset Management and SG Warburg. Ms Davies graduated with a MA in Philosophy, Politics and Economics and a M.Phil in Management Studies, both from Oxford University.	JPMorgan Smaller Companies Investment Trust plc Aegon Investments Ltd
Mrs S Farnon	Chair of the Audit Committee	5 years 11 months	Sally-Ann Farnon (known as Susie) (British), resident in Guernsey, is a fellow of the Institute of Chartered Accountants in England and Wales, having qualified as an accountant in 1983, and is a non-executive director of a number of property and investment companies. She was appointed to the Board on 1 May 2013. Susie was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001 and Head of Audit KPMG Channel Islands from 1999. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of The States of Guernsey Audit Commission and as Vice-Chairman of The Guernsey Financial Services Commission, and is a director of The Association of Investment Companies.	Apax Global Alpha Limited Bailiwick Investments Limited (TISE) BH Global Limited Breedon Group plc (listed on AIM) Real Estate Credit Investments Limited Standard Life Investments Property and Income Trust Limited (due to stand down in June 2019)

	<b>Role(s)</b>	<b>Years of Service*</b>	<b>Background and experience</b>	<b>Other public company directorships**</b>
Mr S Holden	Chair of the Risk Committee	2 years 9 months	Simon Holden (British), resident in Guernsey, brings Board experience from both private equity and portfolio company operations roles at Candover Investments then Terra Firma Capital Partners. Since 2015, Simon has become an active independent director to listed investment company, private equity fund and trading company Boards. Simon holds the DiploD in Company Direction from the Institute of Directors, graduated from the University of Cambridge with an MEng and MA in Manufacturing Engineering and is an active member of Guernsey's GIFA, NED Forum and IP Commercial Group.	Hipgnosis Songs Fund Limited (traded on the Specialist Funds Segment of the LSE)  Merian Chrysalis Investment Company Limited  Triam Investors 1 Limited (traded on the Specialist Funds Segment of the LSE)
Mr K Reid	Director	2 years 7 months	Kenneth D. Reid (British), resident in Singapore, has more than 30 years of international experience in the sectors of construction, development and infrastructure investment. Working initially with Kier Group, and then from 1990 with Bilfinger Berger AG, he has been a project leader and senior management executive responsible for businesses and projects across all continents. From 2007 to 2010, Ken served as a member of the Group Executive Board of Bilfinger Berger AG. He graduated in Civil Engineering from Heriot-Watt University with First Class Honours (BSc), and subsequently from Edinburgh Business School with an MBA. Ken is a Chartered Engineer, a non-executive director of Sicon Limited, and a member of the Singapore Institute of Directors.	None

\*Assuming a continuation of the years of service as a Director of HICL Guernsey (in voluntary liquidation).

\*\*Listed in London unless noted otherwise.

The Directors were appointed to the Board of HICL UK on 10 January 2019, with the exception of Ms. Davies, who was appointed on 1 April 2019.

### **Directors' Indemnities**

HICL has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the period and remain in force at the date of this Report.

### **Employees**

HICL has no employees.

## Diversity Policy

The Board believes that a diversity of viewpoints and personal experiences, along with broad professional expertise, lead to better decisions, are critical to innovation and provide a competitive advantage in HICL's marketplace. When recruiting new Directors, the Board searches for candidates from a diverse range of backgrounds and communities to attract the widest breadth of talent, skills and outlook. The Board's policy is to appoint individuals on merit, based on their skills, experience and expertise.

HICL aims to achieve that the key targets of the Hampton-Alexander Review and the Parker Review. These are that 33% of the Board of Directors should be women by the end of 2020 and that HICL should have at least one Director from an ethnic minority by 2024. As at 21 May 2019, 29% of the Board of Directors were women and 0% were from ethnic minorities.

HICL is an investment company and as such does not have a senior management team. Day-to-day management of HICL is delegated to InfraRed Capital Partners ("InfraRed"), HICL's Investment Manager. InfraRed's diversity policy and statistics are published at: [www.ircp.com/responsibility/diversity.html](http://www.ircp.com/responsibility/diversity.html).

## Corporate Governance

The Corporate Governance Statement sets out in detail the code of corporate governance against which HICL reports and its compliance, or otherwise with the individual principles. It includes detail on the various committees of the Board, their composition and their terms of reference.

## Annual General Meeting ("AGM")

HICL's Annual General Meeting is intended to be held in July each year. The forthcoming meeting is scheduled for 16 July 2019. The AGM Circular will be published in late May 2019.

