HICL
INFRASTRUCTURE

Annual Report & Consolidated Financial Statements

for the year ended 31 March 2011

HICL Infrastructure Company Limited
(formerly HSBC Infrastructure Company Limited)

HICL
INFRASTRUCTURE

Contents

01 Information on HICL Infrastructure Company Limited
01 Company Summary
02 Highlights
03 Results on an Investment basis
03 Net Asset Values
03 Results on a Consolidated IFRS basis
04 Chairman's Statement
08 The Group's Investment Portfolio
09 Investment Policy
11 Investment Adviser's Report
18 Financial Results
22 Unaudited Consolidated Proforma Financial Statements
25 Notes to the Unaudited Consolidated Proforma Financial Statements
26 Analysis of the Group's Portfolio
28 Ten Largest Investments
31 Risks and Risk Management
34 Board of Directors
35 Report of the Directors
38 Statement of Directors' Responsibilities
39 Corporate Governance
44 Corporate Social Responsibility
46 Independent Auditors' Report to the Members of HICL Infrastructure Company Limited
47 Consolidated Financial Statements
51 Notes to the Consolidated Financial Statements
86 Company Financial Statements
90 Notes to the Company Financial Statements
92 Directors and Advisers

Information on HICL Infrastructure Company Limited

HICL Infrastructure Company Limited ("HICL" or the "Company" or, together with its 100% owned holding company subsidiaries, the "Group") was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects. It was successfully launched in March 2006 as HSBC Infrastructure Company Ltd, and raised £250m with which it purchased an initial portfolio (the "Initial Portfolio") of interests in 15 PFI/PPP projects. It changed its name in March 2011.

In May 2008, December 2009, and December 2010 the Company raised further equity capital by way of C share issues which were converted into ordinary shares. As at 23 May 2011, it has a portfolio of 40 interests in infrastructure projects in the UK, the Netherlands and Canada.

Since launch, the Company has paid the following dividends:

first period to 31 March 2007	second year to 31 March 2008	third year to 31 March 2009	fourth year to 31 March 2010	fifth year to 31 March 2011
total of 6.1p	total of 6.25p	total of 6.4p	total of 6.55p	total of 6.7p[1]

1. Second interim to be paid end of June 2011

The Company is targeting a progressive distribution policy and growth of annual distributions to 7.0p per share by March 2013. The long-term target Internal Rate of Return ("IRR") is around 7% (as stated in the 2010 C share prospectus based on the predicted C share conversion ratio).

At launch in March 2006, 250,000,000 Ordinary Shares were issued. With the conversion of the C Shares, together with shares issued as a result of the block listing announcements made by the Company and scrip dividend issues, the total Ordinary Shares in issue at 31 March 2011 were 595,139,454.

The Investment Adviser to the Company is InfraRed Capital Partners Limited, which is authorised and regulated by the Financial Services Authority. The Investment Adviser was part of the HSBC Group until it was sold as part of a majority interest in the infrastructure and real estate fund management business to senior management in April 2011, with HSBC retaining a 19.9% stake. The InfraRed infrastructure team now comprises 35 staff in offices in London, Paris and New York. Nine are dedicated to advising the Group, and a further three allocate a part of their time to supporting the Group.

Company Summary

Investment Adviser ("IA") and Operator	InfraRed Capital Partners Ltd which is a wholly owned subsidiary of InfraRed Partners LLP, which is owned 80.1% by senior management and 19.9% by a subsidiary of HSBC Holdings plc
Company Secretary and Administrator	Dexion Capital (Guernsey) Ltd
Shareholders' funds	£657.0m on an IFRS basis (£673.2m on an Investment basis) as at 31 March 2011
Market capitalisation	£702m as at 31 March 2011
Investment Adviser and Operator Fees	■ 1.1%[1] p.a. of the Adjusted Gross Asset Value[2] of the investments up to £750m 1.0% thereafter ■ 1.0% of the value of new acquisitions[3] ■ £0.1m p.a. investment advisory fee ■ No performance fee ■ All fees from underlying Project Companies paid to the Group (and not to the IA)
ISA, PEP and SIPP status	The ordinary shares are eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market and they are permissible assets for SIPPs
Investment policy	The Company's investment policy is set out on pages 9 and 10 and can also be found on the Company's website
Website	**www.hicl.com**

Notes:

1. For assets in construction or ramp-up the rate is 1.5%

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

3. Does not apply to acquisitions sourced from the InfraRed Capital Partner Group, or entities managed by it.

Highlights

for the year ended 31 March 2011 (on an Investment basis unless noted otherwise[1])

Portfolio performance robust with good cash generation despite economic climate

Five new investments and four incremental stakes acquired, with a combined investment of £151.0m

Significant pipeline of further investment opportunities under consideration

Successful raising of £159.0m (before expenses) through a C share capital raising of £110.0m in December 2010 and utilising the block listing to place 41.7m shares in the year

Net asset value ("NAV") per share at 31 March 2011 of 110.4p (2010: 107.1p) on a consolidated IFRS basis and 113.1p (2010: 110.7p) on an Investment basis

NAV per share post distribution of 109.7p at 31 March 2011 compared to 107.4p at 31 March 2010, a 2.1% increase

Directors' Valuation of the portfolio at 31 March 2011 of £673.1m, up from £509.6m at 31 March 2010, 32.1% growth

Profit before tax of £45.2m (2010: £25.0m)

Second interim distribution of 3.425p for the year to 31 March 2011 declared, with a scrip dividend alternative, giving total distributions of 6.7p for the year, an increase of 2.3%

1. In order to provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, as in previous periods, the results have been restated in proforma tables with all investments accounted for on an Investment basis.

Results on an Investment Basis

for the year to	31 March 2011	31 March 2010
Profit before tax (Revenue)	£24.3m	£17.8m
Profit before tax (Capital)	£20.9m	£7.2m
Profit before tax	£45.2m	£25.0m
Earnings per share	8.9p	6.5p
Second interim dividend per share	3.425p	3.35p
Total dividend per share in year	6.7p	6.55p

Net Asset Values

	Investment basis	Consolidated IFRS basis
Net Asset Value (NAV) per share at listing	98.4p	98.4p
Net Asset Value (NAV) per share at 31 March 2011	113.1p	110.4p
Second interim dividend per share (declared 19 May 2011)	3.425p	3.425p
NAV per share at 31 March 2011 after deducting the second interim dividend	109.7p	107.0p
NAV per share at 31 March 2010 after deducting the second interim dividend	107.4p	103.8p

Results on a Consolidated IFRS Basis

for the year to	31 March 2011	31 March 2010
Profit before tax (Revenue)	£19.6m	£25.3m
Profit/(loss) before tax (Capital)	£18.7m	£(17.6)m
Profit before tax	£38.3m	£7.7m
Earnings per share	9.0p	1.6p
Second interim dividend per share	3.425p	3.35p
Total dividend per share in year	6.7p	6.55p

Chairman's Statement

Introduction

On behalf of the Board, I am pleased to report another successful year for the Company. The Company is now 5 years old and has exceeded the objectives set out at launch in 2006. The last five years have seen great changes in economic and financial prospects for global economies and it is a testament to the infrastructure asset class that the Company has been able to deliver a stable, growing yield for investors.

Financial Results and Performance

Financial Results

As in previous periods, the Company has prepared pro-forma accounts on an Investment basis (treating all 38 holdings as investments). Profit before tax on an Investment basis was £45.2m (2010: £25.0m) and earnings per share on an Investment basis were 8.9p (2010: 6.5p per share). This increase is driven by the contributions from acquisitions supported by continued solid portfolio performance including an increase in the value of the Kemble Water junior loan. Cash received from the portfolio by way of distributions, capital repayments and fees was £45.6m (2010: £39.2m). After Group costs, net cash of £34.9m adequately covers the distributions paid in the year. Cash generation growth was in line with our projections benefitting from acquisitions in the current and the prior year.

On a consolidated IFRS basis, the profit before tax was £38.3m (2010: £7.7m).

Profit before tax has benefited strongly from positive fair value movements assisted by higher inflation and an uplift in the mark to market value of the Kemble Water junior loan which has since been repaid.

The Company has raised a total of £156.7m net of expenses through the issue and placing of new shares, of which £108.1m was raised through the successful C share capital raising in December 2010 which was oversubscribed.

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) amounted to £8.1m in the year, relating to their 1.1% p.a. management fee (1.5% p.a. assets in construction) and the 1.0% fee on the acquisitions made, and £0.1m advisory fees. The Investment Adviser does not receive any fees from the investment project companies in the portfolio, and hence all fees from these companies are for the benefit of the Group. In addition, the Group contracted with other parts of the HSBC Group on an arm's length basis for the provision of bank accounts, foreign exchange hedges and insurance broking.

The total expense ratio for the Group on an Investment basis was 1.20% (being the Group's operational expenses excluding acquisition costs, divided by the Group's net assets on an Investment basis). This compares with 1.45% for the year to 31 March 2010, the reduction in this ratio reflecting the benefit of capital raisings with economies of scale.

More details of the financial results are set out below.

Portfolio Performance

The Group's portfolio continues to perform well, and as at 31 March 2011 consisted of 37 PFI/PPP/P3 projects and an investment in the junior loan in Kemble Water. The junior loan was repaid in full in April 2011, ahead of its maturity.

The Group has two projects currently under construction. On the Bradford BSF Schools project, construction work on the last school has just been finished and the premises are being fitted out ready for occupation. Construction work on the M80 DBFO Road in Scotland and the North West Anthony Henday Road in Canada continues to plan.

The Investment Adviser's asset management team has been engaged across the whole portfolio and has been in dialogue with our public sector clients and our partners seeking ways to increase efficiencies and find savings. This work has been pro-active throughout the year, and has included participation in a detailed review by the Ministry of Defence ("MOD") on one of our MOD projects.

Valuation

As in previous periods, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 31 March 2011. For the PFI/PPP/P3 investments, this valuation is based on a discounted cashflow analysis of the future expected equity and loan note cashflows accruing to the Group from each investment. This valuation uses key assumptions which are derived from a review of recent comparable market transactions in order to arrive at a fair market value.

The Directors have satisfied themselves with the methodology used, the economic assumptions, and the discount rates applied. The Directors have again taken independent third party advice on the valuation carried out by the Investment Adviser.

The Directors have approved the valuation of £673.1m for the portfolio of 38 investments as at 31 March 2011. On the M80 Motorway DBFO, North-West Anthony Henday Road P3 and the Helicopter Training projects there are combined outstanding investment commitments of £47.0m.

The valuation of £673.1m compares with £509.6m as at 31 March 2010 and £563.3m as at 30 September 2010. An analysis of the growth in the valuation is detailed in the Investment Adviser's Report.

On an Investment basis the NAV per share is 113.1p at 31 March 2011 (2010: 110.7p). The Investment basis NAV per share after the second interim distribution at 31 March 2011 was 109.7p; an increase of 2.3p over the comparable figure at 31 March 2010 being due to a robust performance from the portfolio coupled with incremental earnings from new investments, as described in more detail in the Investment Adviser's Report.

The resulting NAV per share on an IFRS basis as at 31 March 2011 is 110.4p (2010: 107.1p).

> "The year has seen some useful additions to our portfolio of investments, offering both international exposure and solid growth in UK PFI assets"

Acquisitions

The Group has had a successful year and has made £112.3m of new investments and £38.7m of incremental acquisitions for a total of £151.0m including outstanding equity commitments. The Group acquired its first P3 investments in Canada and increased the number of projects under construction to three with Bradford schools completing subsequent to year end. Since the period end the Group has acquired interests in 3 operational UK PFI schools (Norwich, Oldham and Sheffield) for £17.2m and the Kemble Water junior loan has been repaid.

Distributions

The Board declared on 19 May 2011 a second interim distribution of 3.425p per share for the year to 31 March 2011 (2010: 3.35p). This brings the total distributions declared to 6.7p for the year to 31 March 2011 representing a 2.3% growth on the prior year.

A circular will be sent to shareholders on 3 June to explain the scrip dividend alternative. Shareholders need to decide by 17 June on whether to take up the scrip dividend offer in part or in full. The distribution (or scrip dividend) will be paid to those shareholders on the register as at 27 May, and will be settled at the end of June.

At the Annual General Meeting ("AGM") in July 2010, shareholders gave the Board the power to offer a scrip dividend alternative and this power runs until the next AGM in 2011. Based on the take-up and current feedback from shareholders, it is the Board's current intention to seek a renewal of this power at the forthcoming AGM in July.

Risks and Uncertainties

The 2010 Comprehensive Spending Review in the UK focused predominantly on the need to cut public spending, whilst highlighting the need for further investment in UK infrastructure to promote economic growth. HM Treasury issued a guidance note in January 2011 to explain how PFI contracts should be managed, highlighting the need to seek efficiency savings where possible.

On a number of our UK PFI projects, the Investment Adviser has been working with public sector clients and key contractors, to find ways of generating gains for our clients. Together with our partners, we have suggested ideas to create savings for our clients, and then worked to deliver them. The Romford PFI Hospital project was chosen by HM Treasury as a pilot scheme for a government sponsored review. We, together with our partners, have engaged willingly and constructively in this endeavour. The review is due to report shortly and we are not aware of any findings which may be of concern to investors. Clearly our working assumption is that the outcome from the review will be measures to improve contract performance and delivery within the legal framework that was agreed at inception. We would not welcome, nor do we expect, any unilateral redefinition of the terms of the contract given the very wide implications that would then arise.

For new UK infrastructure projects, PFI is still being used selectively. As previously reported, this change in emphasis in procurement does not affect the Group, as our investment focus remains on projects already procured and, normally, operational.

Each of the PFI projects within the portfolio has long-term funding in place. There is therefore no refinancing risk in this regard. Projects do have exposures to banks in the form of interest rate swaps and deposit accounts. These exposures are monitored and managed where appropriate.

The projects in the portfolio rely on contracting partners to provide services. There is a good spread of service partners with no material performance or credit issues to report. The Investment Adviser monitors project performance, and if issues arise, action is taken to minimise any impact on performance.

Corporate Governance

Board and Investment Adviser Changes

Henri Grisius retired from the Board on 1 June 2010, having been a director since the launch of the Company. Chris Russell joined the Company as a Director on 1 June 2010. Chris is a Guernsey resident who has spent his career in the investment management industry in the UK, USA and Asia.

Since launch in 2006, the Investment Adviser to the Company has been HSBC Specialist Fund Management Ltd ("HSFML"). In June 2010, we announced that the senior management team of HSBC's infrastructure and real estate arm, of which the Investment Adviser is part, had agreed outline terms with the HSBC Group for a change of ownership which would lead to the management team owning the majority interest in the business and HSBC retaining a 19.9% stake. The transaction successfully completed in April 2011, and the Investment Adviser changed its name to InfraRed Capital Partners Limited, relocating to new offices in central London.

"Looking ahead, we remain confident that our investment portfolio is of sufficient quality to perform resiliently"

The Board met the Investment Adviser on a number of occasions during the year to seek and gain reassurance that this change of ownership would have no impact on the ability of the Investment Adviser to deliver the required services to the appropriate standards. We agreed a small number of amendments to the Investment Adviser's contract which were beneficial to the Company, and we are satisfied that we will continue to receive high quality service and commitment from the Investment Adviser.

The Board also took the opportunity to review the level of fees earned by the Investment Adviser. Whilst appropriate at launch, the Group has now doubled in size and therefore a change to the fee structure was considered appropriate. For investments under management with an incremental value in excess of £750m, the Investment Adviser's incremental fee is reduced to 1.0% p.a. (from 1.1% p.a.) with effect from 1 January 2011, provided that the assets have become operational.

As the Company's Investment Adviser is no longer a subsidiary of the HSBC Group, the trademark licence was terminated. The Company therefore changed its name to HICL Infrastructure Company Limited on 29 March 2011. The Board believes that this new name will, while dispensing with the HSBC brand, preserve the Company's identity and maintain recognition amongst investors and the wider marketplace.

As part of this process, the Company has updated and relaunched its website at www.hicl.com. We have taken the opportunity to give more background information about PFI and how HICL is organised and managed.

Governance

In May 2010, the Financial Reporting Council issued a new edition of the UK Corporate Governance Code, and in October 2010, the Association of Investment Companies (the "AIC") published its updated AIC Code of Corporate Governance. This AIC code has been endorsed by the Financial Reporting Council and the Company has chosen to report governance against the updated AIC Code.

Corporate Social Responsibility

Public Procurement

PFI/PPP projects were originally conceived in the UK in the early nineties by the then Conservative Government as a means of procuring new social infrastructure. This procurement method was honed by the subsequent Labour government and its success led to other countries implementing similar programmes.

PFI/PPP has not been immune from negative comment in the media. In some cases, this was justified since where PFI/PPP was not the most appropriate procurement method. In the last 9 months, media interest has intensified, particularly where public sector clients are seeking to reduce their budget deficits. This commentary can be misleading and inaccurate, often omitting to mention that the public sector client procured the concession through a competitive bidding process, with agreement at both local and national level, without which essential infrastructure projects such as new schools and hospitals would not have been built. PFI has been the procurement method of choice, with public finance in scarce supply. It has allowed new infrastructure assets to be built on time and with cost certainty.

The Group has acquired its investments in good faith, based on long-term legal contracts which provide serviced assets to public sector clients. Whilst procurement models will change over time, the Board believes that private sector capital and expertise will continue to be required for the procurement and maintenance of public infrastructure.

Corporate Structure

In setting up the Company in 2006, the Directors and the Investment Adviser wished to give investors access via traded stock to this illiquid and developing asset class. Our choice of corporate structure and domicile was based on a proven investment company model which is widely used and is designed to distribute efficiently all the underlying investment returns, net of operating expenses, to shareholders. Today we have over 4,000 shareholders, with over 90% of shares held by UK investors. Over 50% of our shares are held by private individuals or small family offices.

ESG
As reported last year, the Company with the help of the Investment Adviser has developed Environmental, Social and Governance Policies for the Group. An update of our performance against these policies is set out in our Corporate Social Responsibility section.

Outlook

The Group continues to look for further acquisitions in the UK and overseas consistent with its publicly stated policy for new investments.

There is a significant flow of opportunities to consider but we continue to apply our strict investment criteria and processes. The Investment Adviser has seen a number of PPP/PFI assets which we declined to pursue as being either too small, inappropriately structured or having too many operational issues.

The outlook for our business remains good. Public finances are the focus of attention in many countries and we, together with the Investment Adviser, have been careful when reviewing new investments overseas to take account of the associated sovereign risk. In the UK, where the majority of our assets are located, we recognise the need to help our public sector clients find efficiency savings but within established contractual structures.

Looking ahead, we remain confident that our investment portfolio is of sufficient quality to perform resiliently. Cash flows are generally predictable and, whilst the valuation of the portfolio is in part correlated with the rates that apply to long dated government debt, we do not anticipate significant fluctuations as a consequence.

At present, the Group has adequate capacity through its established funding lines to invest further. With a number of opportunities currently under review, we are confident of achieving the growth aspirations to further enhance shareholder returns.

Whilst the primary market for new PFI projects has slowed, we are seeing a buoyant secondary market with an increase in the number of vendors and buyers.

Against this background, the Board takes comfort from the portfolio we have developed, the attractiveness of the risk-adjusted yield we offer, and the continuing opportunities we have to grow the portfolio going forward.

Graham Picken
Chairman
23 May 2011

THE GROUP'S INVESTMENT PORTFOLIO

as at 23 May 2011

Health	Education	Education	Law & Order	Accommodation
Barnet Hospital	Bradford Schools	Kent Schools	D & C Firearms Training	Colchester Garrison
Bishop Auckland Hospital	Conwy Schools	North Tyneside Schools	Exeter Crown Court	Health & Safety HQ
Blackburn Hospital	Darlington Schools	Norwich Schools	GMPA Police Stations	Home Office
Central Middlesex Hospital	Defence 6th Form College	Oldham Schools	MPA Firearms Training	Newcastle Libraries
Oxford John Radcliffe	Ealing Schools	Pinnacle Schools, Fife	MPA SEL Police Stations	**Transport**
Queen Alexandra Hospital	Haverstock School	Renfrewshire Schools	Sussex Custodial	Dutch High Speed Rail
Romford Hospital	Health & Safety Laboratories	Sheffield Schools	**Utilities**	Kicking Horse Canyon P3
Stoke Mandeville Hospital	Helicopter Training	Wooldale Centre	Kemble Water Junior Loan	M80 Motorway DBFO
West Middlesex Hospital	Highlands Schools			NW Anthony Henday P3

Key:

- Portfolio at 31 March 2010
- Aquired in year to 31 March 2011
- Additional stake acquired in year
- Repaid in April 2011
- Aquired in May 2011

Investment Policy

Investment Objective

The Company seeks to provide investors with long-term distributions, at levels that are sustainable, and to preserve the capital value of its investment portfolio over the long-term with potential for capital growth. The Company targets a progressive distribution policy and growth of its annual distributions to 7p per Ordinary Share by March 2013. The Company is targeting an IRR of 7 to 8 per cent. on the original issue price of its Ordinary Shares in March 2006, to be achieved over the long-term via active management, including the acquisition by the Group (being the Company and its wholly-owned subsidiaries) of further investments to complement the Current Portfolio and by the prudent use of gearing.

Investment Criteria

The Group'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. The Group 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.

The Group will also seek to enhance returns for Shareholders by acquiring more diverse infrastructure investments. The Directors currently intend that the Group 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 the Company. 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 Group considers it appropriate to acquire; and/or
- Project Companies with "demand" based concessions where the Investment Adviser 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., and again at the time the relevant investment is made) in:

- 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 the Group 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). The Group may therefore make investments in the European Union, Norway, Switzerland, the Americas and selected territories in Asia and Australasia. The Group may also make investments in other markets should suitable opportunities arise.

The Group will seek to mitigate country risk by concentrating on investment opportunities in jurisdictions where it considers that contract structures and enforceability are reliable, where (to the extent applicable) public sector obligations carry a satisfactory credit rating and where financial markets are relatively mature.

Single Investment Limit and Diversity of Clients and Suppliers

When any new acquisition is made, the Company will ensure that the investment acquired does not have an acquisition value (or, if it is an additional stake in an existing investment, the combined value of both the existing stake and the additional stake acquired) greater than 20 per cent. of the total gross assets of the Company 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 Adviser 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.

Other Investment Restrictions

The Company is subject to certain investment restrictions pursuant to the Listing Rules. These are as follows:

(a) The Company's primary objective is investing and managing the assets with a view to spreading or otherwise managing investment risk. The Company must, at all times, invest and manage its assets in a way which is in accordance with the Investment Policy;

(b) The Company will not conduct a trading activity which is significant in the context of the Group as a whole. The Company will not cross-finance businesses forming part of the Group's investment portfolio; and

(c) No more than 10 per cent., in aggregate, of the Company'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 not apply to the Company.

Gearing

The Group intends to make prudent use of leverage to finance the acquisition of investments, to enhance returns to investors and to finance outstanding subscription obligations.

Under the Articles, the Group's outstanding borrowings, excluding intra-group borrowings and the debts of underlying investee companies but including any financial guarantees to support subscription obligations, are limited to 50 per cent. of the Adjusted Gross Asset Value (meaning the fair market value, without deductions for borrowed money or other liabilities or accruals, and including outstanding subscription obligations) of its investments and cash balances at any time.

The Group may borrow in currencies other than pounds sterling as part of its currency hedging strategy.

Amendments

Any material amendments to the Investment Policy will require the approval of Shareholders.

Market Developments

The UK Government has materially slowed the flow of new PFI/PPP projects for public procurement although a number of new projects are still being procured via PFI. The Group does not generally participate or invest in the public procurement phase of PFI/PPP projects and therefore is not directly affected by the slowdown in the UK PFI/PPP primary market.

The secondary market for PFI/PPP/P3 assets is as active as it has been since HICL's launch in 2006. There has been a steady flow of assets onto the market with both individual assets and portfolios being marketed by contractors and financial institutions.

Attractive return levels in the secondary PFI/PPP/P3 market continue to draw new investors with the launch of new listed and unlisted funds targeting this sector. Pricing during the year for these assets has largely been unaffected as the increased demand has broadly been matched by growth in the supply of assets to the market.

The overseas PFI/PPP/P3 market continues to grow as an increasing number of countries are utilising PPP to procure public infrastructure, recognising the advantages of risk transfer to the private sector and the ability to match the payment for the infrastructure over the life of the project as the benefits of the infrastructure are realised.

We are now seeing more sale processes involving overseas assets, with the Group during the year acquiring two new assets in Canada and an additional interest in the Dutch High Speed Rail Link. In the near term though we do not expect a material change in the overseas portion of the portfolio as the UK secondary market is providing the large majority of suitable opportunities. During the year we reviewed PFI/PPP/P3 investment opportunities in the UK, Europe, Canada and Australia.

The fiscal challenges in the Eurozone and uncertainty over the tariff regime for Spanish PV solar projects has diminished the attractiveness for the Group of a significant segment of the renewables sector. As a result we are considering utilities and renewable investments on an opportunistic basis.

Current Investment Priorities

For new investments our main focus remains PFI/PPP/P3 concessions, most likely to be operational although we will consider projects still under construction.

Of possible secondary interest, but only selectively, are:

- Operational renewable energy projects such as wind farms, solar parks or hydro-electric schemes, where there are suitable contractual structures in place which enable the Group to secure long-term income streams, comparable in nature to those in PFI/PPP/P3 projects.
- Regulated utilities, albeit most investment opportunities in this sector are too large for the Group.
- Debt funding of infrastructure projects, where attractively priced and appropriately structured.

In addition to the UK, which remains our core market, we have been seeking new assets in countries with a developed pipeline of opportunities and a stable fiscal position. Canada, Australia and countries in northern Europe broadly satisfy our requirements.

Portfolio Update

Current Performance

The Group's strategy is to maximise value from the portfolio by active asset management. Providing the operational services on each of our projects to contractual requirements is the foundation of our business. From successful service delivery we can build strong relationships with our clients to work in partnership with our supply chain. We believe these relationships, fostered by our asset management team assist all stakeholders in identifying and developing cost efficiencies and savings, which is an area of increasing importance for our public clients, who have been tasked with finding savings in their budgets.

The Group's portfolio continues to perform as expected with good cash generation. The difficult economic environment has not impacted significantly on the projects other than a renewed emphasis on working with our public sector clients to seek cost efficiencies.

Acquisitions in the year have increased the Group's portfolio to 38 infrastructure investments as at 31 March 2011. Since the year end, the Kemble Water junior loan has been repaid at par and the Group has acquired 3 PFI schools projects. Therefore the Group currently has 40 PFI/PPP/P3 investments of which two are in construction, namely the M80 DBFO Road project and the North West Anthony Henday Road.

The last of the four Bradford schools has recently been completed, with fit-out of the schools now taking place ready for occupation. The M80 DBFO Road project and the North West Anthony Henday Road remain on track to achieve their contractual completion dates for construction in Q4 2011.

On a number of projects our asset management team has initiated cost saving and efficiency workshops with our clients and supply chain. These have proved fruitful in identifying various areas where substantial savings can be made. Initiatives worked on to date cover a broad range of opportunities, including revising service scope and standards, increased outsourcing, improved energy management, space reconfiguration and third party revenue.

The Defence Sixth Form College is a good example of where savings can be achieved. The project was selected by the client, the Ministry of Defence ("MOD") as a pilot project to identify efficiencies. The project team worked in collaboration with the MOD, undertaking an in depth analysis of the service delivery and the MOD's requirements.

In February, Romford Hospital was selected by HM Treasury for a similar pilot project aimed at identifying cost savings. Here the review is less advanced than on the Defence Sixth Form College with a report expected from HM Treasury in the summer. In November 2010 the project team ran an externally facilitated cost saving and efficiency workshop with the NHS Trust and supply chain. Ideas generated at this workshop have been incorporated in the response to the Treasury. The review remains work in progress, and is due to report shortly.

Contract Variations

Our asset management team continues to seek value enhancements across the portfolio, an important component of which are project variations. Project variations are requests from the client to amend the scope of services delivered, be it delivery of a capital project or an additional or amended service for which the project earns incremental revenue. In the year we have worked on a number of variations, which have included:

- On the Dutch High Speed Rail Link project, four signal stations have been added. This variation was funded by the Dutch State as a capital project.
- On Kicking Horse Canyon Road we are developing, at the client's request, a variation to take over the operation and maintenance of 13km of additional lanes within the boundaries of the current project.
- On the Helicopter Training Facility – there are a number of variations on the simulators to ensure that they continue to meet the MOD's requirement, specifically by updating the synthetic training equipment to the same standards as the live aircraft. These variations are being funded by the MOD.

Acquisitions

As noted in the Chairman's Statement, the Group made five new investments and four incremental acquisitions in the year for an aggregate consideration of £151.0m.

In June 2010, the Group acquired a 74.9% interest in the Queen Alexandra Hospital PFI project in Portsmouth for a consideration of £46.4m. The hospital has 1,026 inpatient beds, 34 neonatal intensive care cots, 3 endoscopy suites and 20 main operating theatres. It is fully operational and the concession contract runs until December 2040. A subsidiary of Carillion plc operates the hospital under a long-term services agreement.

In September 2010, the Group acquired an incremental 7.55% equity interest and 17.65% loan note interest in the Sussex Custodial Centre PFI project for £1.1m, taking its total equity interest in the project to 89.9% and loan note interest to 100%.

In early October 2010, the Group announced the acquisition, subject to third party consents, of two UK PFI projects and two Canadian P3 projects from subsidiaries of Bilfinger Berger. The consideration was £65.9m, including deferred investment obligations of approximately £46.1m at October exchange rates. The four interests are:

- a 50% interest in the Kent Schools PFI project – for the ongoing operation and maintenance of six secondary schools in Kent;
- a 41.6% indirect interest in the M80 motorway DBFO project currently under construction in Scotland. Through the future exercise of options rights over non-controlling interests, this interest will increase to 49.9%;
- a 50% interest in the North-West Anthony Henday ring road P3 project – for a 21 kilometre stretch of a four and six lane ring road surrounding the city of Edmonton in Alberta, Canada, currently in construction; and
- a 50% interest in the Kicking Horse Canyon Transit P3 project in British Columbia, Canada comprising the upgrading of approximately six kilometres of highway and the operation and maintenance of a 26 kilometre stretch of highway, part of the Trans-Canada Highway.

In mid-October 2010, the Group acquired two incremental interests, firstly an incremental 15.0% equity interest and 25.1% loan note interest in the Queen Alexandra Hospital PFI project for £13.4m and secondly an incremental 39.9% equity interest and 50% loan note interest in the Oxford John Radcliffe Hospital project for £13.9m. These acquisitions take the Group's interest in each of these projects to a 89.9% equity interest and a 100% loan note interest.

In March 2011, the Group acquired an additional 5.49% interest in the equity and loan notes in the Dutch High Speed Rail project for €11.6m (£10.3m). This takes the Group's interests in this project to 42.99%.

Since 31 March 2011 the Group has announced a further acquisition:

On 23 May 2011, the Group announced the acquisition of three school PFI projects from subsidiaries of Kier Group plc and Dexia SA for a consideration of £17.2m. The interests acquired are 75% of the equity and loan note interests in both Norwich and Oldham Schools and 37.5% of the equity and loan note interests in Sheffield Schools. The Norwich project involves the financing, design and construction and operation of five primary schools and one secondary school. The Oldham Project involves two secondary schools and the Sheffield Project, two primary schools and two secondary schools. All the schools have been operational since either 2007 or 2008. The schools are managed and operated by Kier Facilities Services Limited.

Realisations

Following the year end, in April 2011, the £30.0m Kemble Water junior loan was repaid at par. The Company has announced it will seek to invest the proceeds of the repayment as and when suitable acquisition opportunities arise.

Valuation and Discount Rates

We are responsible for carrying out the fair market valuation of the Group's investments which is presented to the Directors for their approval and adoption. The valuation is carried out on a six monthly basis as at 31 March and 30 September each year.

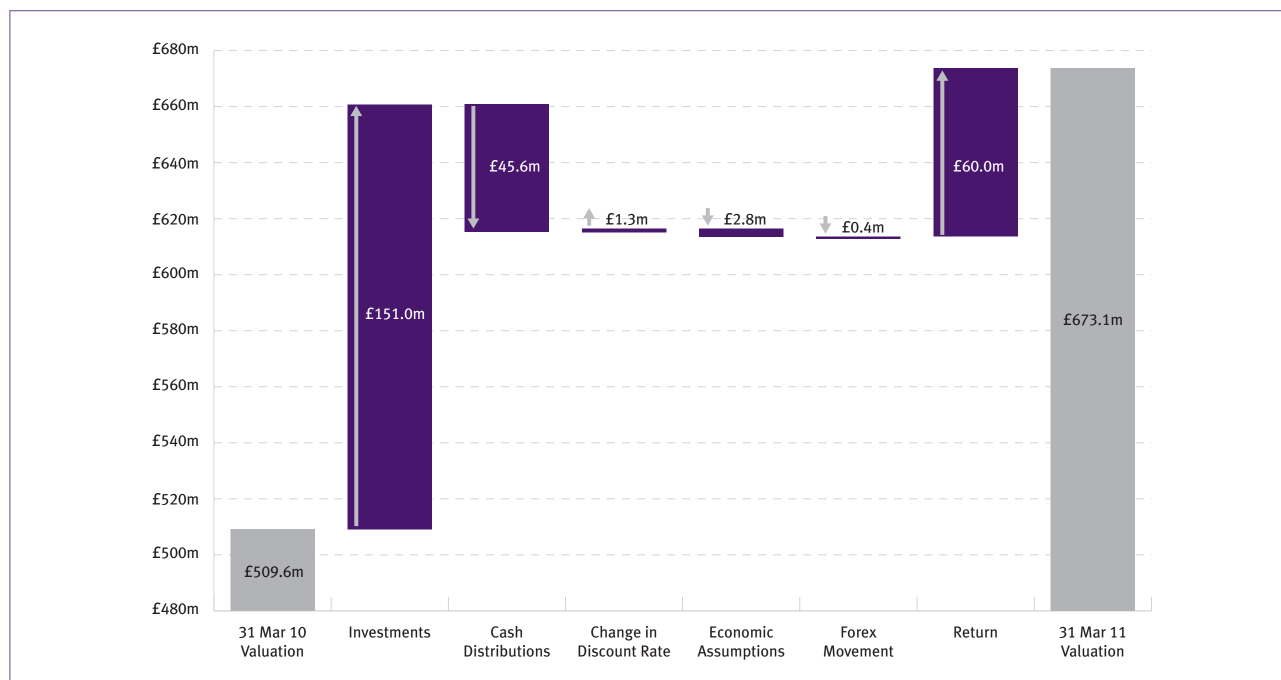
The Directors receive an independent third party report and opinion on these valuations.

For non-market traded investments, the valuation principles used are based on a discounted cash flow methodology, and adjusted in accordance with the European Venture Capital Associations' valuation guidelines where appropriate to comply with IAS 39, given the special nature of infrastructure investments. Where an investment is traded, such as the Kemble Water Junior Loan, a market quote is used.

This is the same method used at the time of launch and each subsequent six month reporting period (further details can be found in the November 2010 C Share prospectus, available from the Company's website).

The Directors' Valuation of the portfolio as at 31 March 2011 is £673.1m (including £47.0m of future investment obligations). This portfolio valuation compares to £509.6m as at 31 March 2010 (up 32%) and £250.4m at the time of launch (a reconciliation between the valuation at 31 March 2011 and that shown in the financial statements is given in Note 1 to the unaudited consolidated proforma financial statements, the principal difference being the £47.0m of equity commitments on the Helicopter Training facility, M80 motorway DBFO and North-West Anthony Henday P3).

Valuation Movement in year from 31 March 2010 to 31 March 2011



A breakdown in the growth in the Directors' Valuation in the year is tabled below.

Valuation movement during the year to 31 March 2011	£'m
Valuation at 31 March 2010	509.6
Investments	151.0
Cash receipts	(45.6)
Change in DCF rate	1.3
Economic assumptions	(2.8)
Forex movement on Dutch High Speed Rail Link	(0.4)
Return	60.0
Valuation at 31 March 2011	673.1

Netting out acquisitions in the period of £151.0m, and investment receipts of £45.6m, the growth over the rebased value of £615.0m was 9.4%. This increase is a product of the £60m Return from the portfolio which was driven by robust project performance supported by actual inflation above the 2.75% valuation assumption, contributions from new investments and a positive mark to market movement on the Kemble Water junior loan.

Fair value for each investment is derived from the present value of the investment's expected future cash flows, using reasonable assumptions and forecasts, and an appropriate discount rate. We exercise our judgment in assessing the expected future cash flows from each investment based on the detailed concession life financial models produced by each Project Company.

Discount Rates

The discount rates used for valuing each PFI/PPP/P3 investment are based on the appropriate risk free rate (derived from the relevant government bond or gilt) and a risk premium. The risk premium takes into account risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by project phase, and market participants appetite for these risks.

The discount rates used for valuing the projects in the portfolio are as follows:

Period ending	PFI/PPP/P3 portfolio		Whole portfolio (including Kemble Water Junior Loan)	
	Range	Weighted average	Range	Weighted average
31 March 2010	8.4% to 11.0%	8.7%	8.4% to 13.2%	8.8%
30 September 2010	8.4% to 10.0%	8.7%	8.4% to 10.3%	8.7%
31 March 2011	**8.4% to 10.0%**	**8.7%**	**7.8% to 10.0%**	**8.7%**

We use our judgement in arriving at the appropriate discount rate. This is based on our knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers knowledgeable of our markets and publicly available information on relevant transactions.

An analysis of the movements in the weighted average risk free rate and risk premium for the PFI/PPP/P3 assets (excluding the Kemble Water Junior Loan) is shown below:

PFI/PPP/P3 portfolio	31 March 2011	31 March 2010	Movement
Risk free rate	4.2%	4.4%	(0.2%)
Risk premium	4.5%	4.3%	0.2%
Discount Rate	**8.7%**	**8.7%**	**0.0%**

Government bonds have seen some volatility over the year driven by a combination of fiscal concerns and the effects of quantative easing. This has not translated into volatile pricing of PFI/PPP/P3 assets as the market has tried to look through this near term volatility. As outlined in the Market commentary, the increased flow of PFI/PPP/P3 assets for sale has been broadly matched by increased demand for the assets with little impact on pricing or the discount rates used to value these assets.

An analysis of the movements in the weighted average discount rates analysed between operational and construction phase PFI/PPP/P3 projects is shown below:

Discount rate	31 March 2011	31 March 2010	Movement
Operational phase	8.6%	8.6%	0.0%
Construction phase	9.3%	11.0%	(1.7%)
PFI/PPP/P3 Portfolio	**8.7%**	**8.7%**	**0.0%**

The discount rate to reflect market pricing for an operational asset has been judged as 8.6% – unchanged from the prior year. The average discount rate applied to value construction assets has reduced by 1.7% reflecting a combination of lower risk free rates in Canada and the lower risks in the construction assets as compared to the previous year.