## Directors' Interests

	31 March 2019 Ordinary
Mr I Russell	95,979
Mr F Nelson	51,568
Mr M Bane	0
Ms F Davies	–
Mrs S Farnon	59,931
Mr S Holden	9,871
Mr K Reid	0
<b>Total</b>	<b>217,349</b>

## Investment Manager and Operator

InfraRed Capital Partners Limited (the "Investment Manager" or "InfraRed") acts as Investment Manager to HICL and acts as Operator of the limited partnership which holds and manages HICL's investments. A summary of the contract between HICL, its subsidiaries and InfraRed in respect of services provided is set out in HICL UK's March 2019 Prospectus, available on HICL's website.

InfraRed, in its capacity as operator, and the general partner of the partnership are together entitled to annual fees calculated on the following basis and in the following order: (i) 1.1 per cent. of the proportion of the Adjusted Gross Asset Value of HICL's investments which have a value of up to (and including) £750 million in aggregate; (ii) 1.0 per cent. of the proportion of the Adjusted Gross Asset Value of HICL's investments that is not accounted for under (i) which, together with the investments under (i) above, have an Adjusted Gross Asset Value of up to (and including) £1.5 billion in aggregate; (iii) 0.9 per cent. of the proportion of the Adjusted Gross Asset Value of HICL's investments not accounted for under (i) or (ii) above which, together with investments under (i) and (ii) above have an Adjusted Gross Asset Value of HICL of up to (and including) £2,250 million; (iv) 0.8 per cent. of the proportion of the Adjusted Gross Asset Value of HICL that is not accounted for under (i), (ii) and (iii) above which, together with investments under (i), (ii) and (iii) above, have an Adjusted Gross Asset Value of HICL of up to (and including) £3,000 million; and (v) 0.65 per cent. of the proportion of the Adjusted Gross Asset Value of HICL that is not accounted for under (i), (ii), (iii) and (iv) above.

These fees are calculated and payable quarterly in arrears, and are based on the Adjusted Gross Asset Value of HICL's assets at the beginning of the period concerned, adjusted on a time basis for acquisitions and disposals during the period.

InfraRed is also entitled to a fixed management fee of £100,000 per annum. InfraRed will not receive any Directors' or other fees from any project company.

There are no acquisition fees payable. The Investment Management Agreement may be terminated by either party giving the other party thirty six (36) months' written notice (or, at HICL's option, making a payment in lieu of such notice). InfraRed's appointment as Operator has corresponding termination provisions, and if InfraRed's appointment as Investment Manager is terminated it may unilaterally terminate its appointment as operator, and vice versa.

In view of the fact that the Investment Management Agreement was entered into in March 2019 and was reviewed and approved by the Board in connection with the change in domicile of HICL Guernsey to the United Kingdom and shareholders had an opportunity to vote on the Investment Management Agreement as part of those proposals, the Directors are of the opinion that the continued appointment of InfraRed as HICL's investment manager is in the best interests of the shareholders of HICL.

## AIFMD Disclosures

In accordance with the Alternative Investment Fund Managers Directive:

- ▲ information in relation to HICL UK's leverage can be found in the Strategic Report;
- ▲ remuneration of InfraRed as HICL UK's AIFM can be found below in AIFM Remuneration;
- ▲ HICL UK had no activities during the financial year;
- ▲ a full list of the risks facing HICL can be found in HICL UK's March 2019 Prospectus, available from HICL's website; and
- ▲ none of HICL's assets are subject to special arrangements arising from their illiquid nature.

## AIFM Remuneration

The AIFMD Remuneration Code requires InfraRed in its capacity as AIFM of HICL UK, to make relevant remuneration disclosures available to investors.

InfraRed assesses its list of AIFMD Code Staff. AIFMD Code Staff are notified of their status and the associated implications.

InfraRed has established a remuneration policy. A summary of InfraRed's remuneration policy is contained in the Annual Report and Accounts of InfraRed Capital Partners (Management) LLP, which are available from Companies House.

The aggregate total remuneration paid by the group which contains InfraRed for the year ended 31 March 2019 was £37,178,372. This was paid to 157 beneficiaries and was divided into fixed remuneration of £15,879,521 and variable remuneration of £21,298,851.

No fees were paid to InfraRed by HICL UK during the financial year ended 31 March 2019 as the transfer of HICL Guernsey's investment portfolio did not occur until 1 April 2019. Disclosure in relation to the remuneration of AIFMD Code Staff (apportioned between the provision of services to HICL UK and to other entities where appropriate) will be prepared in respect of HICL UK's financial year ending 31 March 2020 as this is the first financial year in which InfraRed is entitled to management fees from HICL UK under the Investment Management Agreement, in the role of Investment Manager, under the requirements of AIFMD.