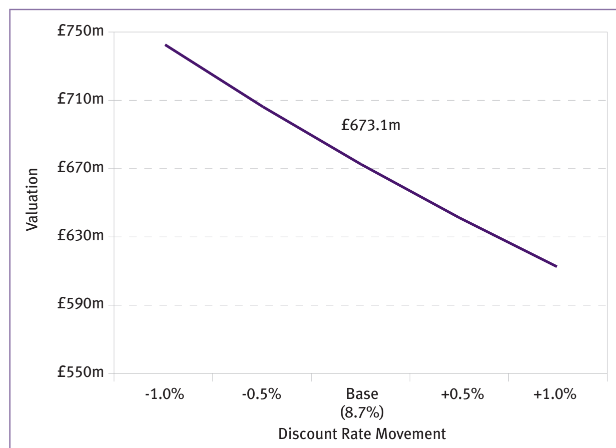
An analysis of the weighted average discount rates for the PFI/PPP/P3 portfolio analysed by territory is shown below:

Country	31 March 2011			31 March 2010	Movement
	Risk free rate	Risk premium	Discount rate		
UK	4.3%	4.3%	8.6%	8.6%	0.0%
Eurozone	3.9%	5.0%	8.9%	8.8%	0.1%
Canada	3.7%	5.1%	8.8%	n/a	n/a
PFI/PPP/P3 Portfolio	**4.2%**	**4.5%**	**8.7%**	**8.7%**	**0.0%**

The risk premiums and discount rates applied to value the overseas assets are higher than those used for the UK PFI portfolio because they include a premium for the foreign exchange risk, the less mature PFI/PPP/P3 market and the nature and phase of the underlying assets which include a rail asset and an asset in construction.

Valuation Assumptions

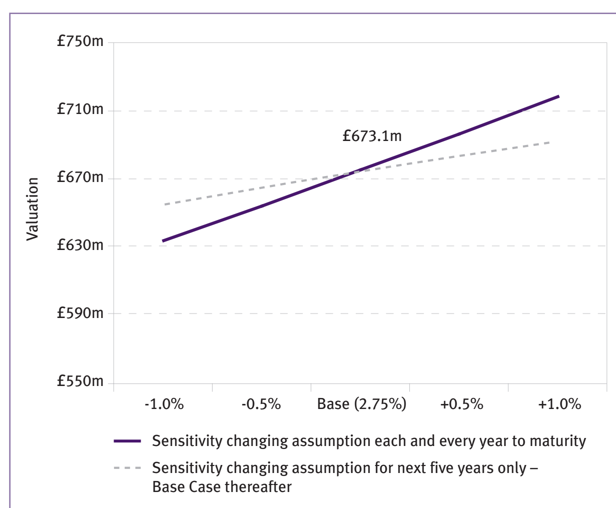
Discount Rate Sensitivity



Inflation Rate Sensitivity

The PFI projects in the portfolio have contractual income streams with public sector clients, which are rebased every year for inflation. UK projects tend to use either RPI (Retail Price Index) or RPIx (RPI excluding mortgage payments), and revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing). Facilities management sub-contracts have similar indexation arrangements.

The portfolio valuation assumes UK inflation of 2.75% p.a. for both RPI and RPIx, the same assumption as for the prior year. The March 2011 forecasts for RPI in December 2012 range from 2.3% to 4.4% from 25 independent and City institutions as compiled by HM Treasury, with an average forecast of 3.2%.



Deposit Rate Sensitivity

Each PFI project in the portfolio has cash held in bank deposits, which is a requirement of their senior debt financing. As at 31 March 2011 cash deposits for the portfolio were earning interest at a rate of 0.8% p.a. on average. There is a consensus that UK base rates will remain low for an extended period, with a current average forecast for UK base rates in December 2011 of 1%.

The portfolio valuation assumes UK deposit interest rates are 1% to March 2013 and 4.0% thereafter. This is lower than applied in the March 2010 valuation which assumed 1% deposit interest rates to March 2012 and 4.5% thereafter. These changes have reduced the portfolio valuation by approximately £8.5m and are included within the £2.8m aggregate reduction in portfolio value attributable to changes in Economic Assumptions.

Each of the project's interest costs are at a fixed rate either through fixed rate bonds or bank debt which is hedged with an interest rate swap. The project's sensitivity to interest rates relates to the cash deposits which the projects are required to maintain as part of their funding. For example most projects would have a debt service reserve account in which 6 months of debt service payments are held.

Tax Rates

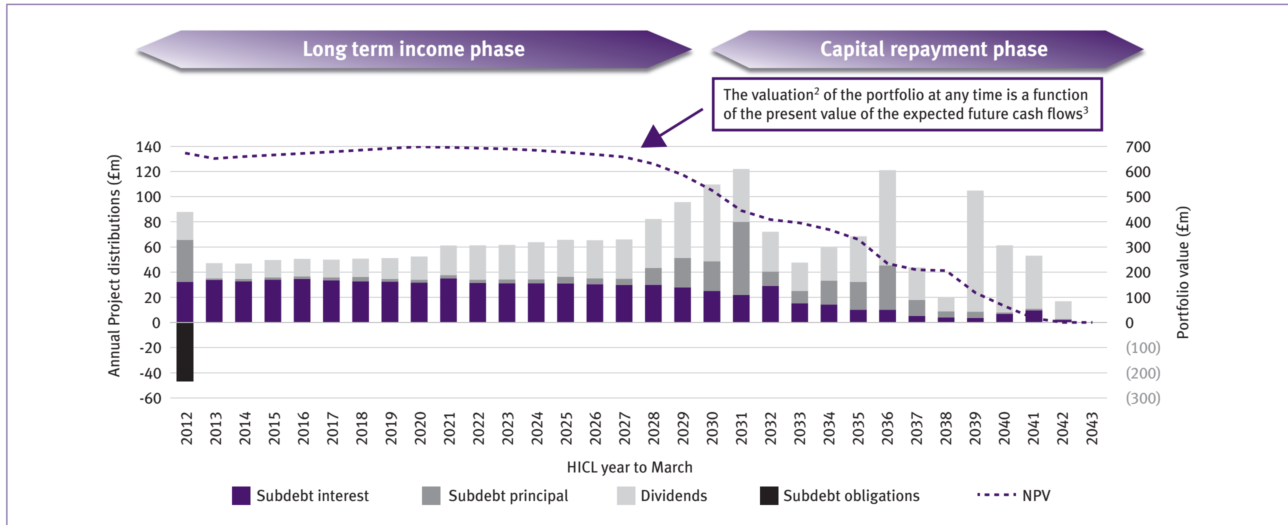
The profits of each UK PFI project company are subject to UK corporation tax. In the March Budget the Coalition Government announced that corporation tax would reduce from 27% to 26% from April 2011 with an aspiration to reduce corporation tax further to 23% in 1% annual increments.

The UK corporation tax assumption for the portfolio valuation is 26%, which has reduced by 2% from 28% at March 2010, to reflect the current rate of UK corporation tax. This change has increased the portfolio valuation by approximately £5.7m and is included within the £2.8m aggregate change in portfolio value attributable to changes in Economic Assumptions.

FUTURE CASHFLOWS

The chart set out below is the expected future cashflows to be received by the Group from the portfolio and how the portfolio valuation is expected to evolve over time using current forecasts and assumptions, (this is not a profit forecast, and there can be no assurance that these receipts will be achieved).

Long term cashflows[1]



Source: Investment Adviser

1 *The illustration represents a target only and is not a profit forecast. There can be no assurance that this target will be met.*

2 *Current Portfolio Value assumes a Euro to Sterling exchange rate of 0.89, a Canadian Dollar to Sterling Exchange rate of 0.64 and a weighted average discount rate of 8.7% per cent. p.a. These assumptions and the Current Portfolio Value may vary over time.*

3 *The valuation is of the portfolio of 38 investments as at 31 March 2011 and does not include other assets or liabilities of the Group, and assumes that during the period illustrated above, (i) no new investments are purchased, (ii) no existing investments are sold and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains in excess of those expected.*

4 *The spike in 2012 is the repayment in April 2011 of principal on the Kemble Junior Holdco Loan.*

The chart shows the steady long-term nature of the cashflows from the portfolio, coupled with a stable portfolio valuation to 2028. From 2029, based on current forecasts, the portfolio will move into a capital repayment phase whereby capital is repaid and the portfolio valuation reduces as projects reach the end of their concession term, assuming that the proceeds are not invested in new investments, until in 2042 when all capital is repaid.

FINANCING

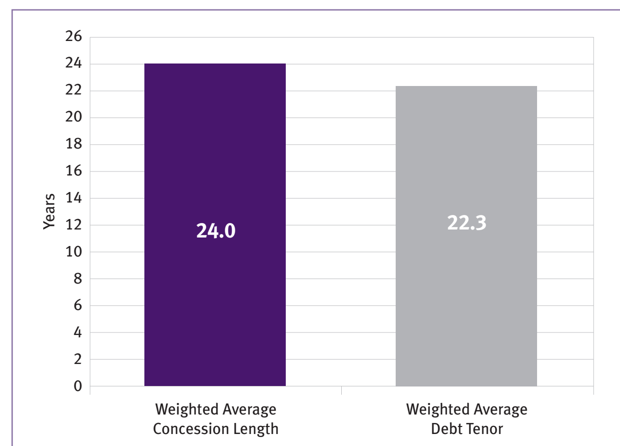
The Company successfully raised £154.6m (net of expenses) in the year from the £110m C share issue in December 2010 and the issue of 41.7m shares by way of tap issues under the Company's block listing. The net proceeds from the share issues were used to fund new investments and to reduce the Group's debt. As at 31 March 2011, the Group had net cash of £54.7m and outstanding future investment obligations on three projects totalling £47.0m.

The strategy is to use the Group's £200m revolving debt facility, which is committed through to December 2012, to fund new acquisitions, to provide letters of credit for future investment obligations, and to provide a prudent level of debt for the portfolio to improve the operational gearing.

The Board's policy is that the Company should not hold cash awaiting investment to any material extent above any outstanding equity commitments in respect of existing investments.

The PFI/PPP/P3 projects in the portfolio all have long-term debt in place which does not need refinancing to meet their business plan. The weighted average PFI/PPP/P3 project concession length remaining is 24.0 years at 31 March 2011 and the weighted average debt tenor is 22.3 years.

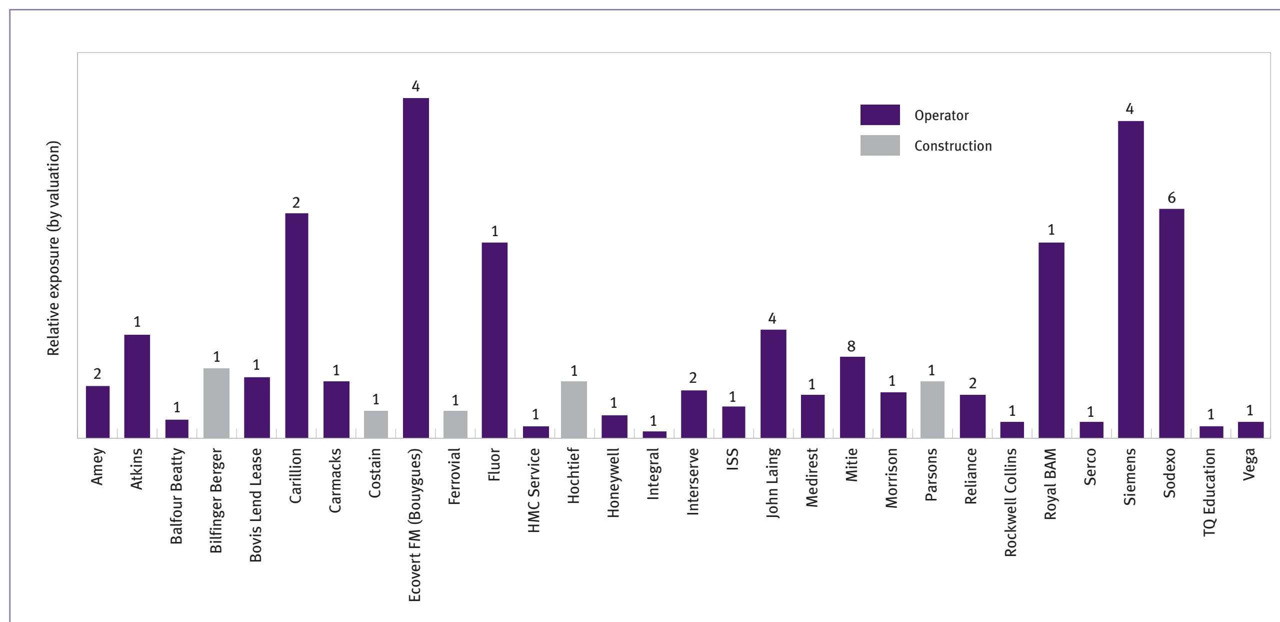
Weighted Averages (excluding Kemble)



Counterparty Exposures

All the PFI clients are public sector bodies. Each project subcontracts the delivery of services to one or more experienced facilities managers such as Bouygues, Sodexo, Mitie and Carillion. The Group has a broad diversified range of facilities management companies, with the acquisitions in the year providing further diversification of the supply chain.

Spread of Facilities Management Contracts on the PFI/PPP/P3 Projects



Note to chart: Analysis of the various FM providers, shown by aggregate valuation of PFI/PPP/P3 projects involved in, with the figure the number of projects involved in. On some projects there is more than one service provider e.g. Dutch High Speed Rail where Royal BAM, Siemens and Fluor provide services; so that the sum of the bars is in excess of the Directors' valuation.

On a quarterly basis we review the portfolio's counterparty exposure to both the operational supply chain and the financial providers of bank deposit accounts and interest rate swaps. Our risk and control function monitors financial creditworthiness while our asset management team monitors project performance for service issues which may indicate financial difficulties. The review processes have not identified any significant counterparty concerns for any of the portfolio's construction or facilities management contractors.

Financial Results

Accounting

At 31 March 2011, the Group had eleven investments which it was deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the project entities. This is unchanged from 31 March 2010. Under International Financial Reporting Standards ("IFRS"), the results of these companies are required to be consolidated in the Group's financial statements on a line-by-line basis.

However, these investments form part of a portfolio of similar investments which are held for investment purposes and managed as a whole and there is no distinction made between those investments classified as subsidiaries and those which are not. Further, all debt owed by the Group's investments is non-recourse and the Group does not participate in their day to day management.

As in previous periods, in order to provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, the results have been restated in proforma tables which follow the Financial Results. The proforma tables are prepared with all investments accounted for on an Investment basis. By deconsolidating the subsidiary investments, the performance of the business under consolidated IFRS basis may be compared with the results under the Investment basis.

The proforma tables show all investments accounted for on an Investment basis, which are reconciled to the consolidated financial statements on a line by line basis.

Income and Costs

Summary income statement

	Year to 31 March 2011			Year to 31 March 2010		
	Investment basis *£million*	**Consolidation adjustments** *£million*	**IFRS basis** *£million*	**Investment basis** *£million*	**Consolidation adjustments** *£million*	**IFRS basis** *£million*
Total revenue income	37.4	150.5	187.9	31.2	128.5	159.7
Expenses & finance costs	(13.1)	(155.2)	(168.3)	(13.4)	(121.0)	(134.4)
Profit/(loss) before tax & valuation movements	**24.3**	**(4.7)**	**19.6**	**17.8**	**7.5**	**25.3**
Fair value movements	20.9	(2.2)	18.7	7.2	(24.8)	(17.6)
Tax and non-controlling interests	(0.1)	7.0	6.9	(0.2)	(1.5)	(1.7)
Earnings/(loss)	**45.1**	**0.1**	**45.2**	**24.8**	**(18.8)**	**6.0**
Earnings per share	**8.9p**		**9.0p**	**6.5p**		**1.6p**

On an Investment basis, Profit before tax and valuation movements was £24.3m (2010: £17.8m) and increased due to contributions from acquisitions and reduced finance costs.

Fair value movements are a £20.9m profit (2010: £7.2m) which represents the increase in the portfolio valuation recognised in the income statement. The portfolio valuation benefited from a strong performance from the portfolio, supported by inflation above the valuation assumption and a mark to market uplift on the Kemble Water junior loan. Further detail on the valuation movement is given in the Investment Adviser's Report.

Earnings on an Investment basis were £45.1m, an increase of over £20m compared to the prior year, with earnings per share of 8.9p up 2.4p or 37% as compared to 2010. The uplift in earnings reflects the positive contribution from acquisitions coupled with a good performance from the portfolio without the adverse impact of changing valuation assumptions that affected prior year earnings.

On a consolidated IFRS basis, the earnings per share were 9.0p (2010: 1.6p). The results on a consolidated IFRS basis show a more significant improvement than on an Investment basis due to factors arising in the prior year. In particular in the prior year the value of the subsidiaries recognised under IFRS was impacted more by the increase in the risk free rate in that year than the market values of the subsidiaries that underpinned earnings on the Investment basis.

Total income on a consolidated IFRS basis increased to £187.9m (2010: £159.7m) driven by a full year contribution from 2010 acquisitions and increased construction revenue on project variations. Profit before tax and valuation movements on a consolidated IFRS basis decreased despite the increased revenues due to reduced finance costs in the prior year. The prior year benefited materially from lower finance costs arising from the effect of negative inflation on the index link bond financing on the Home Office and Exeter Courts projects.

Cost analysis

	Year to 31 March 2011 Investment basis *£million*	Year to 31 March 2010 Investment basis *£million*
Interest income	0.1	0.1
Interest expense	(3.6)	(5.5)
Investment Adviser	(8.1)	(6.0)
Auditor – KPMG – for the Group	(0.2)	(0.2)
Directors fees & expenses	(0.1)	(0.1)
Other expenses	(1.2)	(1.7)
Expenses & finance costs	**(13.1)**	**(13.4)**

Interest was a net cost of £3.5m in the year (2010: £5.4m) reduced from the prior year due to lower levels of borrowing during the year and the effect of re-profiling the interest rate swaps in 2010 following the prior year C share capital raising.

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) totalled £8.1m (2010: £6.0m) in the year, comprising the 1.1% p.a. management fee (1.5% for assets in construction), the 1.0% fee on the acquisitions made, and the £0.1m p.a. advisory fee. The increase is a combination of the 1.0% acquisition fee on a larger volume of acquisitions and the management fee on a growing portfolio value.

In addition, the Group contracted in the year with other parts of the HSBC Group on an arm's length basis for the provision of bank accounts, foreign exchange hedges, and insurance broking.

Other expenses are down £0.5m from the prior year, reflecting a reduced level of unsuccessful bid costs.

Total Expense Ratio ('TER')

	Year to 31 March 2011 Investment basis *£million*	Year to 31 March 2010 Investment basis *£million*
Administrative expenses	9.6	8.0
Less operator acquisition investment fees	(1.5)	(0.7)
Total expenses	8.1	7.3
Net assets	673.2	502.9
TER	1.20%	1.45%

The TER for the Group has reduced 0.25% in the year to 1.20%. This improvement shows the benefit of scale economies as acquisitions and the consequent capital raisings enable the Group's expenses to be spread over an enlarged capital base.

Balance Sheet

Summary balance sheet

	31 March 2011			31 March 2010		
	Investment basis *£million*	Consolidation adjustments *£million*	IFRS basis *£million*	Investment basis *£million*	Consolidation adjustments *£million*	IFRS basis *£million*
Investments at fair value	**626.1**	**(200.1)**	**426.0**	**501.3**	**(193.9)**	**307.4**
Other non-current assets	–	957.9	957.9	–	979.3	979.3
Working capital	(5.3)	8.8	3.5	(4.8)	11.8	7.0
Net cash/(borrowings)	54.7	(587.5)	(532.8)	11.0	(604.0)	(593.0)
Other non-current liabilities	(2.3)	(185.4)	(187.7)	(4.6)	(196.7)	(201.3)
Non-controlling interests	–	(9.9)	(9.9)	–	(12.8)	(12.8)
Net Assets [1]	**673.2**	**(16.2)**	**657.0**	**502.9**	**(16.3)**	**486.6**
NAV per share (before distribution)	113.1p		110.4p	110.7p		107.1p

1 *This is net assets attributable to the Group net of non-controlling interests.*

On an Investment basis, Investments at fair value were £626.1m (2010: £501.3m) net of £47.0m of future investment obligations on the M80 motorway DBFO, North-West Anthony Henday P3 and Helicopter Training facility projects. This is an increase of £124.8m or 25%. Further detail on the movement in Investments at fair value is given in the Investment Adviser's Report under Valuation.

Following the equity capital raisings in the year the Group has a net cash position on an Investment basis of £54.7m (2010: £11.0m). An analysis of the movements in net cash is shown in the cashflow analysis below.

Other financial liabilities of £2.3m (2010: £4.6m) are the mark to market valuation of the Group's interest rate swaps and a foreign currency hedging contract. In January 2011 following the C share capital raising the Group's interest rate swaps were re-profiled resulting in a payment of £2.5m to partially settle the swaps.

On an Investment basis, NAV per share was 113.1p before the 3.425p distribution (2010: 110.7p).

On a consolidated IFRS basis, net assets have increased to £657.0m (2010: £502.9m) reflecting £156.7m from the issue of shares, earnings of £45.2m less distributions of £31.5m. NAV per share was 110.4p (2010: 107.1p).

Cashflow Analysis

Summary cash flow

	Year to 31 March 2011 Investment basis *£million*		Year to 31 March 2010 Investment basis *£million*	
Net cash (debt) at start of period		11.0		(57.7)
Cash from investments	45.6		39.2	
Operating + finance costs	(10.7)		(11.6)	
Net cash inflow before acquisitions/financing		**34.9**		**27.6**
Cost of new investments		(115.1)		(60.1)
Share capital raised net of costs		154.6		126.3
Forex movement on borrowings/hedging		(1.3)		(3.2)
Dividend for operational assets	(27.6)		(21.4)	
Dividend for construction assets	(1.8)		(0.5)	
Dividends paid		(29.4)		(21.9)
Net cash at end of period		**54.7**		**11.0**

On an Investment basis the Group's net cash at 31 March 2011 was £54.7m (31 March 2010: £11.0m).

Cash inflows from the portfolio were up 16% at £45.6m (2010: £39.2m). The growth in cash generation was driven by contributions from acquisitions combined with active cash management across the portfolio.

Cost of investments of £115.1m (2010: £60.1m) represents the cash cost of the five new investments, four incremental acquisitions, £8.0m of loan note subscriptions (on Bradford Schools and the Helicopter Facility projects) coupled with associated acquisition costs of £2.0m.

The £1.3m (2010: £3.2m) movement in forex and hedging arises from the re-profiling of the interest rate swaps and the timing of the forward Euro and Canadian Dollar sales. The forward sales are to hedge the Group's forex exposure on the Dutch High Speed Rail Link and two Canadian assets.

The £110m C share capital raising in December 2010 and placing of 41.7m shares under the block listing provided cash receipts in the year of £154.6m (2010: £126.3m).

Dividends paid increased £7.5m to £29.4m (2010: £21.9m) for the year (being the payment of 3.35p in June 2010 and the payment of 3.275p per share in December 2010). The dividends declared for the year to 31 March 2011 represents a total of 6.7p per share (2010: 6.55p).

Dividend cash cover was 1.26 times (2010: 1.26 times) which compares operational cash flow of £34.9m (2010: £27.6m) to dividends from operational assets. The dividend attributable to operational assets (93.9%) and construction assets (6.1%) was based on their respective share of the portfolio valuation during the year.

Gearing

The Group has a committed £200m five year revolving facility from Bank of Scotland plc ('BoS') expiring in December 2012. This facility is used to fund acquisitions and is on a recourse basis to the Group. The Company's Articles of Association limit the Group's recourse debt to 50% of Adjusted Gross Asset Value of its investments and cash balances. As at 31 March 2011, the Group's only drawings under the facility were in respect £46.7m in letters of credit to support future investment commitments.

Following the successful C share equity raising in December, the Group is ungeared with net cash on an Investment basis as at 31 March 2011 of £54.7m (31 March 2010: £11.0m). This cash is to be utilised on the £47.0m of future investment commitments and the payment of £20.4m for the second interim dividend of 3.425p per share in June.

To manage interest rate risk the Group has interest rate swaps to partially hedge the Group's debt facility. Following the reduction in gearing of the Group in January 2011 the interest rate hedges were re-profiled to reflect the likely gearing of the Group over the next two years.

On a consolidated IFRS basis, the Group had net debt of £532.8m at 31 March 2011 (31 March 2010: £593.0m). This decrease in net debt over the year reflects the proceeds from shares issued in the year and scheduled debt repayments by the operating subsidiaries more than offsetting the cost of new investments.

As previously reported, all the PFI projects have either long-term bank borrowings with interest rate hedges, or bonds with fixed or indexed coupon payments. This ensures the Group's investments have minimal exposure to interest rate volatility or debt market appetite.

Foreign Exchange Risk

Foreign exchange risk from non-sterling assets has been managed on a balance sheet basis through the forward sale of Euros and Canadian Dollars and by debt drawings in Euros and Canadian Dollars under the BoS debt facility. This is to minimise the volatility in the Group's NAV from foreign exchange movements.

Unaudited Consolidated Proforma Income Statements

for the year ended 31 March 2011

	Year ended 31 March 2011				
	Investment basis			Consolidation adjustments	Consolidated IFRS basis
	Revenue *£million*	Capital *£million*	Total *£million*	*£million*	*£million*
Services revenue	–	–	–	121.2	121.2
Gains on finance receivables	–	–	–	47.2	47.2
Gains/(loss) on investments	37.4	18.8	56.2	(20.4)	35.8
Total income	37.4	18.8	56.2	148.0	204.2
Services costs	–	–	–	(105.8)	(105.8)
Administrative expenses	(9.6)	–	(9.6)	(2.2)	(11.8)
Profit before net finance costs and tax	27.8	18.8	46.6	40.0	86.6
Finance costs	(3.6)	–	(3.6)	(47.5)	(51.1)
Finance income	0.1	2.1	2.2	0.6	2.8
Profit before tax	24.3	20.9	45.2	(6.9)	38.3
Income tax (expense)/credit	(0.1)	–	(0.1)	8.4	8.3
Profit for the year	24.2	20.9	45.1	1.5	46.6
Attributable to:					
Equity holders of the parent	24.2	20.9	45.1	0.1	45.2
Non-controlling interests	–	–	–	1.4	1.4
	24.2	20.9	45.1	1.5	46.6
Earnings per share – basic and diluted *(pence)*	4.8	4.1	8.9	0.1	9.0

	Year ended 31 March 2010				
	Investment basis			Consolidation adjustments	Consolidated IFRS basis
	Revenue *£million*	Capital *£million*	Total *£million*	*£million*	*£million*
Services revenue	–	–	–	102.6	102.6
Gains on finance receivables	–	–	–	16.2	16.2
Gains/(loss) on investments	31.2	3.6	34.8	(15.5)	19.3
Total income	31.2	3.6	34.8	103.3	138.1
Services costs	–	–	–	(89.1)	(89.1)
Administrative expenses	(8.0)	–	(8.0)	(2.0)	(10.0)
Profit before net finance costs and tax	23.2	3.6	26.8	12.2	39.0
Finance costs	(5.5)	–	(5.5)	(30.1)	(35.6)
Finance income	0.1	3.6	3.7	0.6	4.3
Profit/(loss) before tax	17.8	7.2	25.0	(17.3)	7.7
Income tax (expense)/credit	(0.2)	–	(0.2)	3.4	3.2
Profit/(loss) for the year	17.6	7.2	24.8	(13.9)	10.9
Attributable to:					
Equity holders of the parent	17.6	7.2	24.8	(18.8)	6.0
Non-controlling interests	–	–	–	4.9	4.9
	17.6	7.2	24.8	(13.9)	10.9
Earnings/(loss) per share – basic and diluted *(pence)*	4.6	1.9	6.5	(4.9)	1.6

See Note 2(a) of Notes to the consolidated financial statements for the definition of revenue and capital items.

Unaudited Consolidated Proforma Balance Sheet

as at 31 March 2011

		31 March 2011			31 March 2010	
	Investment basis *£million*	Consolidation adjustments *£million*	Consolidated IFRS basis *£million*	Investment basis *£million*	Consolidation adjustments *£million*	Consolidated IFRS basis *£million*
Non-current assets						
Investments at fair value through profit or loss *(Note 1)*	596.4	(200.1)	396.3	501.3	(193.9)	307.4
Finance receivables at fair value through profit or loss	–	761.6	761.6	–	772.0	772.0
Intangible assets	–	162.0	162.0	–	170.6	170.6
Deferred tax assets	–	34.3	34.3	–	36.7	36.7
Total non-current assets	596.4	757.8	1,354.2	501.3	785.4	1,286.7
Current assets						
Investments at fair value through profit or loss *(Note 1)*	29.7	–	29.7	–	–	–
Trade and other receivables	1.0	14.7	15.7	0.1	12.0	12.1
Finance receivables at fair value through profit or loss	–	17.5	17.5	–	16.6	16.6
Cash and cash equivalents	54.7	60.2	114.9	12.8	54.3	67.1
Total current assets	85.4	92.4	177.8	12.9	82.9	95.8
Total assets	681.8	850.2	1,532.0	514.2	868.3	1,382.5
Current liabilities						
Trade and other payables	(6.0)	(22.9)	(28.9)	(4.7)	(16.2)	(20.9)
Current tax payable	(0.3)	(0.5)	(0.8)	(0.2)	(0.6)	(0.8)
Loans and borrowings	–	(31.4)	(31.4)	–	(29.6)	(29.6)
Total current liabilities	(6.3)	(54.8)	(61.1)	(4.9)	(46.4)	(51.3)
Non-current liabilities						
Loans and borrowings	–	(616.3)	(616.3)	(1.8)	(628.7)	(630.5)
Other financial liabilities (fair value of derivatives)	(2.3)	(80.5)	(82.8)	(4.6)	(80.3)	(84.9)
Deferred tax liabilities	–	(104.9)	(104.9)	–	(116.4)	(116.4)
Total non-current liabilities	(2.3)	(801.7)	(804.0)	(6.4)	(825.4)	(831.8)
Total liabilities	(8.6)	(856.5)	(865.1)	(11.3)	(871.8)	(883.1)
Net assets/(liabilities)	673.2	(6.3)	666.9	502.9	(3.5)	499.4
Equity						
Shareholders' equity	673.2	(16.2)	657.0	502.9	(16.3)	486.6
Non-controlling interests	–	9.9	9.9	–	12.8	12.8
Total equity	673.2	(6.3)	666.9	502.9	(3.5)	499.4
Net assets/(liabilities) per share *(pence)*	113.1	(2.7)	110.4	110.7	(3.6)	107.1

Unaudited Consolidated Proforma Cash Flow

for the year ended 31 March 2011

	Investment basis £million	Year ended 31 March 2011 Consolidation adjustments £million	Consolidated IFRS basis £million	Investment basis £million	Year ended 31 March 2010 Consolidation adjustments £million	Consolidated IFRS basis £million
Cash flows from operating activities						
Profit/(loss) before tax	45.2	(6.9)	38.3	25.0	(17.3)	7.7
Adjustments for:						
(Gains)/loss on investments	(56.2)	22.2	(34.0)	(34.8)	14.3	(20.5)
Gains on finance receivables	–	(44.5)	(44.5)	–	(4.4)	(4.4)
Interest payable and similar charges	3.6	41.4	45.0	5.5	26.4	31.9
Changes in fair value of derivatives	(2.1)	0.3	(1.8)	(3.6)	(0.4)	(4.0)
Operator acquisition investment fees	1.5	–	1.5	0.7	–	0.7
Interest income	(0.1)	(0.3)	(0.4)	(0.1)	(0.2)	(0.3)
Amortisation of intangible assets	–	8.6	8.6	–	8.2	8.2
Operating cash flow before changes in working capital	(8.1)	20.8	12.7	(7.3)	26.6	19.3
Changes in working capital:						
Increase in receivables	(0.9)	(13.5)	(14.4)	–	(16.1)	(16.1)
(Decrease)/Increase in payables	(0.4)	5.8	5.4	1.0	2.6	3.6
Cash flow (used in)/from operations	(9.4)	13.1	3.7	(6.3)	13.1	6.8
Interest received on bank deposits and finance receivables	0.1	0.3	0.4	1.5	0.2	1.7
Cash received from finance receivables	–	58.8	58.8	–	41.4	41.4
Interest paid	(5.3)	(28.0)	(33.3)	(9.9)	(28.5)	(38.4)
Corporation tax paid	–	(0.9)	(0.9)	–	(0.7)	(0.7)
Interest received on investments	30.5	(5.3)	25.2	27.8	(6.7)	21.1
Dividends received	12.8	(2.7)	10.1	8.3	(1.7)	6.6
Fees and other operating income	2.2	(0.7)	1.5	2.0	(0.7)	1.3
Acquisition of subsidiaries net of cash acquired	–	–	–	–	7.0	7.0
Loanstock and equity repayments received	0.1	–	0.1	1.1	–	1.1
Net cash from operating activities	31.0	34.6	65.6	24.5	23.4	47.9
Cash flows from investing activities						
Purchases of investments	(115.1)	–	(115.1)	(60.5)	8.0	(52.5)
Net cash (used in)/from investing activities	(115.1)	–	(115.1)	(60.5)	8.0	(52.5)
Cash flows from financing activities						
Proceeds from issue of share capital	154.6	–	154.6	126.3	–	126.3
Proceeds from issue of loans and borrowings	77.1	–	77.1	66.6	–	66.6
Repayment of loans and borrowings	(80.2)	(24.3)	(104.5)	(132.2)	(20.8)	(153.0)
Distributions paid to Company shareholders	(29.4)	–	(29.4)	(21.9)	–	(21.9)
Distributions paid to non-controlling interests	–	(4.4)	(4.4)	–	(1.4)	(1.4)
Net cash from/(used in) financing activities	122.1	(28.7)	93.4	38.8	(22.2)	16.6
Net increase in cash and cash equivalents	38.0	5.9	43.9	2.8	9.2	12.0
Cash and cash equivalents at beginning of year	12.8	54.3	67.1	9.1	45.1	54.2
Exchange gains on cash	3.9	–	3.9	0.9	–	0.9
Cash and cash equivalents at end of year	54.7	60.2	114.9	12.8	54.3	67.1

1. Investments

The valuation of the Group's portfolio at 31 March 2011 reconciles to the consolidated balance sheet as follows:

	31 March 2011 *£million*	31 March 2010 *£million*
Portfolio valuation	673.1	509.6
Less: undrawn investment commitments	(47.0)	(8.3)
Portfolio valuation on an investment basis	626.1	501.3
Less: equity and loanstock investments in operating subsidiaries eliminated on consolidation	(200.1)	(193.9)
Investments per audited consolidated balance sheet on an IFRS basis	426.0	307.4
Portfolio valuation on an investment basis is represented by:		
Less than one year	29.7	–
Greater than one year	596.4	501.3
Carrying amount at year end	626.1	501.3
Investments per audited consolidated balance sheet on an IFRS basis is represented by:		
Less than one year	29.7	–
Greater than one year	396.3	307.4
Carrying amount at year end	426.0	307.4

Analysis of the Group's Portfolio

As at 31 March 2011, the Group had 38 investments, details of which are set out in the table below.

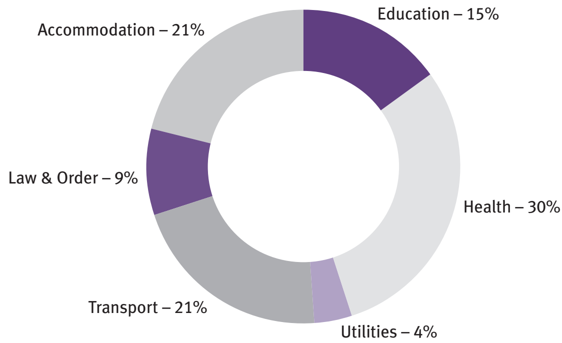
PROJECT	Group Holdings Equity	Subdebt	Mezzanine debt
Ten largest investments			
Colchester Garrison	42.0%	42.0%	
Dutch High Speed Rail Link	43.0%	43.0%	
Home Office	100.0%	100.0%	
Kemble Water Junior Loan	–	–	3.6%
M80 DBFO Road	41.6%	41.6%	
North West Anthony Henday Road	50.0%	50.0%	
Oxford John Radcliffe Hospital	89.9%	100.0%	
Queen Alexandra Hospital	89.9%	100.0%	
Romford Hospital	50.0%	50.0%	
West Middlesex Hospital	100.0%	100.0%	
Remaining investments			
Barnet Hospital	100.0%	100.0%	100.0%
Bishop Auckland Hospital	36.0%	36.0%	100.0%
Blackburn Hospital	50.0%	50.0%	
Bradford BSF Schools Phase II project	34.0%	34.0%	
Central Middlesex Hospital	100.0%	100.0%	
Conwy Schools	90.0%	90.0%	
Darlington Schools	50.0%	50.0%	
Defence Sixth Form College	45.0%	45.0%	
Durham and Cleveland Firearms Training Centre	72.9%	72.9%	
Ealing Schools	50.0%	50.0%	
Exeter Crown Courts	90.0%	90.0%	
GMPA Police Stations	72.9%	72.9%	
Haverstock Schools	50.0%	50.0%	
Health and Safety Laboratory	80.0%	90.0%	
Helicopter Training Facility – AssetCo	86.6%	8.6%	
– ProjectCo	21.8%	59.0%	
Heath & Safety HQ	50.0%	50.0%	
Highland Schools	50.0%	50.0%	
Kent Schools	50.0%	50.0%	
Kicking Horse Canyon P3 Road	50.0%	–	
MPA Specialist Training Centre	72.9%	72.9%	
MPA South East London Police Stations	50.0%	50.0%	
North Tyneside Schools	50.0%	50.0%	
Newcastle Libraries	50.0%	50.0%	
Pinnacle Schools, Fife	40.0%	40.0%	100.0%
Renfrewshire Schools	30.0%	30.0%	
Stoke Mandeville Hospital	90.0%	90.0%	
Sussex Custodial Centre	89.9%	100.0%	
Wooldale Centre	50.0%	50.0%	

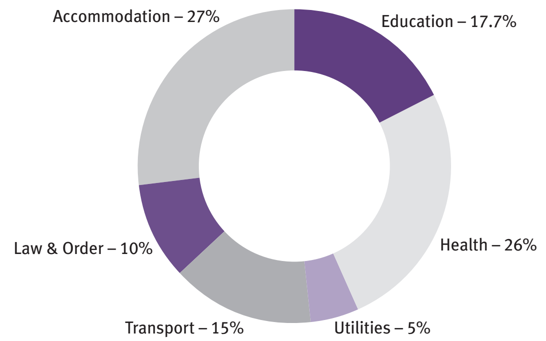
Two projects are currently under construction: North West Anthony Henday Road, and the M80 DBFO Road project. All the remaining projects are operational. The pie charts opposite show how the portfolio has developed in the last 12 months in terms of sector split, projects still in construction, geographic location, and concession lengths remaining.