### Broker, Administrator and Company Secretary

HICL's joint corporate brokers are Canaccord Genuity Limited and RBC Capital Markets. The Administrator and Company Secretary is Aztec Financial Services (UK) Limited.

### Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which HICL's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make him or herself aware of any relevant audit information and to establish that HICL's auditor is aware of that information.

### Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report. The Strategic Report includes information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2008.

### Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP as auditor of HICL is to be proposed at the forthcoming Annual General Meeting.

### Distributions

The target fourth quarterly interim dividend, of 2.02p per share, in respect of the year ended 31 March 2019 is expected to be declared by HICL UK on 29 May 2019, and is due to be paid on 28 June 2019. This distribution represents what would have been the fourth distribution from HICL Guernsey had the Scheme not occurred.

### Capital Structure and Voting Rights

At 31 March 2019 the sole shareholder of HICL UK was HICL Guernsey. HICL UK had one class of share capital, Ordinary Shares, of which there were 1,791,142,767 as at 1 April 2019.

### Substantial Interests in Share Capital

At 31 March 2019 the sole shareholder of HICL UK was HICL Guernsey.

As at 1 April 2019, the Company is aware of or has received notification in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5 of the following interests in 3% or more of HICL UK's shares to which voting rights are attached:

	Number of Shares Held	Percentage Held
Investec Wealth and Investment Limited	113,447,629	6.33%
Brewin Dolphin	106,312,906	5.94%
Baillie Gifford	88,980,620	4.97%
Rathbones	79,585,759	4.62%
Legal & General Investment Management	77,596,424	4.33%
Aberdeen Standard*	60,193,373	3.36%
Insight Investment	58,112,668	3.24%

\*Includes Aberdeen Private Wealth, Aberdeen Standard Capital and Aberdeen Standard Investments.

## Payment of Suppliers

It is the policy of HICL to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. Although no specific code or standard is followed, suppliers of goods and services are generally paid within 30 days of the date of any invoice.

## Greenhouse Gas Emissions (GHG) Reporting

HICL UK was not listed on any stock exchange during the year ended 31 March 2019. Greenhouse gas emissions will be reported for the financial year ending 31 March 2020.

## Going Concern

As detailed in Note 9, subsequent to the reporting date, on 1 April 2019 on completion of the Scheme, as detailed in HICL UK's Prospectus dated 4 March 2019, HICL UK acquired the investment business of its parent, HICL Guernsey, in its entirety through the acquisition of the HICL Guernsey's interests in Luxco 1. Subsequently, HICL Guernsey was placed into voluntary liquidation. Via the Scheme, HICL Guernsey's shareholders were issued one Ordinary share in HICL UK for each Ordinary share held in HICL Guernsey meaning there was no change in ultimate ownership of the investment business immediately following the Scheme. There is no expectation for the investment business' activities to discontinue.

The Directors note that on completion of the Scheme, on 1 April 2019, HICL UK's £2.0bn receivable from HICL Guernsey (a current asset at 31 March 2019) was settled. In addition, HICL UK became party to the multi-currency £400m Revolving Credit Facility ("RCF"), held by Infrastructure Investments Limited Partnership ("IILP"), a corporate subsidiary that holds the investment portfolio.

HICL UK's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of HICL UK, its cash flows, and liquidity position are described in the Financial Review.

Following completion of the Scheme on 1 April 2019 (see Note 9 for details), HICL UK has considerable financial resources together with long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. The financing for these projects is non-recourse to HICL UK. As a consequence, the Directors believe that HICL UK is well placed to manage its business risks.

The Directors have considered areas of financial risk, HICL UK's access to IILP's RCF and reviewed cash flow forecasts with a number of stress scenarios.

The Directors believe that HICL UK has adequate resources to continue in operational existence for the next 12 months. Thus they adopt the going concern basis of accounting in preparing the annual financial statements.

## Share Repurchases

The Directors will seek authority to repurchase shares where appropriate at the AGM on 16 July 2019.

## Treasury Shares

Section 724 of the UK 2006 Companies Act allows companies to hold shares acquired by market purchase as treasury shares, rather than having to cancel them. Issued shares may be held in treasury and may be subsequently cancelled or sold for cash in the market. This gives HICL UK the ability to reissue shares quickly and cost efficiently, thereby improving liquidity and providing HICL UK with additional flexibility in the management of its capital base.

While there are currently no shares held in treasury the Board would only authorise the resale of such shares from treasury at prices at or above the prevailing net asset value per share (plus costs of the relevant sale). If such a measure were to be implemented, this would result in a positive overall effect on HICL's net asset value. In the interests of all shareholders the Board will keep the matter of treasury shares under review.