As at 31 March 2011

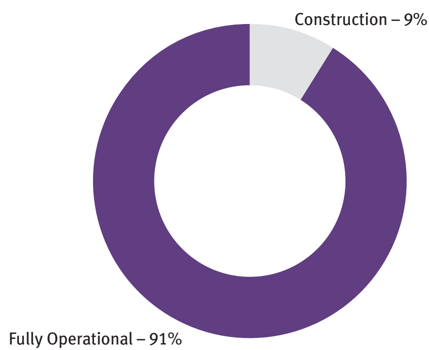
As at 31 March 2010

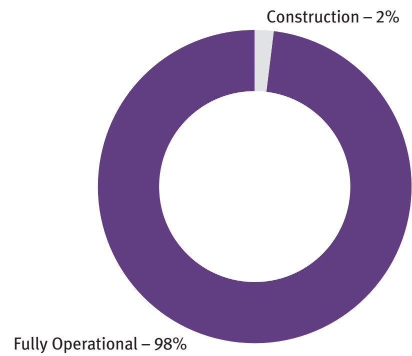
Sector analysis



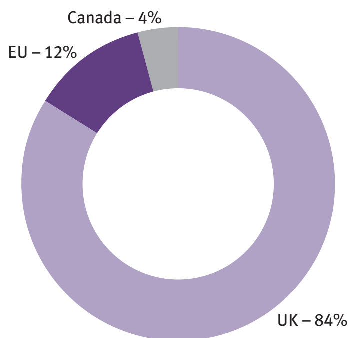


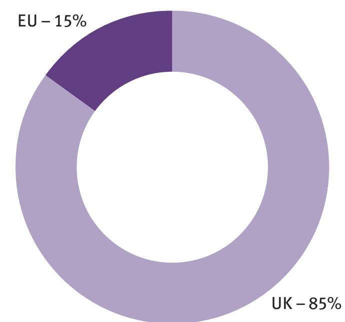
Investment status



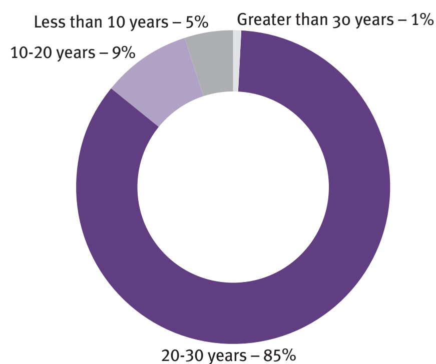


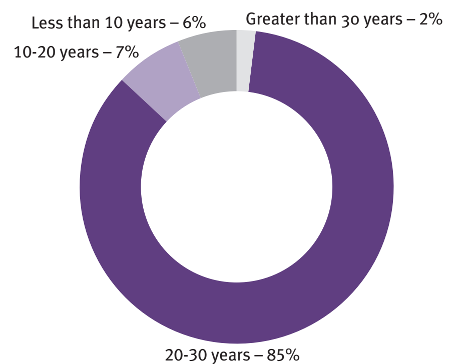
Geographic





Concession length





Ten Largest Investments

Set out below are details of the ten largest investments in the portfolio and details of each project. As at 31 March 2011, the largest investment (the Home Office project) accounted for 12.9% of the portfolio.

PROJECT	Directors' Valuation 31 March 2011 Valuation as a percentage of Directors' portfolio valuation *£million*	31 March 2010 Valuation as a percentage of Directors' portfolio valuation *£million*
Directors' Valuation – £m	**673.1**	**509.6**
Colchester Garrison	6.3%	8.8%
Dutch High Speed Rail Link	12.2%	14.7%
Home Office	12.9%	16.2%
Kemble Water	4.4%	4.8%
M80 DBFO Road	4.3%	–
North West Anthony Henday Road	3.5%	–
Oxford John Radcliffe Hospital	4.6%	–
Queen Alexandra Hospital	9.4%	–
Romford Hospital	3.8%	4.9%
West Middlesex Hospital	2.9%	3.4%
Total	64.3%	52.8%

Colchester Garrison

The project is a 35 year concession to provide a new facility for the Secretary of State for Defence in Colchester, Essex, UK. Colchester Garrison provides accommodation for approximately 3,500 military and 750 civilian personnel. The project is located on the original garrison site and partly on an adjacent brown field site owned by the Ministry of Defence. Capital expenditure on the project was approximately £550m. Construction was completed in April 2008 which was five months ahead of the original programme.

Catering, cleaning and transport services are provided by Sodexo Defence Services Limited. WS Atkins Facilities Management Limited is responsible for estate and grounds maintenance, contract management and security, waste management and lifecycle.

Excellent relationships have been maintained at all levels of the project during the year, and all outstanding construction issues have been resolved with operational performance settling down to a very satisfactory routine with minimal deductions and complaints.

A significant achievement during the year was to work with the client to progress the provision for a 'Help for Heroes' rehabilitation centre. Construction has now commenced and should be ready for opening at the end of this year.

Dutch High Speed Rail Link

The largest PPP project signed to date in the Netherlands, the Dutch high speed rail link provides a high-speed connection from Schiphol Airport to the Belgian border. The HSL Zuid project, as it is known locally, was developed for the Dutch Ministry of Transport, Public Works and Waste Management and the Ministry of Finance under a 25 year concession. The project involves capital expenditure of over £625m and includes track, noise attenuation, signalling, power distributions and communications systems. Financial close was in October 2001.

Certificates of Availability have been issued for both the North and Southern sections. Maintenance obligations are carried out by a joint venture comprising Siemens Nederland BV, Koninklijke BAM NBM NV and Fluor Infrastructure BV.

The last year has seen a gradual build-up of the train services by the State to a level where there is now a half hour service. Availability has been very good with minimal deductions achieved. The focus for the Project Company has been to clear the outstanding issues between the parties, and progress has been made in this respect. The Project Company has established an improvement committee to review all aspects of project performance to ensure best possible practice is being employed.

Home Office

The project is a 29 year concession commissioned by the UK Home Office to build, finance, operate and maintain a new headquarters building to replace their existing office accommodation with purpose-built serviced offices in Westminster, London. The project involved capital expenditure of approximately £200m and the demolition of the existing offices on a 4.3 acre site, followed by the construction of a building comprising three purpose-built interconnecting office blocks to accommodate up to 3,450 staff. Construction was completed in January 2005.

The services being provided include health and safety, cleaning, catering and energy management. Operations are managed by Ecovert FM Limited a facilities management subsidiary of Bouygues.

The project team has been working with the Home Office Property Group to enable annual reductions in the Home Office energy consumption to be very near to the Government's target for Central Government department buildings of 10% for the year to end of April 2011.

As part of the contract requirements a benchmarking exercise was managed by the project team. It involved the supply chain agreeing to revise their soft facilities management costs which provided significant financial savings to the client.

A customer satisfaction survey was carried out on members of the 3,000 staff and users of the building. Of those staff that participated over 76% agreed that the services provided to the project have improved over the last 12 months and generally satisfaction levels were at "good" or "very good".

Kemble Water

This is a participation of £30m in the junior term loan facility for Kemble Water, the vehicle set up to acquire RWE Thames Water Holdings ("Thames Water"). Kemble Water acquired the whole of Thames Water from RWE, including the regulated UK water business and non-regulated businesses (this includes Thames Water's property, commercial, and international businesses).

The junior term loan was repaid in full in early April 2011.

M80 DBFO Road

The M80 DBFO project, between Stepps and Haggs in Scotland, involves the upgrade of a ten kilometre stretch of the existing M80, as well as a new eight kilometre section of motorway, seven new junctions and 60 additional structures. The project is currently 18 months into a three year construction period, with works being performed under a Bilfinger Berger UK, Northstone (NI) Ltd and John Graham (Dromore) Ltd joint venture.

The project is on schedule to complete in Q4 2011 and will operate under a 30 year concession contract thereafter. The motorway is to be operated and maintained by BEAR Scotland Ltd under a long-term services agreement.

The project team were pleased to allow the Emergency Services access to a 2.5km stretch of the new Moodiesburn Bypass prior to opening for Operation Roller, an emergency training exercise held in November 2010. A very successful training exercise involving staged accidents and casualties was carried out by all members of the Emergency Services, fire, police and ambulance with no disruption to the construction programmes.

The Scottish Spina Bifida Association (SSBA) have been selected as the nominated charity for the project which means the Project team personnel work to raise money through a number of initiatives including the Contractor's site safety programme. By meeting and exceeding quarterly safety targets, money is released and donated to SSBA. To date over £9,500 has been raised just though this one Health and Safety initiative.

North West Anthony Henday Road

The North-West Anthony Henday P3 in Alberta, Canada comprises the design, build, financing and ongoing operation of a 21km stretch of the four and six lane ring-road surrounding the city of Edmonton. The project is currently under construction, with operations scheduled to begin in November 2011. Construction is being carried out by a joint venture comprising Flatiron Constructors Canada Limited, Parsons Overseas Company of Canada Ltd and Graham Infrastructure, itself a JV between Graham Infrastructure LP and Jardeg Construction Service LP.

The ongoing operations and maintenance will be carried out by Carmacks Maintenance Services Ltd, under a long-term services agreement. The concession contract lasts for 30 years from the beginning of operations, expiring no later than November 2041.

The project team have developed an approach to working with the various stakeholders including the main highway client, Alberta Transportation and a number of municipalities through which the new road passes. This has resulted in the efficient resolution of issues relating to the new road linking into local roads and the municipalities own plans for their local roads improvements. A similar partnership approach has seen the utilities, gas water and electricity committed to working as part of an integrated project delivery team.

Oxford John Radcliffe Hospital

The Oxford John Radcliffe PFI Hospital project involves the design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary in Oxford. The concession runs until 31 December 2036.

The new wing was constructed by Carillion Construction Ltd and reached operational completion in December 2006. The new facilities built under the contract formed the 'West Wing' and the 'New Children's Hospital'. A number of adult and children services were relocated from the Radcliffe Infirmary and other sites within the Oxford Radcliffe Hospitals NHS trust to centralise them into one facility.

Facilities management services are subcontracted to Carillion Services Ltd.

A lot has been achieved during the year with the resolution of many outstanding claims, assistance to the Trust to achieve significant budgetary savings and benchmarking being concluded without the need for Market Testing.

A cost saving workshop instigated by the project Company produced numerous ideas to reduce Trust costs and some of these were incorporated into the benchmarking process providing around £1m of savings for the wider Trust budget. Close contact with the Trust has been maintained during the year and support has been given to the Service provider to improve areas of performance in estates management and portering.

Queen Alexandra Hospital

The completed hospital has 1,026 inpatient beds, 34 neonatal intensive care cots, 3 endoscopy suites and 20 main operating theatres. The concession contract runs until December 2040.

The new hospital buildings were developed and built by Carillion Construction Ltd, a subsidiary of Carillion. The majority of the new facilities have been operational since June 2009, with final construction completed last month. A subsidiary of Carillion provides facilities management services to the project under a long-term services agreement.

Since acquiring the project last year, the Investment Adviser has taken a fresh approach to reviewing the project and assisting the service provider to generally raise standards, client satisfaction and lower payment deductions. The final construction phase was completed in June 2010 which leads to a final completion certificate for construction in 2011. Another major change in the year has been to replace the Project Company managers to generally improve overall performance, reduce the areas of conflict and be more efficient.

Romford Hospital

This project involves the design, build and finance of a new hospital – the Queen's Hospital – in Romford, Essex, followed by the maintenance of the hospital and the provision of non-clinical services and a Managed Equipment Service for a term of 36 years that ends in 2040. The project involved capital expenditure of approximately £211m and its construction was completed in October 2006 by Bovis Lend Lease Limited.

Soft and Hard Facilities management is the responsibility of Sodexo Limited and the Medical Equipment Services are provided by Siemens plc.

The last year has provided the opportunity to familiarize ourselves with the project, people and current issues. At the Investment Adviser's instigation a relationship building/cost reduction workshop was arranged last autumn with all key parties. HM Treasury announced in February a thorough review of this project to identify savings and efficiencies within the project and lessons that can be applied to other PFI projects. All parties cooperated and the previously held workshop was timely as it had identified ideas, savings, and opportunities.

West Middlesex Hospital

The project is a 35 year concession to design, construct, finance, operate and maintain a new 228 bed hospital in West Middlesex, UK. Financial close occurred in January 2001 and the project involved capital expenditure of approximately £60m. Construction was completed on time in June 2003.

Building management services comprise the repair and maintenance of plumbing and security systems as well as health and safety services. Catering, laundry, cleaning, porterage and security services are also being provided. Operations are being managed by Ecovert FM Limited, the facilities management subsidiary of Bouygues Construction S.A.

The project enjoys good relationships between all parties and soft services continue to be delivered to acceptable standards. The project has received compliments for assisting the Trust in achieving an 'excellent' score in the overall ratings in the Patient Environment Action Team assessment categories.

Service improvement initiatives have been made to a range of services including help desk operations, NEPT and portering. The FM contractor has reviewed waste management service specifications to improve recycling and reduce costs. The project has also supported the Trust in achieving savings in utilities costs by the installation of energy management equipment and LED lighting.

Risks and Risk Management

The Company has put in place a risk management framework covering all aspects of the Company's business. Due to the nature of the Company (being an Investment Company) and the outsourcing of key services to the Investment Adviser and other service providers, reliance is placed on the Group's service providers own systems and controls.

The identification, assessment and management of risk are integral elements of the Investment Adviser's and the Operator's work in both management of the existing portfolio and in seeking new investment opportunities.

The Directors set out the material risks relating to the Group's portfolio and investing in the Company as at November 2010 in the Company's C Share Prospectus, which is available from the Company's website.

The Investment Adviser and the Operator have established internal controls to manage these risks, and also review and consider the Group's key risks on a quarterly basis. The Board reviews the key risks affecting the Company at each regular board meeting, by reference to a risk analysis matrix prepared by the Investment Adviser. If a new risk arises or the likelihood of a risk occurring increases, where appropriate, a mitigation strategy is developed and implemented, together with enhanced monitoring by the Investment Adviser.

The Board's Management Engagement Committee also reviews the performance of the Investment Adviser (as well as all key service providers) on at least an annual basis and this review includes a consideration of the Investment Adviser's internal controls and their effectiveness. In addition, the Investment Adviser's risk management team reviews compliance against the documented procedures and controls on an annual basis, and reports their finding to the Board.

Risk Assessment

Risk groups	Risk type
External	■ Economic factors ■ Legal – new laws and legislation ■ Tax and accounting – changes in practice and policies ■ Political – changes in policy, both in relation to procurement and the management of existing PFI/PPP/P3 projects ■ Regulatory – changes in polices and requirements
Strategic	■ Financial objectives – impacting on achieving targets ■ Share price discount/premium to NAV
Management	■ Group's reliance on service providers – underperformance, solvency and breach of regulations
Investment	■ Bidding – overpaying for assets ■ Acquisition – due diligence fails to unearth risks which impact performance ■ Equity risks associated with PFI/PPP/P3 projects ■ Performance – under-performance by service providers ■ Concentration – over-reliance on a client or service contractor
Financial & Treasury	■ Finance and liquidity – lack of financial resources ■ Counterparties – reliance on financial institutions ■ Currency – exchange rate exposure ■ Interest rates – both on debt funding and deposit accounts

External risks

The Group currently has a broad exposure to the PFI/PPP/P3 markets in the UK, the EU (currently the Netherlands), and Canada. The Group has investments, business activities, registered companies and limited partnerships in the UK, Luxemburg and Guernsey. These activities and entities can be affected by changes in economic factors, local legislation, taxation and regulatory frameworks.

The performance of the portfolio of 38 investments (as at 31 March 2011) is affected by a number of economic factors including inflation rates, interest rates, and foreign exchange rates. Most, if not all of the PFI/PPP/P3 projects mitigate to some extent against changes in inflation rates by seeking to match their indexation of contractual revenues to their indexation of contractual costs. This is not always achievable where costs are not indexed, an example being where bank debt interest rate exposure has been swapped into a fixed rate.

Most PFI/PPP/P3 concessions provide some or total protection, through their contractual structures, in relation to changes in legislation which affect either the project asset or the way the services are provided.

Changes in tax legislation and accounting practices can affect both the individual investments and can have an impact on the Group's corporate subsidiaries and corporate structure. Where possible, this will be mitigated, but there will be instances where this may not be possible and in these instances there could be an adverse impact on the financial performance of the Group.

The UK government is currently reviewing alternative procurement methods to PFI. It is not clear exactly what role the private sector will play in the future. However, with other countries developing their own PFI/PPP/P3 models and procuring new infrastructure, the number of projects globally continues to grow. The Group is not reliant on any particular procurement pipeline for its new investments.

There is a risk that an existing project might be voluntarily terminated. This risk is not considered to be high due, in part, to the requirement for the public sector client to meet termination costs and compensate fully the project participants for any resultant losses.

In the UK, the Government is seeking to find savings in public procurement and this remit extends to PFI projects already contracted. In January 2011, HM Treasury issued draft guidance to the public sector on how to manage PFI contracts to maximise value for money. In February, Romford Hospital, in which we invest, was chosen as a pilot scheme to examine more closely the opportunities for efficiency improvements. Both the Treasury and Public Accounts Select Committees are currently reviewing the role of PFI in public procurement.

Media attention around PFI has increased and, regrettably, this has led to some negative publicity. As a Company, we shall always try to correct misrepresentations and inaccuracies but it is not always possible to have our views or those of the industry adequately reported.

Each PFI/PPP/P3 project is built from a legal contract with a public sector client. There is a risk, albeit slight, that a political decision could be taken to seek to unilaterally change the terms of a contract. Although such a development would have wide ranging implications, if it were attempted and should succeed, the value of the Group's investment portfolio and its ability to meet target distributions would be affected.

Under Guernsey legislation, the Company is an Authorised Closed-Ended Investment Scheme and is supervised by the Guernsey Financial Services Commission. The Investment Adviser is authorised and regulated by the Financial Services Authority in the UK, in accordance with the Financial Services and Markets Act 2000. Both the Company and its advisers continually monitor any potential or actual changes to regulations to ensure both the Group and its service providers remain compliant.

Strategic Risks

The Company's strategy is to deliver a progressive distribution growth with the aim of achieving 7.0p per share by March 2013. At the same time, the aim is to maintain or grow the net asset value ('NAV') of the Company. Since the current portfolio consists of investments in concessions with finite lives, if no new acquisitions are made, there will come a point in the Company's evolution when it will become necessary to start repaying capital. This is shown diagrammatically in the chart on page 16.

The ability both to deliver growth in distributions to shareholders and to maintain and grow its NAV is dependent on a number of economic factors outside the Company's or the Investment Adviser's control. Whilst reasonable assumptions have been factored into business plans, significant external factors could materially affect the Company and impede its ability to deliver its financial objectives. Examples of such events include a prolonged period of deflation, a rise in corporation tax rates, and changes in tax legislation affecting the Group and its investments.

The Company publishes a NAV per share twice a year. The method of valuing the Group's investments is described in detail in the Investment Adviser's Report. To assist in managing the share price premium or discount to NAV, the Board has the powers to both buy back shares as well as issue additional shares under the Block Listing. There is no guarantee that these measures will keep the discount or premium to NAV small.

The Investment Adviser meets existing and potential new shareholders throughout the year to explain the Company, its investments, its performance, and the key risks. The Board believes these on-going meetings and briefings help educate the market and inform both existing and new potential shareholders.

Management Risks

The Group is heavily reliant on the Investment Adviser for the day-to-day management of the Group and to achieve the Group's objectives. The Investment Adviser is supported by other service providers to the Group. Failure by the Investment Adviser or a service provider could have a material impact on the Group. Equally a loss of key personnel from a service provider may have an impact on the performance of the Group.

The Management Engagement committee of the Board reviews the performance of each service provider on an annual basis and seeks to ensure that each service provider has adequate systems and controls in place in relation to the services they provide to the Group. Any performance issues are monitored carefully, and if the Board is not satisfied with the level of service delivery, the Board will seek to change service providers.

In relation to the Investment Adviser, the Board takes comfort from the fact that the Investment Adviser has a track record in managing infrastructure investments and has developed an appropriate and detailed set of policies, procedures, compliance systems, and risk controls. The Investment Adviser is subject to routine review and the Board is satisfied that there is sufficient depth of expertise within the Investment Adviser's infrastructure team that the Group is not reliant on any single individual.

As part of the process leading to the change of ownership of the Investment Adviser to senior management, the Board engaged on a number of occasions in the process to gain satisfaction that this change would not impact on the Investment Adviser's ability to provide services to the Group to the standards previously provided. Whilst the Board and the Investment Adviser believes this change of ownership will not affect the Company's performance, the Board continues to monitor and engage with the Investment Adviser to ensure the new ownership of the Investment Adviser does not impact on the quality and level of services received to date.

Investment Risks

Acquiring a new investment in an infrastructure project via a trade sale involves a certain level of risk. These are mitigated where possible by a structured process of thorough due diligence, the agreement of suitable protections where possible in the sale and purchase agreements with the vendor, and site visits to view and inspect the project's assets. However due diligence may fail to identify risks and the business plan assumptions in the acquisition model may not subsequently be achieved.

The Investment Adviser and Operator have internal processes and controls, developed from its experience of managing funds and investing in infrastructure, to minimise these risks through regular peer group review and internal approval processes. All investment decisions are made by an Investment Committee which has approved terms of reference to ensure only those staff with appropriate skill sets have been appointed, any conflicts should they arise are suitably managed, and an appropriate minimum quorum is achieved. Specialist advisers (such as lawyers, technical consultants, and tax advisers) are retained to carry out specific due diligence on potential acquisitions to minimise this risk.

Investments are normally acquired through competition and so it is important to analyse the investment and determine the appropriate value the Group is prepared to pay. The risk of over-paying is less than for infrastructure assets requiring revenue forecasts, since the majority of the revenue and cost streams in PFI/PPP/P3 projects and similar asset types are contractual and therefore fixed in real terms.

Whilst most construction and operational risks in a PFI/PPP/P3 project are laid off to sub-contractors through a well-established contractual framework, there are occasions when costs and/or risks are retained within the SPV. These include a number of routine running cost items and are also likely to include:

- Insurance premiums: If insurance premiums are not subject to pass down to a service provider, any increases are for the account of the project. To provide some protection against substantial increases the majority of the projects have negotiated premium risk sharing agreements with the public sector authority where when an agreed cap is met the increased premium is mostly or wholly taken by the authority.

- Life cycle (also called Asset Renewal or Major Maintenance): Lifecycle is the budget to replace parts of the project's assets which are outside the routine maintenance contract. Examples in a building will include floor finishes (e.g. carpets), doors, windows, ceilings and mechanical and electrical equipment. In some cases this risk and the budget for replacement are passed down to the maintenance contractor, and in the remaining projects, it sits with the project company. There is a risk that the budget is inadequate or expenditure needs to be carried out earlier than forecast. For the current portfolio, the Group has assessed the risk and considers that the lifecycle provisions are reasonable and adequate.

Once acquired, investments need to perform in line with their business plans. Underperformance can be caused by a number of factors, the most likely of which is the underperformance of a service delivery partner. The Investment Adviser plays an active role in the management of the Group's investments to ensure any trends in performance are picked up and if necessary, corrected accordingly. In a severe case, the project can terminate a sub-contractor who fails to perform and either self-manage the services or tender for a new service provider. The cost of this action would, where possible, be recovered from the previous supplier.

A key risk within a PFI project is the various counterparty exposures: the client, the sub-contractors, and the providers of finance and financial services. The Group is careful to manage its concentration exposures to any one party carefully. Whilst the Group is currently predominantly UK PFI/PPP investments, the Group has started to diversify sovereign risk by 2 Canadian investments in the year. Sub-contractor and financial counter-parties exposures are monitored and the Group seeks a balanced portfolio with no over-reliance on a single party.

Financial and Treasury

The Group's investments and the Group itself require debt finance to achieve its business objectives. All of the Groups' PFI/PPP/P3 investments have long-term funding in place and do not need refinancing to meet their financial plans. The Group has a 5 year committed £200m revolving debt facility which expires in December 2012. There is a risk that it will not be possible to renew this facility on acceptable terms, and if this proves to be the case, the Group will need to either have raised further equity or will need to dispose of selected investments to enable it to meet its repayment obligations, to the extent, if at all, that the facility is drawn.

The group and its PFI/PPP/P3 investments have a number of financial counterparties providing a range of facilities including debt funding, hedges, monoline insurance wrapping, bank deposit facilities, and insurance. Failure of a financial party could have a material effect on the Group depending on the nature of the service being provided. The greatest risk is with the deposit banks where the Group and its investments have cash on short and medium term deposits. The Investment Adviser monitors this exposure across the portfolio to make sure no over-reliance on any single institution and that all counterparties have reasonable credit ratings.

The Group has limited foreign currency exposure at present, with one investment in euros and two in Canadian dollars. This is likely to continue to change in the future as further non-UK investments are acquired. To date the Group has balance-sheet hedged the value of its overseas investment and will, if deemed appropriate hedge prospective income on a short-term basis.

The Group is exposed to interest rate fluctuations, both on its borrowing and cash deposits. The PFI/PPP/P3 projects have hedges in place on the majority of their borrowings to minimise interest volatility. Similarly the Group's corporate borrowings are partially hedged. It is possible to some extent to mitigate rate fluctuations on the cash deposits by selecting the deposit period. However in the current low interest rate economy, the PFI/PPP/P3 projects are not earning as much from their cash deposits as they were three years ago. This has impacted the valuation of the portfolio, since it is an inherent risk where options to mitigate are limited.

Board of Directors

The Directors, all of whom are non-executive and independent of the Investment Adviser, are listed below.

Mr Graham Picken (62) – Chairman

Appointed to the Board 12 January 2006

Graham Picken is an experienced banker and financial practitioner and has been Chairman of the Company since its launch. Formerly, a non executive director of the Derbyshire Building Society, he was appointed Chief Executive of the Derbyshire in February 2008 and led the society to a merger with Nationwide Building Society in December 2008, standing down at the end of March 2009 to take on a short-term advisory role with the Bank of England. Until 2003, Graham's career spanned over thirty years with Midland and HSBC Banks where, before he retired, he was General Manager of HSBC Bank plc responsible for commercial and corporate banking (including specialised and equity finance). Before that Graham was Chief Executive of Forward Trust Group, an authorised bank, and Chairman of First Direct, a division of HSBC Bank plc. Graham has also been a non-executive director of HM Customs & Excise. He is a resident of the UK.

Graham has no other listed company directorships

Mrs Sarah Evans (56)

Appointed to the Board 9 June 2008

Sarah Evans is a Chartered Accountant and is a director of several other listed investment funds, as well as an unlisted fund of hedge funds. She is a member of the Institute of Directors.

Sarah spent over six years with the Barclays Bank PLC group from 1994 to 2001. During that time she was a treasury director and from 1996 to 1998 she was Finance Director of Barclays Mercantile, where she was responsible for all aspects of financial control and operational risk management. Prior to joining Barclays Sarah ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 Sarah was with Kleinwort Benson, latterly as head of group finance. She is resident in Guernsey.

Other public company directorships (listed in London)*:
Crystal Amber Fund Limited (listed on AIM)
CQS Diversified Fund Limited
Harbourvest Senior Loans Europe Limited
Japanese Leisure Hotels Limited (listed on AIM)

Mr Henri Grisius (67)

Appointed to the Board 12 January 2006, Henri retired as a director of the Company on 1 June 2010.

Henri lives in Luxembourg and is the founder and managing partner of RSM Henri Grisius & Associés Sàrl, and is a director of a number of international investment companies. He is a former partner of Ernst & Young and BDO in Luxembourg. Before that he set up the investment funds department of Banque de Luxembourg in Luxembourg. He started his career with the Luxembourg Stock Exchange in 1969.

Henri has no other public company directorships

** Certain of the Directors maintain additional directorships that are also listed but not actively traded on various exchanges. Details may be obtained from the Corporate Secretary.*

Standing: John Hallam (left) and Chris Russell (right).
Seated: Sarah Evans (left) and Graham Picken (right).

Mr John Hallam (62)

Appointed to the Board 12 January 2006

John lives in Guernsey, is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PricewaterhouseCoopers having retired in 1999 after 27 years with the firm both in Guernsey and in other countries. He is currently Chairman of Cazenove Absolute Equity Ltd, Dexion Absolute Ltd and Partners Group Global Opportunities Ltd as well as being a director of a number of other financial services companies. He served for many years as a member of the Guernsey Financial Services Commission from which he retired in 2006, having been its Chairman for the previous three years.

Other public company directorships
(listed in London unless noted otherwise)*:
BH Global Limited (listed on London, Bermuda and Dubai)
Cazenove Absolute Equity Limited
Dexion Absolute Limited
NB Distressed Debt (listed on SFM London)
NB Private Equity Partners Limited (listed on SFM London and Amsterdam)
Partners Group Global Opportunities Limited (listed on Ireland)
Vision Opportunity China Fund Limited (listed on AIM)

Mr Chris Russell (62)

Appointed to the Board on 1 June 2010

Chris is a Guernsey resident non-executive director of investment and financial companies in the US, UK, Hong Kong and Guernsey. He is also Deputy Chairman of the UK trade body, the Association of Investment Companies. Chris was formerly a director of Gartmore Investment Management Plc, where he was Head of Gartmore's businesses in the US and Japan and before that was a holding board director of the Jardine Fleming Group in Asia. He is a Fellow of the UK Society of Investment Professionals and a Fellow of the Institute of Chartered Accountants in England & Wales.

Other public company directorships
(listed in London unless noted otherwise)*:
JP Morgan Japan Smaller Companies Trust plc
F&C Commercial Property Trust Ltd
Korea Fund Inc (listed in New York)

Report of the Directors

The Directors present their report and accounts of the Group for the year to 31 March 2011.

Principal Activity

The Company is an Authorised Closed-Ended Guernsey incorporated investment company. Its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange.

A review of the business during the year is contained in the Chairman's Statement and the Investment Adviser's Report.

Results and Distributions

The results for the year are set out in the attached accounts. The Company has declared two interim dividends, relating to the year ended 31 March 2011 as follows:

- 3.275p declared on 11 November 2010, to shareholders on the register as at 19 November 2010, paid on 31 December 2010; and
- 3.425p declared on 19 May 2011, to shareholders on the register as at 27 May 2011, to be paid at the end of June.

At the Annual General Meeting on 26 July 2010 shareholders renewed their approval to the Board, at its discretion, to offer a scrip dividend alternative. This alternative was offered to shareholders for both of the interim dividends declared for the year ending 31 March 2011.

Guernsey Regulatory Environment

The Company is an Authorised Closed-Ended Investment Scheme and is subject to certain ongoing obligations to the Guernsey Financial Services Commission.

Share Issue

At 31 March 2010, there were 454,301,314 Ordinary Shares and 2 Management Shares in issue. The Management Shares carry one vote each on a poll, do not carry any right to dividends and, in winding-up, rank only for a return of the amount of the paid-up capital on such shares after return of capital on Ordinary Shares and Nominal Shares. The Management Shares are not redeemable and are accrued for and on behalf of a Guernsey charitable trust.

At 31 March 2010, the Company had 23,523,608 shares not yet issued under a block-listing application made on 23 September 2009. These shares were subsequently issued for cash:

Date	New Ordinary Shares
21 June 2010	2,629,734
2 July 2010	20,893,874

On 5 July 2010, the Company made a block listing application for 30,000,000 Ordinary Shares.

Under this block-listing the Company issued the following new Ordinary Shares of 0.01p each in the Company for cash:

Date	New Ordinary Shares
5 July 2010	6,526,338
13 July 2010	3,000,000
2 August 2010	4,000,000
17 August 2010	4,616,000

As a result of the scrip dividend alternative announced on 20 May 2010 the Company issued 354,717 new Ordinary Shares of 0.01p each in the Company in lieu of the 3.35p dividend to those shareholders who had elected to receive the same.

As a result of the scrip dividend alternative announced on 11 November 2010 the Company issued 1,467,477 new Ordinary Shares of 0.01p each in the Company in lieu of the 3.275p dividend to those shareholders who had elected to receive the same.

On 15 December 2010, the Company issued 110,000,000 C Shares of 0.01p as a result of the Company's C Share capital raising.

On 17 January 2011, as a result of the conversion of the C Shares, the Company issued 97,350,000 new Ordinary Shares of 0.01p in exchange for 110,000,000 C Shares.

At 31 March 2011, there were 595,139,454 Ordinary Shares and 2 Management Shares in issue.

Directors

The Directors who held office during the year to 31 March 2011 were:

G Picken
S Evans
H Grisius
J Hallam
C Russell

As previously announced Mr Grisius retired from the Board on 1 June 2010, and Mr Russell was appointed as a director of the Company from 1 June 2010.

Mr G Picken, Mrs S Evans and Mr H Grisius were during the year Directors of HICL Infrastructure 1 Sàrl and HICL Infrastructure 2 Sàrl, wholly owned subsidiary undertakings of the Company.

Biographical details of each of the Directors are shown on page 34.

During the year the Directors were paid the following emoluments in the form of fees:

Director	Total Fees
G Picken*	£48,000
S Evans*	£34,500
H Grisius	£3,750
J Hallam*	£38,000
C Russell*	£30,750

**The fees above include an additional £10,000 per director in respect of the additional work in relation to the C share issue in November 2010, and an additional £10,000 in aggregate relating to the additional work associated with considering the change of ownership of the Investment Adviser.*

Following a review by the Remuneration Committee who retained the services of an independent fee consultant, Trust Associates, the Board is proposing to increase the fees for directors for the year to 31 March 2012 to £37,500 for the Chairman, £29,000 for Mr Hallam, and £25,000 each for Mrs Evans and Mr Russell. In addition, a director (currently Mrs Evans) who is also a director of the two Luxemburg subsidiaries, will be entitled to an additional £5,000 p.a. for work in connection with those companies. As in previous years, should the Company require directors to work on specific corporate actions such as a further C share raising, an additional appropriate fee will be determined. All fees paid to directors in the year need to fall within the fee cap, currently £200,000 p.a.

The Board has decided to seek approval for these increases in directors' proposed fees at the AGM in July 2011.

Investment Adviser and Operator

InfraRed Capital Partners Limited (the "Investment Adviser" or "IRCP") is authorised and regulated by the Financial Services Authority. IRCP acts as Investment Adviser to the Company and acts as Operator of the limited partnership which holds and manages the Group's investments. A summary of the contract between the Company, its group companies, and IRCP in respect of services provided is set out in Note 24 to the accounts.

IRCP was formerly called HSBC Specialist Fund Management Limited and was an indirect subsidiary of HSBC Holdings plc until the completion in April 2011 of the management buy-out by senior management. The HSBC Group retains a 19.9% indirect interest in IRCP.

It is the Directors' opinion, based on performance in the year that the continuing appointment of IRCP on the agreed terms is in the best interests of the shareholders as a whole.

Brokers, Administrator & Company Secretary

During the year, the joint brokers to the Company were Collins Stewart Europe Limited and Oriel Securities Limited.

The Company's Administrator and Company Secretary during the year was Dexion Capital (Guernsey) Limited.

Substantial Interests in Share Capital

As at 20 May 2011, the Company has received notification in accordance with the FSA's Disclosure and Transparency Rule 5 of the following interests in 3% or more of the Company's 595,139,454 Ordinary Shares to which voting rights are attached.

	Number of Ordinary Shares Held	Percentage Held
Rensburg Sheppards Investment Management Limited	53,713,210	9.03%
Brewin Dolphin Limited	48,287,729	8.11%
BT Pension Scheme Trustees Limited	29,795,360	5.01%
Schroders plc	24,368,554	4.09%
Legal & General Group Plc	18,278,725	3.07%

Directors' Interests

The Directors of the Company on 31 March 2011, and their interests in the Ordinary Shares of the Company, are shown in the table below.

	31 March 2011	31 March 2010
Graham Picken	69,673	44,910
Sarah Evans*	223,230	134,730
Henri Grisius	n/a	44,910
John Hallam	69,673	44,910
Chris Russell**	47,091	n/a

** of which 178,320 were held by her spouse*
*** of which 6,051 were held by his family*

All of the holdings of the Directors and their families are beneficial. No changes to these holdings had been notified up to the date of this report.

Donations

The Company made no political or charitable donations during the year.

Payment of Suppliers

It is the policy of the Company 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. The Company has no trade creditors.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Adviser's Report on pages 11 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Results on pages 18 to 21. In addition, notes 1 to 4 and 21 to 22 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Share Repurchases

No shares have been bought back in the year. The latest authority to purchase ordinary shares for cancellation was granted to the Directors on 26 July 2010 and expires on the date of the next Annual General Meeting. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming Annual General Meeting.

Treasury Shares

Section 315 of the Companies (Guernsey) Law, 2008 allows companies to hold shares acquired by market purchase as treasury shares, rather than having to cancel them. Up to 10% of the issued shares may be held in treasury and may be subsequently cancelled or sold for cash in the market. This would give the Company the ability to reissue shares quickly and cost efficiently, thereby improving liquidity and providing the Company with additional flexibility in the management of its capital base.

The Board currently intends only to authorise the sale of shares from treasury at prices at or above the prevailing net asset value per share (plus costs of the relevant sale). This should result in a positive overall effect on shareholders if shares are bought back at a discount and then sold at price at or above the net asset value per share (plus costs of the relevant sale).

In the interests of all shareholders, the Board will keep the matter of treasury shares under review.

Statement of Directors' Responsibilities

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

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Company (Guernsey) Law, 2008. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including a Business Review) and Corporate Governance Statement that comply with that law and those regulations.

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 the Company and Group included in the consolidation as a whole; and
- the Chairman's Statement and Report of the Directors include a fair review of the development and performance of the business and the position of the Company and Group included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that it faces.

Disclosure of Information to the Auditors

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 the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Channel Islands Limited have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the Board
Authorised signatory
Dexion Capital (Guernsey) Ltd
Company Secretary
23 May 2011

Registered Office:
1 Le Truchot
Guernsey
St Peter Port
Channel Islands GY1 1WD

Corporate Governance

Introduction

The Board recognises the importance of a strong corporate governance culture that meets the listing requirements. 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 as is reasonably possible. It should be noted that as an Investment Company, most of the Company's day to day responsibilities are delegated to third parties, the Company has no employees and the Directors are non-executive.

AIC

The Company is a member of the Association of Investment Companies (the "AIC") and has carefully considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and has decided to follow the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code and AIC Guide were updated in October 2010 to take into account the newly issued UK Corporate Governance Code.

On 30 September 2010, the Financial Reporting Council provided the AIC with an updated endorsement letter to cover the fifth edition of the AIC Code. The endorsement confirms that the AIC Code fully meets, for investment company boards, their obligations in relation to the UK Corporate Governance Code and paragraph LR9.8.6 of the Listing Rules.

Guernsey Regulatory Environment

During 2009 there were a number of changes to the regulatory regime for Guernsey funds. A number of provisions which were contained in the Control of Borrowing (Bailiwick of Guernsey) Ordinance, 1959 to 2003 ("COBO") (which governed closed-ended funds) were consolidated into the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended (the "POI Law") (which governed open-ended funds and licensees) so that the POI Law now governs both open-ended and closed-ended funds (as well as licensees).

Closed-ended funds are now Category 1 controlled investments under the POI Law. The changes have also codified in the POI Law a number of standard conditions and ongoing notification requirements imposed on the licensees of funds which were listed on the fund's COBO consent, but were not explicitly set out in COBO. It is intended that the changes will simplify Guernsey's investment fund regime by categorising all funds (whether open-ended or closed-ended) as either registered schemes or authorised schemes.

The Directors have determined that the Company will continue as an Authorised Closed-Ended Investment Scheme.

The Board

Disclosure under Principle 5 of the AIC Code

The Board currently consists of four non-executive Directors. In accordance with Principle 2 of the AIC Code all of the non-executives are independent of the Investment Adviser.

The Chairman, Mr Picken, met the independence criteria of the AIC Code Principle 1 upon appointment and has continued to meet this condition throughout his term of service. Although not a requirement of the AIC Code, in accordance with guidance in Principle 1, the Board has a Senior Independent Director. Mr Hallam was appointed as Senior Independent Director on 11 February 2010. Being non-executive Directors, no Director has a service contract with the Company.

The Articles of Incorporation currently provide that at least one third of the Directors retire by rotation at each annual general meeting. If their number is not three or a multiple of three, the number nearest to but not exceeding one third, shall retire from office. In accordance with Principle 3 of the AIC Code, all four Directors intend to retire and offer themselves up for re-election at the forthcoming AGM in July and in order to facilitate this, a small amendment to the Articles will also be tabled.