## Political Contributions

HICL UK made no political donations during the period.

## Website

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on HICL's website ([www.hicl.com](http://www.hicl.com)), and for the preparation and dissemination of financial statements.

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

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

- ▲ select suitable accounting policies and then apply them consistently;
- ▲ make judgements and estimates that are reasonable, relevant and reliable;
- ▲ state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- ▲ assess HICL UK's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- ▲ use the going concern basis of accounting unless they either intend to liquidate HICL UK or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report and other relevant reports within the Annual Report that comply with that law and those regulations.

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

## Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- ▲ the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of HICL UK; and
- ▲ the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess HICL UK's position and performance, business model and strategy.

By order of the Board,

Authorised signatory

Aztec Financial Services (UK) Limited  
Company Secretary  
21 May 2019

Registered Office Aztec Financial Services (UK) Limited:  
Forum 4, Solent Business Park, Parkway South, Whiteley, Fareham, PO15 7AD

# Independent Auditor's Report to the Members of HICL Infrastructure PLC

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## 1 Our opinion is unmodified

We have audited the financial statements of HICL Infrastructure PLC ("the Company") for the period ended 31 March 2019 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity, and the related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- ▲ give a true and fair view of the state of Company's affairs as at 31 March 2019 and of its profit and loss for the period then ended;
- ▲ have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- ▲ have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the Directors on 26 February 2019 prior to the Company becoming a Public Interest Entity. This is our first period as auditors, however we have been auditors of HICL Infrastructure Company Limited, a Guernsey entity listed on the London Stock Exchange, for 13 consecutive years to 31 March 2019. On 1 April 2019, the investment portfolio of HICL Infrastructure Company Limited (the former ultimate parent undertaking) was transferred to HICL Infrastructure PLC. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

## 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.



Risks of material misstatement		Our response
<b>Recoverability of intercompany receivable</b>		
(£2,000m)  Refer to the Balance Sheet	<p><b>High value transaction</b></p> <p>At year end the issued share capital remained unpaid, resulting in an intercompany receivable.</p> <p>On 1 April 2019 the Company acquired the investment business of HICL Infrastructure Company Limited, resulting in the settlement of this receivable.</p>	<p>Our procedures included the following:</p> <p>▲ <b>Test of detail:</b> We assessed the contract for the transfer of assets and investment business from the parent company and obtained confirmation of the completion of the transaction in the post balance sheet period. We utilised our knowledge and understanding of the audit of HICL Infrastructure Company limited to consider the need for any impairment of the receivable.</p> <p>▲ <b>Assessing transparency:</b> We assessed the disclosure of the transaction in the statutory accounts.</p> <p><b>Our results</b></p> <p>▲ We found the Directors' assessment of the recoverability of the intercompany receivable to be acceptable.</p>

### 3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £20m, determined with reference to a benchmark of net asset value (of which it represents 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1m in addition to other identified misstatements that warranted reporting on qualitative grounds.

### 4 We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- ▲ we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- ▲ the related statement under the Listing Rules set out on page 6 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## **5 We have nothing to report on the other information in the Annual Report**

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### **Strategic Report and Directors' Report**

Based solely on our work on the other information:

- ▲ we have not identified material misstatements in the Strategic Report and the Directors' Report;
- ▲ in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- ▲ in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Disclosures of principal risks and longer-term viability**

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- ▲ the Directors' confirmation within the Viability Statement on page 15 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- ▲ the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- ▲ the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

## **6 We have nothing to report on the other matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

## **7 Respective responsibilities**

### **Directors' responsibilities**

As explained more fully in their statement set out on page 47, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **Irregularities – ability to detect**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

### **Ian Griffiths (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
21 May 2019

**Income Statement**

For the period from 21 December 2018 to 31 March 2019

There were no accounting transactions that were required to be disclosed as income or expense and consequently an income statement has not been prepared.

## Balance sheet

As at 31 March 2019

	Notes	31 March 2019 £m
<b>Current assets</b>		
Trade and other receivables	6	2,000.1
<b>Total assets</b>		<b>2,000.1</b>
<b>Net assets</b>		<b>2,000.1</b>
<b>Equity</b>		
Share capital	7	0.1
Share premium		–
Reserves	7	2,000.0
<b>Total equity</b>		<b>2,000.1</b>

The accompanying notes form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 21 May 2019 and signed on its behalf by:



**S Farnon**  
Director



**I Russell**  
Director

Company registered number: 11738373

### Statement of Changes in Shareholders' Equity

For the period from 21 December 2018 to 31 March 2019

	Share capital £m	Share premium £m	Reserves £m	Total equity £m
As at 21 December 2018	–	–	–	–
Issue of Ordinary Shares	–	2,000.0	–	2,000.0
Issue of Redeemable Shares	0.1	–	–	0.1
Share premium reduction	–	(2,000.0)	2,000.0	–
<b>As at 31 March 2019</b>	<b>0.1</b>	<b>–</b>	<b>2,000.0</b>	<b>2,000.1</b>

**Statement of Cash Flows**

For the period from 21 December 2018 to 31 March 2019

HICL UK had no cash or cash flows during the current period and consequently a statement of cash flows has not been prepared.