The Board believes that long serving Directors should not be automatically prevented from forming part of an independent majority of the Board upon reaching nine years' service. In accordance with Principle 4 of the Code, if a Director has served more than nine years, the Board will consider the issue of independence carefully on an annual basis as part of the Board self-evaluation and will disclose its conclusions in the Directors' Reports.

As the Company was formed in 2006 no Director has yet served for nine years or more. A Director who retires at an annual general meeting may, if willing to act, be reappointed. The Directors are not subject to automatic re-appointment.

The Board believes that the balance of skills, experience, knowledge of the Group's investments and mixed length of service on the Board provides for a solid base in which the interest of investors will be served to a high standard. The Board recommends the re-election of each Director and supporting biographies, including length of service, are disclosed on page 34 of this annual report, together with a list of other public company directorships for each Director.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Investment Adviser, the Secretary and the Company's Joint Brokers. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company that should be brought to the attention of the Directors. The Directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The attendance record of Directors for the year to 31 March 2011 is set out below:

	Quarterly board meetings	Audit Committee	Management Engagement Committee	Remuneration Committee	Nomination Committee
	4	4	2	2	1
Meetings Attended:					
G Picken	4	n/a	2	2	1
J Hallam	4	4	2	2	1
H Grisius	1	1	n/a	n/a	n/a
S Evans	4	4	2	2	1
C Russell	2	2	1	1	1

During the year a further 11 ad-hoc Board/Committee meetings were held to deal with matters substantially of an administrative nature and these were attended by those directors available at the time. These included meetings to discuss the proposed change of ownership of the Investment Adviser.

As previously mentioned, the Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointment to the Board an induction process is tailored to ensure that it would be appropriate for the appointee. Upon any such appointment the new Director would be available to meet Shareholders upon request.

The Board considers agenda items laid out in the notice and agenda of meeting which are formally circulated to the Board in advance of the meeting as part of the Board papers. Directors may request any agenda items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The Board constantly considers the Company's strategy with regard to market conditions and feedback from shareholders. The investment strategy, which is set out in the Company's latest prospectus, is reviewed regularly with the Investment Adviser.

The primary focus at Board meetings is a review of investment performance and associated matters such as marketing/investor relations, risk management, gearing, general administration and compliance, peer group information and industry issues.

Performance Evaluation

The Board evaluates its performance and considers the tenure and independence of each Director on an annual basis, and believes that the mix of skills, experience and length of service are appropriate to the requirements of the Company. The annual evaluation for the year ended 31 March 2011 has been completed and took the form of questionnaires followed by discussions to identify how the effectiveness of its activities, including its Committees, policies or processes might be improved. The results of the evaluation process were presented to and discussed by the Board and it was agreed that the current composition of the Board and its Committees reflected a suitable mix of skills and experience, and that the Board, as a whole, and its Committees were functioning effectively.

For the evaluation of the Chairman, the Senior Independent Director discussed the results of the questionnaire with the Chairman prior to further distribution to the remaining Directors.

For the year to 31 March 2012, the Directors are currently proposing engaging an independent third party to carry out this evaluation in accordance with Principle 7 of the AIC Code.

Delegation of Responsibilities

The Board has delegated the following areas of responsibility.

The day-to-day administration of the Company has been delegated to Dexion Capital (Guernsey) Ltd in its capacity as Company Secretary and Administrator.

The Investment Adviser has two roles, Adviser to the Company and Operator of the Group's limited partnership which owns the Group's underlying investments.

The role as Adviser includes preparing the semi annual valuations, the statutory accounts, the management accounts, business plans, presenting results and information to shareholders, coordinating all service providers to the Group and giving the Board general advice and feedback.

The role of Operator includes running the partnership and taking direct responsibility for the decisions relating to the day to day running of the Group's investment portfolio, the Group's debt facilities, swap arrangements, and the sourcing of new investments. Members of the Investment Adviser's asset management team are appointed as directors of the Group's project companies and as part of their role in actively managing the portfolio, they attend board meetings and make appropriate decisions. Material decisions are referred back to the Investment Adviser's investment committee for consideration and determination.

Committees of the Board

The committees of the Board are the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Management Engagement Committee. Terms of reference for each committee have been approved by the Board.

The Chairman and members of each committee as at 31 March 2011 are as follows:

	Audit Committee	Remuneration Committee	Nomination Committee	Management Engagement Committee
Chairman	Mr J Hallam	Mr C Russell	Mr G Picken	Mrs S Evans
Members	Mrs S Evans	Mr J Hallam	Mrs S Evans	Mr J Hallam
	Mr C Russell	Mr G Picken	Mr J Hallam	Mr G Picken
		Mrs S Evans	Mr C Russell	Mr C Russell

Audit Committee

The Audit Committee has been in operation throughout the year. The Audit Committee, chaired by Mr J Hallam, operates within clearly defined terms of reference and comprises all the Directors except for Mr G Picken. It met four times in the year to 31 March 2011.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual and Interim Accounts, the system of internal controls, and the terms of appointment of the auditors together with their remuneration. It is also the formal forum through which the auditors report to the Board of Directors and meets at least twice yearly. The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors are appointed to perform non-audit services and the fees paid to them or their affiliated firms overseas.

The main duties of the Audit Committee are:

- considering and recommending to the Board for approval the contents of the half yearly and annual financial statements and reviewing the external auditors' report thereon;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditors;
- reviewing and recommending to the Board for approval the audit and non-audit fees payable to the external auditors and the terms of their engagement;
- reviewing and approving the external auditors' plan for the following financial year;
- reviewing the appropriateness of the Company's accounting policies; and
- ensuring the adequacy of the internal control systems and standards.

The external auditors and the third party expert valuers are invited to attend the Audit Committee meetings at which the annual and interim accounts are considered and at which they have the opportunity to meet with the Committee without representatives of the Investment Adviser being present.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees. Total fees paid amounted to £0.5m for the year ended 31 March 2011 of which £0.1m related to the audit of the Group, £0.2m related to audit of the Group's project subsidiaries and other audit related services, and £0.2m was in respect of audit and tax advisory work for project companies in which the Group has an investment.

Notwithstanding such services the Audit Committee considers KPMG Channel Islands Limited to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

Nomination Committee

The main terms of reference of the committee are:

- regularly review the structure, size and composition required of the Board and make recommendations to the Board with regard to any changes (including skills, knowledge and experience in accordance with Principle 6 of the AIC Code);
- give full consideration to succession planning for directors taking into account the challenges and opportunities facing the Company; and
- be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Nomination Committee has met once in the year to 31 March 2011 and has recommended to the Board that the current composition of the Board remains appropriate. The Committee has succession planning on its agenda and has commenced discussions over the need, in due course, to recommend further appointments with succession planning in mind.

Remuneration Committee

The terms of reference of the Committee are to determine and agree the Board policy for the remuneration of the directors of the Company, including the approval of any ad-hoc payments in respect of additional corporate work required (e.g. for the work involved with the C share issue).

Remuneration Policy

The Remuneration Committee has received independent professional advice in respect of their roles, responsibilities and fees.

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

- No service contracts with the Company;
- No long-term incentive schemes; and
- No options or similar performance incentives.

The Directors' remuneration shall:

- reflect the responsibility, experience, time commitment and position on the Board;
- allow the Chairman and Chairman of the Audit Committee to be remunerated in excess of the remaining board members to reflect their increased roles of responsibility and accountability;
- be paid quarterly in arrears;
- include remuneration for additional, specific corporate work which shall be carefully considered and only become due and payable on completion of that work; and
- will be reviewed by an independent professional consultant with experience of Investment Companies and their fee structures, at least every three years.

The Remuneration Committee met twice in the period to 31 March 2011 and engaged independent fee consultants, Trust Associates, to carry out a review of the workload and responsibilities of each Director and to benchmark these roles with other similar comparatives and advise on what fee levels are appropriate.

This work concluded in April 2010 with a report from Trust Associates, with fee recommendations for the years ending 31 March 2011 and 31 March 2012. The Committee recommended the Trust Associates proposals for the year to 31 March 2011 and this was approved by the Board, and adopted for the year to 31 March 2011.

The Committee has recommended that the fees are increased for the coming year again in line with the Trust Associates recommendation and the Board has approved this increase in annual fees payable as set out in the Directors' Report for the year to 31 March 2012. The Board has decided to seek shareholder approval on these fees at the AGM on 25 July 2011.

Management Engagement Committee

The terms of reference of this committee are to review the relationships between the Company and its main service providers, including their performance, compliance with their contracts, and levels of fees paid. Recommendations from the Committee's review are given to the Board for consideration and action.

The Management Engagement Committee met twice in the period to 31 March 2011, and reviewed the performance of the key service providers to the Group and the Company. No material weaknesses were identified, some recommendations were conveyed to certain providers, and the recommendation to the Board was that the current arrangements are appropriate and provide good quality services and advice to the Company and the Group.

At these meetings and in the subsequent Board meetings, the likely impacts arising from the change of ownership of the Investment Adviser were considered and advice sought. Reassurance was sought from the Investment Adviser that it had the appropriate procedures, polices controls, and corporate governance in place, and where it had historically relied on services provided by the HSBC Group, suitable alternatives would be provided.

As a result of these deliberations certain changes in favour of the Company were agreed, the continuing appointment of the Investment Adviser was found to be in the best interests of the shareholders as a whole, and the Investment Adviser's agreement was amended and signed in March 2011.

All Terms of Reference for Committees are available from the Company Secretary upon request.

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness, and the Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

The process is based on a risk-based approach to internal control through a matrix which identifies the key functions carried out by the Investment Adviser and other key service providers, the various activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and the action which has been, or is being taken.

By their nature these procedures will provide a reasonable, but not absolute, assurance against material misstatement or loss.

At each Board meeting the Board also monitors the Group's investment performance in comparison to its stated objective and it reviews the Group's activities since the last Board meeting to ensure that the Investment Adviser and the Operator adhere to the agreed investment policy and approved investment guidelines.

Further, at each Board meeting, the Board receives reports from the Company Secretary and Administrator in respect of compliance matters and duties performed by them on behalf of the Company.

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

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 relies on the operating controls established by both the Company Administrator and the Investment Adviser.

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

The Board and the Investment Adviser have agreed clearly defined investment criteria, return targets, risk appetite, and exposure limits. Reports on these issues, including operating performance, cash projections, and investment valuations, are submitted to the Board at each quarterly meeting.

Relations with Shareholders – AIC Code Principle 19

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Investment Adviser produces a quarterly factsheet which is available on the Company's website. Senior members of the Investment Adviser make themselves available at all reasonable times to meet with principal shareholders and key sector analysts.

Feedback from these meetings is provided to the Board on a regular basis. The Board is also kept fully informed of all relevant market commentary on the Company by the Investment Adviser, the Company's Joint Brokers, and the Company's Financial PR agency.

By way of assisting shareholders to understand our portfolio of investments, we have held successful site visits to two of the Group's investments. The presentations from these visits are available from the Company's website www.hicl.com

In addition, members of the Board met some shareholders at an evening event held in London in September and a lunch in Edinburgh in October, arranged by the Brokers. It is the Board's intention to continue to meet with shareholders periodically to facilitate open two way communication on the development of the Company.

The Company reports formally to Shareholders twice a year and a proxy voting card for the AGM is sent to shareholders with the Annual Report and accounts. Results of Extraordinary and Annual General Meetings are announced by the Company on the day of the relevant meeting. Additionally, the Interim Management Statements and the current information provided to eligible Shareholders on an on-going basis through the Company's website page and newsletter assist in keeping Shareholders informed. The Secretary and Registrar monitor the voting of the Shareholders and proxy voting is taken into consideration when votes are cast at the Annual General Meeting.

Shareholders may contact the Directors via the Company Secretary, whose contact details are found on page 92 of the report and accounts.

Corporate Social Responsibility

The business of the Company is to make investments in infrastructure assets, to hold these investments and to manage the portfolio of investments to achieve an acceptable return for shareholders. In managing the Company and the Group, the Directors have ensured that procedures and policies have been put in place by the Group and its service providers to manage the Group effectively and minimise risk.

As part of good practice and to mitigate risk, the Board has in place a set of Environmental, Social and Governance policies appropriate for a company investing in infrastructure assets, which conform to current good practice in relation to corporate responsibility.

The Company's Environmental, Social and Governance ("ESG") policies cover:

- how the Company interacts with stakeholders, including shareholders;
- what ESG considerations need to be made before a new investment is acquired; and
- how the current portfolio is managed by the Investment Adviser to promote and achieve good ESG practices.

Annual Review

The Board has reviewed its performance and the performance of its service providers in the last 12 months and can confirm compliance with its stated ESG policies, details of which are given below. The Directors have considered whether these ESG policies need updating when compared to good industry practice as applicable to an infrastructure Investment Company and believe them to be current and appropriate.

Governance

The Board remains committed to the highest standards of corporate governance and keeps the Company's practices under review with respect to current best practice. Further details of how the Company complies are set out in the Corporate Governance report.

The Board wishes to be at the forefront of disclosure and reporting of the Company's performance and strategic intentions. The Board believe this is achieved by the detailed information provided as follows:

- Annual reports
- Interim statement and accounts
- Detailed presentations to accompany the results
- Two Interim Management Statements a year
- Announcements of all material acquisitions
- Lunches and meetings with shareholders, the Directors and the Investment Adviser

The Company's new website (www.hicl.com) has further background detail on each investment, copies of all publications, together with all prospectuses since launch.

Disclosure of key sensitivities and risks has been developed by the Board working with the Investment Adviser and through dialogue with shareholders, the level and type of disclosure is developed and refined in order to assist in a full and fair analysis of the Company and its investments.

Managing the Portfolio

Day-to-day management of the Group's portfolio is undertaken by the Investment Adviser in its capacity as Operator of the Partnership.

Environmental

All of the Group's investments are in project companies who provide services to their clients and who subcontract the provision of these services to specialist facilities management companies.

On a routine basis, the Investment Adviser undertakes a review to ensure that each key contractor (or their group) has appropriate environmental policies in place and that these are being adhered to in delivery of the services to the project and that further, there have been no material breaches of their policies. During the year these reviews have found no issues of concern.

The Investment Adviser's asset managers continue to take a pro-active approach to work with both clients and key stakeholders to introduce new environmental initiatives in each project company where appropriate.

Social and Ethical

The approach to social and ethical practices is similar to that for environmental in that each key contractor's policies will be reviewed and their ongoing compliance to their stated policies reviewed on a regular basis. In addition, the Investment Adviser's team will ensure that the project companies in which the Group has investments are run appropriately in relation to the Group's social and ethical policies.

Health and Safety performance of each investment is monitored and during the year a number of Health and Safety audits were carried out by a Health and Safety consultant to ensure procedures and policies were in place and being adhered to. Information on Health and Safety is reported to the Board on a quarterly basis.

Governance

Apart from the single investment in a debt instrument of a water company (repaid in April 2011), for all the other investments in the portfolio, the Group is entitled to appoint at least one director and members of the Investment Adviser's team have been appointed. Board meetings are not quorate without the Group's nominated director being present and this is part of the Investment Adviser's active management of the underlying investments. All directors' fees paid by the projects are for the benefit of the Group, and not the Investment Adviser.

All the project companies have detailed governance structures including those matters which are reserved to shareholders to determine, those items which directors determine and the routine day-to-day matters that are delegated to the project's general manager and his or her team.

Making New Investments

The Investment Adviser has a detailed set of procedures and approval processes in relation to the making of new investments. These include appropriate ESG checks as part of the due diligence processes.

Environmental

As part of the detailed due diligence carried out by the Investment Adviser and the advisers, the history of the investment in relation to the Company's environmental policies will be assessed. Key contractors and service providers are analysed to check they have appropriate policies in place and that there have been no breaches.

Where it is not possible to get comfortable with either a key contractor's environmental record or the project's environmental performance to date, the investment will not be made. There were no circumstances in the year where this was the case.

Social and Ethical

The approach to social and ethical practices is similar to that for environmental in that each key contractor's policies will be reviewed as part of the due diligence process. The trading history of the investment will also be reviewed to ensure compliance with the Group's social and ethical policies.

All acquisitions made during the year were subject to these reviews and checks and no material matters were identified.

Governance

In seeking new investments, the Investment Adviser normally seeks a minimum board representation on the underlying investment company, with appropriate voting rights and reserved matters to ensure it will be possible to manage the investment and achieve the projected returns. It is unlikely that a new investment will be made where this level of control and influence is not achievable.

Independent Auditor's Report to the Members of HICL Infrastructure Company Limited

We have audited the Group and Company financial statements (the "financial statements") of HICL Infrastructure Company Limited for the year ended 31 March 2011 which comprise the Consolidated and Company Income Statements, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. 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.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 March 2011 and of the Group's and Company's profit for the year then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

We have nothing to report with respect to the following:

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Steven D. Stormonth
For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
20 New Street
St Peter Port
Guernsey
GY1 4AN

23 May 2011

Consolidated Income Statement

for the year ended 31 March 2011

	Note	Year ended 31 March 2011 Revenue £million	Capital £million	Total £million	Year ended 31 March 2010 Revenue £million	Capital £million	Total £million
Services revenue	5	121.2	–	121.2	102.6	–	102.6
Gains/(loss) on finance receivables	17	40.6	6.6	47.2	35.5	(19.3)	16.2
Gains/(loss) on investments	6	26.1	9.7	35.8	21.6	(2.3)	19.3
Total income/(loss)		187.9	16.3	204.2	159.7	(21.6)	138.1
Services costs	7	(105.8)	–	(105.8)	(89.1)	–	(89.1)
Administrative expenses	8	(11.8)	–	(11.8)	(10.0)	–	(10.0)
Profit/(loss) before net finance costs and tax		70.3	16.3	86.6	60.6	(21.6)	39.0
Finance costs	9	(51.1)	–	(51.1)	(35.6)	–	(35.6)
Finance income	9	0.4	2.4	2.8	0.3	4.0	4.3
Profit/(loss) before tax		19.6	18.7	38.3	25.3	(17.6)	7.7
Income tax credit/(expense)	10a	10.3	(2.0)	8.3	(1.1)	4.3	3.2
Profit/(loss) for the year		29.9	16.7	46.6	24.2	(13.3)	10.9
Attributable to:							
Equity holders of the parent		25.3	19.9	45.2	24.6	(18.6)	6.0
Non-controlling interests		4.6	(3.2)	1.4	(0.4)	5.3	4.9
		29.9	16.7	46.6	24.2	(13.3)	10.9
Earnings per share – basic and diluted *(pence)*	11			9.0			1.6

Supplementary information has been provided analysing the income statement between those items of a revenue nature and those of a capital nature, in order to better reflect the Consolidated Group's activities as an investment company. See Note 2 (a) to the consolidated financial statements for the definition of revenue and capital items.

All results are derived from continuing operations. There is no other comprehensive income or expense apart from those disclosed above and consequently a consolidated statement of comprehensive income has not been prepared.