## Notes to the Financial Statements

### 1. Reporting entity

HICL Infrastructure PLC (“HICL UK”) is a public limited company incorporated, domiciled and registered in England in the UK.

At 31 March 2019, HICL UK was a 100% directly owned subsidiary of HICL Infrastructure Company Limited (“HICL Guernsey”), a Guernsey-based investment company that was publicly traded on the London Stock Exchange until 1 April 2019.

On 1 April 2019 via a scheme of reconstruction (the “Scheme”), as detailed in HICL UK’s Prospectus dated 4 March 2019, HICL Guernsey transferred its investment business to HICL UK, HICL Guernsey was placed into voluntary liquidation and HICL UK’s shares were listed on the London Stock Exchange. Further detail regarding the Scheme is included in Note 9.

The accounting policies set out below have, unless otherwise stated, been applied consistently to the period presented in these financial statements.

### 2. Key accounting policies

#### a) Basis of preparation

The financial statements were approved and authorised for issue by the Board of Directors on 21 May 2019.

The financial statements, which give a true and fair view, have been prepared in compliance with the Companies Act 2006 and in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) using the historical cost basis.

The financial statements are presented in Pounds Sterling, which is HICL UK’s functional currency.

The preparation of these financial statements, in conformity with IFRS as adopted by the EU, requires the Directors and advisers to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 year or the period of the revision and future periods if the revision affects both current and future periods.

#### Going concern

As detailed in Note 9, subsequent to the reporting date, on 1 April 2019 on completion of the Scheme, as detailed in HICL UK’s Prospectus dated 4 March 2019, HICL UK acquired the investment business of its parent, HICL Guernsey, in its entirety through the acquisition of the HICL Guernsey’s interests in Luxco 1. Subsequently, HICL Guernsey was placed into voluntary liquidation. Via the Scheme, HICL Guernsey’s shareholders were issued one Ordinary share in HICL UK for each Ordinary share held in HICL Guernsey meaning there was no change in ultimate ownership of the investment business immediately following the Scheme. There is no expectation for the investment business’ activities to discontinue.

The Directors note that on completion of the Scheme, on 1 April 2019, HICL UK’s £2.0bn receivable from HICL Guernsey (a current asset at 31 March 2019) was settled. In addition, HICL UK became party to the multi-currency £400m Revolving Credit Facility (“RCF”), held by Infrastructure Investments Limited Partnership (“IILP”), a corporate subsidiary that holds the investment portfolio.

HICL UK’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of HICL UK, its cash flows, and liquidity position are described in the Financial Review.

Following completion of the Scheme on 1 April 2019 (see Note 9 for details), HICL UK has considerable financial resources together with long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. The financing for these projects is non-recourse to HICL UK. As a consequence, the Directors believe that HICL UK is well placed to manage its business risks.

The Directors have considered areas of financial risk, HICL UK’s access to IILP’s RCF and reviewed cash flow forecasts with a number of stress scenarios.

The Directors believe that HICL UK has adequate resources to continue in operational existence for the next 12 months. Thus they adopt the going concern basis of accounting in preparing the annual financial statements.



### Standards not yet applied

HICL UK notes the following standards and interpretations which were in issue but not yet effective at the date of these financial statements. They are not expected to have a material impact.

- ▲ IFRS 16 Leases (effective date 1 January 2019).
- ▲ Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (effective date 1 January 2019).
- ▲ Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
- ▲ Annual Improvements to IFRS Standards 2015–2017 Cycle.
- ▲ IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).

The Investment Manager undertook an initial analysis of the potential impact of IFRS 16 on HICL UK's reported performance and financial statements and is of the opinion that the new standard is not expected to have a material impact.

### Critical accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The Directors have considered the judgments, estimates and assumptions and believe there are no judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the disclosure or to the carrying amounts of assets and liabilities within the next financial year.

#### b) Financial instruments

Financial assets and liabilities are recognised on HICL UK's Balance Sheet when HICL UK becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are de-recognised when the contractual rights to the cash flows from the instrument expire or the asset or liability is transferred and the transfer qualifies for de-recognition in accordance with IFRS 9 Financial Instruments.

Non-derivative financial instruments are recognised initially at fair value including directly attributable transaction costs, except for financial instruments measured at fair value through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses for financial assets.

#### c) Share capital and share premium

Ordinary Shares are classified as equity. Costs associated with the establishment of HICL UK or directly attributable to the issue of new shares that would otherwise have been avoided are written-off against the balance of the share premium account.

### 3. Directors' remuneration

The Directors did not receive any remuneration from HICL UK during the period to 31 March 2019.

### 4. Auditor's remuneration

The Auditor's remuneration for HICL UK's financial statements to 31 March 2019 and initial accounts to 28 February 2019 was £38,500.

### 5. Employees

HICL UK had no employees during the financial period.

## 6. Trade and other receivables

	<b>31 March 2019 £m</b>
Amounts owed from parent undertakings	2,000.1
<b>Trade and other receivables</b>	<b>2,000.1</b>

The amounts owed from parent undertakings represents unpaid share capital and premium from HICL UK's parent which was settled on 1 April 2019 as part of the Scheme – see Note 9 for further details.

## 7. Share capital and reserves

### Ordinary shares

	<b>31 March 2019</b>
£0.0001 Ordinary shares issued for cash	2
<b>Authorised and issued at 31 March</b>	<b>2</b>

### Redeemable shares

	<b>31 March 2019</b>
£1 Redeemable shares issued for cash	50,000
<b>Authorised and issued at 31 March</b>	<b>50,000</b>

The Redeemable shares have an entitlement to a preferred dividend of 5% p.a., and the redemption price is par plus any accrued unpaid dividend. The Redeemable shares were redeemed on 1 April 2019 – see Note 9 for details.

### Share capital and share premium

	<b>31 March 2019 £m</b>
Premium arising on issue of equity shares	2,000.0
Converted to distributable reserves	(2,000.0)
<b>Balance at 31 March</b>	<b>-</b>

#### For the period ended 31 March 2019

On 21 December 2018, HICL UK issued 1 £0.0001 Ordinary share at par to Corpman (UK) Limited.

On 10 January 2019, this 1 £0.0001 Ordinary share was transferred to HICL UK's direct parent, HICL Guernsey, at par.

On 11 January 2019, HICL UK issued 50,000 £1 Redeemable shares to HICL Guernsey at par.

On 17 January 2019, HICL UK issued 1 £0.0001 Ordinary share to HICL Guernsey for a premium of £2.0bn.

On 12 February 2019, HICL UK obtained court approval to convert all its share premium (£2.0bn) to retained reserves.

Shares issued subsequent to the period end are detailed in Note 9.

#### 8. Related party transactions

In January 2019, HICL UK issued 1 £0.0001 Ordinary share at par, 50,000 £1 Redeemable shares at par and 1 £0.0001 Ordinary share at a premium of £2.0bn to its direct parent, HICL Guernsey – see Note 7 for details.

Subsequent to the year end, on 1 April 2019, HICL UK entered into an Investment Management Agreement between with InfraRed Capital Partners Limited, as detailed in HICL UK's Prospectus dated 4 March 2019.

#### 9. Events after the balance sheet date

On 26 March 2019, HICL UK's direct parent, HICL Guernsey, held an Extraordinary General Meeting where shareholders resolved proposals for HICL Guernsey to enter into a scheme of reconstruction (the "Scheme"), as detailed in HICL UK's prospectus issued on 4 March 2019 and which was effected on 1 April 2019.

On 1 April 2019 and under the provisions of the Scheme, HICL Guernsey was placed into voluntary liquidation and William Callewaert and Richard Searle, both of BDO Limited, Place du Pré, Rue du Pré, St Peter Port, Guernsey, GY1 3LL, were appointed as the liquidators of HICL Guernsey.

Provisions of the Scheme transferred substantially all HICL Guernsey's assets to HICL UK, in consideration for the issuance of Ordinary shares in HICL UK to shareholders in HICL Guernsey. HICL UK acquired HICL Guernsey's investment business through the acquisition of HICL Guernsey's interests (being Ordinary shares and a financing loan) in HICL Infrastructure 1 S.a.r.l. ("Luxco 1"), a Luxembourg-domiciled investment company which via a second Luxembourg-domiciled investment company and an English limited partnership holds the portfolio of infrastructure investments.

HICL UK issued 1,791,142,767 £0.0001 Ordinary shares which were distributed by the liquidator to HICL Guernsey's shareholders on a one for one basis. The shares were immediately admitted to trading on the London Stock Exchange. Consideration received in respect of the Scheme was £2,821.1m, being HICL Guernsey's Net Asset Value at 31 March 2019 minus £0.6m net working capital, which was applied to settle the £2.0bn receivable from HICL Guernsey and in consideration for the issue of shares to HICL Guernsey's shareholders.

On 1 April 2019, HICL UK redeemed the 50,000 £1 Redeemable shares at par.

On 1 April 2019, HICL UK entered into an Investment Management Agreement between HICL UK and InfraRed Capital Partners Limited ("InfraRed") to appoint InfraRed as the Investment Manager.

On 1 April 2019, HICL UK became a guarantor of the multi-currency £400m RCF, held by IILP, a corporate subsidiary that holds the investment portfolio. At 1 April 2019, cash drawings from the revolving credit facility were £90m.

#### 10. Ultimate controlling party

HICL UK's immediate parent and ultimate controlling party at 31 March 2019 was HICL Guernsey, which is incorporated in Guernsey, Channel Islands and its accounts are available at East Wing, Trafalgar Court, Les Banques, St Peter Port, GY1 3PP, Guernsey, and on HICL UK's website ([www.hicl.com](http://www.hicl.com)).

## Glossary

Item	Definition
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	The Alternative Investment Fund Managers Directive seeks to regulate alternative investment fund managers (“AIFM”) and imposes obligations on Managers who manage alternative investment funds (“AIF”) in the EU or who market shares in such funds to EU investors
AIC	The Association of Investment Companies is a United Kingdom trade association for the closed-ended investment company industry
AIC Code	The 2019 AIC Code of Corporate Governance
AMP7	The UK water industry regulatory period from 2020 to 2025
Corporate Group	Refers to HICL and its Corporate Subsidiaries
Corporate Subsidiaries	The two Luxembourg subsidiaries and the English Limited Partnership, being HICL Infrastructure 1 S.a.r.l, HICL Infrastructure 2 S.a.r.l and Infrastructure Investments Limited Partnership
Demand-based assets	Infrastructure assets with revenues linked to the usage of the underlying assets
Directors’ Valuation	Fair market valuation of HICL’s investments, further details can be found in the Valuation Section
ESG	Environmental, Social and Governance
FATCA	The Foreign Account Tax Compliance Act
Financial Conduct Authority (or “FCA”)	UK Financial Conduct Authority
Group	See Corporate Group
HICL	HICL Infrastructure Company Limited (“HICL Guernsey”) prior to 31 March 2019 and HICL Infrastructure PLC (“HICL UK”) from 1 April 2019
HICL Guernsey	HICL Infrastructure Company Limited, the Guernsey entity (in voluntary liquidation)
HICL UK	HICL Infrastructure PLC, a UK entity which will continue the investment activities of HICL Guernsey, as it has an identical Investment Policy to that of HICL Guernsey and has acquired HICL Guernsey’s entire investment portfolio under the terms of the Scheme (see “the Scheme” below)
InfraRed	Means InfraRed Capital Partners and its Group, more details of which can be found at <a href="http://www.ircp.com">www.ircp.com</a>
Infrastructure Equity	The subordinated debt (or the entitlement to acquire subordinated debt) and equity of a Portfolio Company (as appropriate)
Investment Manager	InfraRed Capital Partners Limited acting in its capacity as Investment Manager to HICL pursuant to the Investment Management Agreement
Investment Basis	Pro forma financial information on the basis that HICL consolidates the results of the Corporate Subsidiaries
Investment Policy	HICL’s Investment Policy has not materially changed since HICL Guernsey’s IPO in 2006, and can be found on the website at <a href="http://www.hicl.com/about-hicl/strategy-and-investment-policy">www.hicl.com/about-hicl/strategy-and-investment-policy</a>
IPO	Initial Public Offering, the act of offering the stock of a company on a public stock exchange for the first time. HICL completed its IPO in March 2006
Lifecycle	Concerns the replacement of material parts of an asset to maintain it over its concession life
Listing Rules	The rules, including the listing rules and the prospectus rules made by the UK Listing Authority under section 73A of FSMA
Luxco 1	HICL Infrastructure 1 Sàrl, société à responsabilité limitée established in Luxembourg
Luxco 2	HICL Infrastructure 2 Sàrl, société à responsabilité limitée established in Luxembourg
Market capitalisation	A measure of the size of a company calculated by multiplying the number of shares in issue by the price of the shares
NAV	Net Asset Value, being the value of the investment company’s assets, less any liabilities it has. The NAV per share is the NAV divided by the number of shares in issue. The difference between the NAV per share and the share price is known as the discount or premium

<b>Item</b>	<b>Definition</b>
Ongoing charges	A measure of the regular, recurring costs of running an investment company, expressed as a percentage of NAV
Portfolio company	Project Companies and Operating Companies to HICL that own or operate infrastructure assets, in which HICL has an investment
PPP project	Public-Private Partnership projects involving long-term contracts between a public sector client and a private company for the delivery of a service or facility for the use by the general public, public bodies, authorities or agencies usually in return for an availability payment
PRI	Principles for Responsible Investment
Project company	An infrastructure project or concession with a defined expiry date, including a special purpose company (or other entity) formed with the specific purpose of undertaking an infrastructure project
Revolving credit facility	An acquisition facility provided by lenders, in the case of HICL, expiring in May 2022. See the Financial Review
The Scheme	Following shareholder approval at an Extraordinary General Meeting of HICL Guernsey, the change of domicile was effected by way of a scheme of reconstruction (“the Scheme”) on 1 April 2019

## Directors & Advisers

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### **Directors\***

Ian Russell, CBE (Chairman)

Mike Bane

Frances Davies\*\*

Susie Farnon

Simon Holden

Frank Nelson

Kenneth D. Reid

\*The Directors were appointed on 10 January 2019, with the exception of Ms. Davies

\*\*Appointment effective 1 April 2019

### **Registered Office**

12 Charles II Street

London SW1Y 4QU

### **Registrar**

Link Asset Services

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4T

Helpline: 0871 664 0300

### **Administrator to Company, Company Secretary**

Aztec Financial Services (UK) Limited

Forum 4, Solent Business Park

Parkway South

Whiteley

Fareham PO15 7AD

### **Investment Manager and Operator**

InfraRed Capital Partners Limited

12 Charles II Street

London SW1Y 4QU

+44 (0)20 7484 1800

### **Financial PR**

Tulchan Communications LLP

85 Fleet Street

London EC4Y 1AE

### **Auditor**

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London E14 5GL

### **Joint Corporate Brokers**

Canaccord Genuity Limited

9th Floor

88 Wood Street

London EC2V 7QR

RBC Capital Markets

2 Swan Lane

London EC4R 3BF

### **Company**

HICL Infrastructure PLC ("HICL UK"): incorporated in England and Wales under the Companies Act 2006 with registered no. 11738373 and registered as an investment company under Section 833 of the Companies Act 2006

**Investment Manager and Operator**

InfraRed Capital Partners Limited (authorised and regulated by the UK's FCA) is a wholly owned subsidiary of InfraRed Partners LLP which is owned by its senior management

**Company Secretary and Administrator**

Aztec Financial Services (UK) Limited

**Shareholders' Funds**

£2.8bn as at 21 May 2019<sup>9</sup>

**Market Capitalisation**

£2.8bn as at 21 May 2019<sup>9</sup>

**Investment Manager and Operator Fees**

1.1% per annum of the Adjusted Gross Asset Value<sup>10</sup> of the portfolio up to £750m

1.0% from £750m up to £1.5bn

0.9% from £1.5bn up to £2.25bn

0.8% from £2.25bn to £3.0bn

0.65% above £3.0bn

plus £0.1m per annum investment management fee

No fee on new acquisitions

No performance fee

Fees relating to shareholder matters from underlying project companies are paid to the Group (and not to the Investment Manager).

**ISA, NISA, PEP and SIPP status**

The shares are eligible for inclusion in NISAs, ISAs and PEPs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs.

**NMPI Status**

HICL UK intends to conduct its affairs as an investment trust. On this basis, the Ordinary Shares should qualify as an "excluded security" and therefore be excluded from the FCA's restrictions in COBS 4.12 of the FCA Handbook that apply to non-mainstream pooled investment products.

**AIFMD status**

HICL UK is a UK domiciled and tax-resident public limited company, which will operate its affairs as a UK Investment Trust Company, and an Alternative Investment Fund under the AIFM Directive. HICL UK has appointed InfraRed Capital Partners Limited as its investment manager and AIFM under the Investment Management Agreement.

**FATCA**

HICL UK has registered for FATCA and has GIIN number E6TB47.99999.SL.826

**Investment Policy**

HICL UK's Investment Policy is summarised in the Strategic Report and can be found in full on the website at [www.hicl.com](http://www.hicl.com).

**ISIN and SEDOL**

ISIN: GB00BJLP1Y77

SEDOL: BJLP1Y7

**Website**

[www.hicl.com](http://www.hicl.com)

<sup>9</sup> The date of signing of these Accounts.

<sup>10</sup> Adjusted Gross Asset Value means fair market value, without deductions for borrowed money or other liabilities or accruals, and including outstanding subscription obligations.



Delivering Real Value.

**Registered Address**

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(Registered number: 11738373)

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