Consolidated Balance Sheet

as at 31 March 2011

	Note	31 March 2011 £million	31 March 2010 £million
Non-current assets			
Investments at fair value through profit or loss	*15*	396.3	307.4
Finance receivables at fair value through profit or loss	*17*	761.6	772.0
Intangible assets	*14*	162.0	170.6
Deferred tax assets	*10c*	34.3	36.7
Total non-current assets		1,354.2	1,286.7
Current assets			
Investments at fair value through profit or loss	*15*	29.7	–
Trade and other receivables	*18*	15.7	12.1
Finance receivables at fair value through profit or loss	*17*	17.5	16.6
Cash and cash equivalents	*19*	114.9	67.1
Total current assets		177.8	95.8
Total assets		1,532.0	1,382.5
Current liabilities			
Trade and other payables	*20*	(28.9)	(20.9)
Current tax payable		(0.8)	(0.8)
Loans and borrowings	*21*	(31.4)	(29.6)
Total current liabilities		(61.1)	(51.3)
Non-current liabilities			
Loans and borrowings	*21*	(616.3)	(630.5)
Other financial liabilities (fair value of derivatives)	*22*	(82.8)	(84.9)
Deferred tax liabilities	*10c*	(104.9)	(116.4)
Total non-current liabilities		(804.0)	(831.8)
Total liabilities		(865.1)	(883.1)
Net assets		666.9	499.4
Equity			
Ordinary share capital	*23*	–	–
Share premium	*23*	390.7	234.0
Retained reserves		266.3	252.6
Total equity attributable to equity holders of the parent		657.0	486.6
Non-controlling interests		9.9	12.8
Total equity		666.9	499.4
Net assets per share *(pence)*	*13*	110.4	107.1

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

The financial statements were approved and authorised for issue by the Board of Directors on 23 May 2011, and signed on its behalf by:

J Hallam
Director

G Picken
Director

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 March 2011

Year ended 31 March 2011

	Attributable to equity holders of the parent			Non-controlling interests	Total equity
	Share capital and share premium *£million*	Retained reserves *£million*	Total shareholders' equity *£million*	*£million*	*£million*
Shareholders' equity at beginning of year	234.0	252.6	486.6	12.8	499.4
Profit for the year	–	45.2	45.2	1.4	46.6
Distributions paid to Company shareholders	–	(31.5)	(31.5)	–	(31.5)
Distributions paid to non-controlling interests	–	–	–	(4.3)	(4.3)
Ordinary shares issued	159.0	–	159.0	–	159.0
Costs of share issue	(2.3)	–	(2.3)	–	(2.3)
Shareholders' equity at end of year	390.7	266.3	657.0	9.9	666.9

Year ended 31 March 2010

	Attributable to equity holders of the parent			Non-controlling interests	Total equity
	Share capital and share premium *£million*	Retained reserves *£million*	Total shareholders' equity *£million*	*£million*	*£million*
Shareholders' equity at beginning of year	106.5	269.6	376.1	4.1	380.2
Profit for the year	–	6.0	6.0	4.9	10.9
Acquisition of non-controlling interests with a change in control	–	–	–	5.2	5.2
Distributions paid to Company shareholders	–	(23.0)	(23.0)	–	(23.0)
Distributions paid to non-controlling interests	–	–	–	(1.4)	(1.4)
Ordinary shares issued	129.3	–	129.3	–	129.3
Costs of share issue	(1.8)	–	(1.8)	–	(1.8)
Shareholders' equity at end of year	234.0	252.6	486.6	12.8	499.4

Consolidated Cash Flow Statement

for the year ended 31 March 2011

	Year ended 31 March 2011 £million	Year ended 31 March 2010 £million
Cash flows from operating activities		
Profit before tax	38.3	7.7
Adjustments for:		
Gains on investments	(34.0)	(20.5)
Gains on finance receivables	(44.5)	(4.4)
Interest payable and similar charges	45.6	31.9
Changes in fair value of derivatives	(2.4)	(4.0)
Operator acquisition investment fees	1.5	0.7
Interest income	(0.4)	(0.3)
Amortisation of intangible assets	8.6	8.2
Operating cash flow before changes in working capital	12.7	19.3
Changes in working capital:		
Increase in receivables	(14.4)	(16.1)
Increase in payables	5.4	3.6
Cash flow from operations	3.7	6.8
Interest received on bank deposits and finance receivables	0.4	1.7
Cash received from finance receivables	58.8	41.4
Interest paid	(33.3)	(38.4)
Corporation tax paid	(0.9)	(0.7)
Interest received on investments	25.2	21.1
Dividends received	10.1	6.6
Fees and other operating income	1.5	1.3
Acquisition of subsidiaries net of cash acquired *(Note 16)*	–	7.0
Loanstock and equity repayments received	0.1	1.1
Net cash from operating activities	65.6	47.9
Cash flows from investing activities		
Purchases of investments	(115.1)	(52.5)
Net cash used in investing activities	(115.1)	(52.5)
Cash flows from financing activities		
Proceeds from issue of share capital	154.6	126.3
Proceeds from issue of loans and borrowings	77.1	66.6
Repayment of loans and borrowings	(104.5)	(153.0)
Distributions paid to Company shareholders	(29.4)	(21.9)
Distributions paid to non-controlling interests	(4.4)	(1.4)
Net cash from financing activities	93.4	16.6
Net increase in cash and cash equivalents	43.9	12.0
Cash and cash equivalents at beginning of year	67.1	54.2
Exchange gains on cash	3.9	0.9
Cash and cash equivalents at end of year	114.9	67.1

1. Reporting Entity

HICL Infrastructure Company Limited (the "Company") is a company domiciled in Guernsey, Channel Islands, whose shares are publicly traded on the London Stock Exchange. The consolidated financial statements of the Company as at and for the year ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as the "Consolidated Group"). The Consolidated Group invests in infrastructure projects in the UK, Canada and Europe. The parent company financial statements present information about the Company as a separate entity and not about its Consolidated Group.

Of the Consolidated Group's portfolio of 38 investments at 31 March 2011, 27 have been accounted for as investments (the "Entity Investments") in accordance with the accounting policies set out in parts (b) and (d) of note 2. The eleven remaining investments are deemed to be subsidiaries of the Company (the "Operating Subsidiaries"), and are therefore treated as business combinations as described in parts (b) and (c) of note 2. Certain items of the accounting policies apply only to the Operating Subsidiaries. Where applicable, this is noted in the relevant accounting policy note.

2. Key Accounting Policies

(a) Basis of preparation

The consolidated financial statements and the company financial statements were approved and authorised for issue by the Board of Directors on 23 May 2011.

The consolidated financial statements which give a true and fair view have been prepared in compliance with the Companies (Guernsey) Law 2008 and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") using the historical cost basis, except that the following assets and liabilities are stated at their fair values: derivative financial instruments and financial instruments classified at fair value through profit or loss. The accounting policies have been applied consistently. The consolidated financial statements are presented in sterling, which is the Consolidated Group's functional currency.

The preparation of 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Adviser's Report on pages 11 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Results on pages 18 to 21. In addition, notes 1 to 4 and 21 to 22 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 in the period of the revision and future periods if the revision affects both current and future periods. Note 3 shows critical accounting judgements, estimates and assumptions.

Supplementary information has been provided analysing the income statement between those items of a revenue nature and those of a capital nature, in order to better reflect the Consolidated Group's activities as an investment company. Those items of income and expenditure which relate to the interest and dividend yield of investments and annual operating and interest expenditure are shown as "revenue". Those items of income and expenditure which arise from changes in the fair value of investments, foreign exchange movements, finance receivables and derivative financial instruments are recognised as capital.

Standards adopted early by the Consolidated Group

During the year and the prior year no new standards were adopted early by the Consolidated Group.

2. Key Accounting Policies *(continued)*

New standards effective for the current year

The following standards which have been applied in this year's financial statements are:

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – this interpretation provides guidance on accounting for hedges of net investments in foreign operations in an entity's consolidated financial statements.
- IFRS 3 Business Combinations – the revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently re-measured at fair value through income, goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the non-controlling interest, and all transaction costs are expensed.
- IAS 27 Consolidated and Separate Financial Statements – the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.
- IFRIC 17 Distributions of Non-cash Assets to Owners – provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. Clarifies how the principles underlying hedge accounting should be applied in particular situations.
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues. Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated.
- IFRIC 18 Transfer of Assets from Customers – which is applicable for annual periods commencing on or after 1 November 2009. Clarifies the requirements for IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.
- IFRS 2 Share Based Payment: Group Cash-settled Share-based Payment Transactions – amended to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment.
- Improvements to IFRSs 2009 – the IASB published amendments to various standards collectively referred to as Improvements to IFRSs on 16 April 2009. The Improvements to IFRSs 2009 comprise 15 amendments to 12 standards and is the result of the IASB's second annual improvements project (AIP).

The adoption of these standards has led to the following change in the Consolidated Group's accounting policies:

Accounting for business combinations

From 1 April 2010 the Consolidated Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Consolidated Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Consolidated Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 April 2010

For acquisitions on or after 1 April 2010, the Consolidated Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

2. Key Accounting Policies *(continued)*

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the profit and loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Consolidated Group incurs in conjunction with a business combination are expensed as incurred.

Acquisitions prior to 1 April 2010

All business combinations were accounted for using the purchase method. Goodwill represents the difference between the cost of acquisition over the Consolidated Group's share of the fair value of assets acquired and liabilities and contingent liabilities assumed (including intangible assets) of a subsidiary at the date of acquisition. Identifiable intangible are those which can be measured reliably, sold separately or which arise from legal rights regardless of whether those rights are separable.

Costs comprise the fair values of assets given and liabilities assumed, plus any direct costs of acquisition.

Standards not yet applied

As at 31 March 2011 the following standards applicable to the Consolidated Group, which have not been applied in this financial information, were in issue and endorsed by the EU but not yet effective:

- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions – clarifies accounting for group cash-settled share-based payment transactions.
- Revised IAS 24 Related Party Disclosures – the revised standard has simplified the definition of a related party and removed inconsistencies.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability.
- Improvements to IFRSs 2010 – the IASB published amendments to various standards with various effective dates on 6 May 2010. The amendments are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 improvements contains eleven amendments to six standards and to one interpretation and is the result of the IASB's third annual improvements project (AIP).

The Directors anticipate that the adoption of the above standards in future years will not have a material impact on the financial statements of the Consolidated Group.

(b) Basis of consolidation

The consolidated financial statements of the Consolidated Group include the financial statements of the Company and its subsidiaries up to 31 March 2011. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities as defined in IAS 27 'Consolidated and Separate Financial Statements'. The financial statements of subsidiaries are included in the consolidated financial statements on a line by line basis from the date that control commences until the date control ceases. Nine of the eleven subsidiaries have a different statutory financial reporting date to the Company, being 31 December. Their results for the year to 31 March are included by reference to management accounts.

Associates are those entities over which the Company has significant influence as defined in IAS 28 'Investments in Associates'. By virtue of the Company's status as an investment fund and the exemption provided by IAS 28.1, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit or loss.

Joint ventures are those entities over which the Company has joint control as defined by IAS 31 'Interests in Joint Ventures'. By virtue of the Company's status as an investment fund and the exemption provided by IAS 31.1, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit or loss.

Intra-Group receivables, liabilities, revenue and expenses are eliminated in their entirety when preparing the consolidated financial statements. Gains that arise from intra-group transactions and that are unrealised from the standpoint of the Consolidated Group on the balance sheet date are eliminated in their entirety. Unrealised losses on intra-group transactions are also eliminated in the same way as unrealised gains, to the extent that the loss does not correspond to an impairment loss.

(c) Acquisition of subsidiaries

The Group has changed its accounting policy with respect to accounting for business combinations. See Note 2 (a) 'Accounting for business combinations' for further details.

2. Key Accounting Policies *(continued)*

(d) Financial instruments

Financial assets and liabilities are recognised on the Consolidated Group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IAS 39 'Financial instruments: Recognition and Measurement'.

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, finance receivables, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

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 as described below.

Investments in equity and debt securities

Entity Investments (investments in the equity and loanstock of entities engaged in infrastructure activities which are not classified as subsidiaries of the Consolidated Group) are designated at fair value through profit or loss since the Consolidated Group manages these investments and makes purchase and sale decisions based on their fair value.

The initial difference between the transaction price and the fair value, derived from using the discounted cash flows methodology at the date of acquisition, is recognised only when observable market data indicates there is a change in a factor that market participants would consider in setting the price of that investment. After initial recognition, investments at fair value through profit or loss are measured at fair value with changes recognised in the income statement.

Finance receivables

Finance receivables are recognised initially at fair value. Subsequent to initial recognition, finance receivables are measured at fair value using the discounted cash flows methodology, with changes recognised in the income statement as gains/(loss) on finance receivables as a capital item.

Finance receivables are designated at fair value through profit or loss because it eliminates or significantly reduces the accounting mismatch that would result from fair value movements in interest rate swaps.

Loans and borrowings

Borrowings are recognised initially at fair value of the consideration received, less transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

(ii) Derivative financial instruments

The Operating Subsidiaries hold derivative financial instruments to mitigate their interest rate risk and inflation rate risk exposures. All derivatives are recognised initially at fair value with attributable transaction costs recognised in the income statement as incurred. Thereafter, derivatives are measured at fair value with changes recognised in the income statement as part of finance costs. Fair value is based on price quotations from financial institutions active in the relevant market. The Consolidated Group has not used hedge accounting.

(iii) Fair values

The fair values are determined using the income approach, except for derivative financial instruments, which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values. In determining the appropriate discount rate, regard is had to risk free rates, the specific risks of each investment and the evidence of recent transactions.

(iv) Effective interest

The effective interest rate is that rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the relevant asset's carrying amount.

2. Key Accounting Policies *(continued)*

(e) Intangible assets

Intangible assets are recognised as part of a business combination if they are reliably measurable and separable from the acquired entity or give rise to other contractual/legal rights. Only one category of intangible asset has been recognised as part of a business combination to date, being the fair value of service concessions in Operating Subsidiaries as at the date of acquisition. These assets are being amortised over the life of the concessions concerned on a straight-line basis.

The accounting policies for intangible assets arising under IFRIC 12 are disclosed in part (k) of this note.

(f) Impairment

(i) Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement.

(ii) Non-financial assets

The carrying amounts of the Consolidated Group's non-financial assets are reviewed at each reporting date to determine whether there is any evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would, have been determined, net of applicable depreciation, if no impairment loss had been recognised.

(g) Share capital and share premium

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

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) Non-controlling interests

The interest of non-controlling shareholders is stated at the non-controlling's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interest in excess of the carrying value of the non-controlling interest are allocated against the interest of the parent, except to the extent that the non-controlling has both a binding obligation and the ability to make an additional investment to cover the losses.

(j) Revenue

(i) Services revenue

Services revenue (in accordance with IFRIC 12), which relates solely to the Operating Subsidiaries, is comprised of the following components:

- revenues from the provision of facilities management services to Private Finance Initiative or Public Private Partnerships ("PFI/PPP") projects calculated as the fair value of services provided (see Note k(i));
- the fair value of the consideration receivable on construction and upgrade services;
- availability fees and usage fees on PFI/PPP projects where the principal asset is accounted for as an intangible asset (see Note k(ii)); and
- third party revenues on PFI/PPP projects.

2. Key Accounting Policies *(continued)*

(ii) Gains on finance receivables

Gains on finance receivables relate solely to the Operating Subsidiaries.

Revenue

Gains on finance receivables included in the "revenue" category includes interest, dividends and other operating income relating to finance receivables designated at fair value through profit or loss.

Interest income arising on finance receivables at fair value through profit or loss is recognised in the income statement as it accrues, using the effective interest rate of the instrument concerned.

Dividends are recognised when the Consolidated Group's rights to receive payment have been established. That part of the dividend which has already been recognised in the fair value of finance receivable is deducted from the carrying amount of the relevant finance receivable.

Fees and other operating income are recognised when the Consolidated Group's rights to receive payment have been established.

Capital

Gains on finance receivables included in the capital category arise from the movement in the fair value of the finance receivables excluding the movements shown as revenue above.

(iii) Gains on investments

Gains on investments relates solely to the Entity Investments.

Revenue

Gains on investments included in the "revenue" category includes interest, dividends and other operating income relating to the Entity Investments.

Interest income arising on Entity Investments is recognised in the income statement as it accrues, using the effective interest rate of the instrument concerned as calculated at the acquisition or origination date.

Dividends are recognised when the Consolidated Group's rights to receive payment have been established. That part of the dividend which has already been recognised in the fair value of investments is deducted from the carrying amount of the relevant investment.

Fees and other operating income are recognised when the Consolidated Group's rights to receive payment have been established.

Capital

Gains on investments included in the capital category arise from the movement in the fair value of the Entity Investments excluding the movements shown as revenue above.

(k) Service concessions

In accordance with IFRIC 12 and the various provisions of IFRS, the Consolidated Group has determined the appropriate treatment of the principal assets of, and income streams from, PFI/PPP and similar contracts within the Operating Subsidiaries. Results of all service concessions which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions:

(i) Service concessions treated as financial assets

Service concessions are determined to give rise to finance receivables where the Consolidated Group, as operator, has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the construction phase, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, in accordance with IAS 11. Costs for this purpose include valuation of all work done by subcontractors whether certified or not, and all overheads other than those relating to the general administration of the relevant companies.

During the operational stage, cash received in respect of the service concessions is allocated to services revenue (see part j(i) of this note) based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method (see part j(ii) of this note).

The finance receivables are designated as at fair value through profit or loss in accordance with part (d) of this note. The fair values of the finance receivables are determined in a similar manner to that described in part (d)(i), with changes recognised in the income statement.

2. Key Accounting Policies *(continued)*

(ii) Service concessions treated as intangible assets

Service concessions are determined to give rise to intangible assets to the extent the Consolidated Group, as operator, has a contractual right to charge users of the public services. The intangible asset represents the construction cost of assets which give rise to the contractual right to charge. The intangible asset is amortised to estimated residual value over the remaining life of the service concession and tested each year for impairment.

Revenue arising in respect of these service concessions is recognised when the services are delivered.

(l) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(m) Income tax

Under the current system of taxation in Guernsey, the Company itself is exempt from paying taxes on income, profits or capital gains. The Company's Operating Subsidiaries are UK based and are therefore subject to UK tax legislation. Dividend and interest income received by the Consolidated Group may be subject to withholding tax imposed in the country of origin of such income, but all such tax is currently recoverable.

Income tax on the profit for the year of the Operating Subsidiaries comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. For the UK Operating Subsidiaries deferred tax is measured at UK tax rates.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Foreign exchange gains and losses

Transactions entered into by group entities in a currency other than their functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement as capital amounts.

(o) Segmental reporting

The Chief Operating Decision Maker (the "CODM") is of the opinion that the Group is engaged in a single segment of business, being investment in infrastructure which is currently predominately in private finance initiatives and public private partnership companies in one geographical area, the United Kingdom.

The financial information used by the CODM to allocate resources and manage the Group presents the business as a single segment is prepared on an Investment basis. The Investment basis deconsolidates the subsidiary investments. A reconciliation of the consolidated financial statements to pro-forma statements on an Investment basis is shown within the Financial Results of the annual report.

(p) Expenses

All expenses and the profit share of the General Partner are accounted for on an accruals basis. The Consolidated Group's investment management and administration fees, finance costs (including interest on long-term borrowings) and all other expenses are charged through the consolidated income statement.

(q) Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM. For script dividends where the Company issues shares with an equal value to the cash dividend amount as an alternative to the cash dividend a credit to equity is recognised when the shares are issued.

2. Key Accounting Policies *(continued)*

(r) Provisions

Provisions are recognised when the Consolidated Group has a present obligation as a result of a past event, and it is probable that the Consolidated Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(s) Statement of compliance

Pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987 the Company is an Authorised Closed-Ended Investment Scheme. As an authorised scheme, the Company is subject to certain ongoing obligations to the Guernsey Financial Services Commission.

(t) Comparatives

Certain investment activities on the face of the consolidated cash flow statement have been reclassified as operating activities to better reflect the nature of the business.

Certain other comparatives have been reclassified to conform to the current year's presentation.

3. Critical Accounting Judgements, Estimates And Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) Investments at fair value through profit or loss

The Consolidated Group has a greater than 50% shareholding in certain entities (see Note 15), where in the opinion of the Directors it is unable to govern the financial and operating policies of the entities by virtue of agreements with the other shareholder(s). These entities are consequently not treated as subsidiaries, and instead they are accounted for as financial assets at fair value through profit or loss, as set out in Note 2(b).

By virtue of the Company's status as an investment fund and the exemption provided by IAS 28.1 and IAS 31.1, investments in associates and joint ventures are designated upon initial recognition to be accounted for at fair value through profit or loss.

Fair values for those investments for which a market quote is not available are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to risk free rates, specific risks and the evidence of recent transactions. The Directors have satisfied themselves that the PFI/PPP/P3 investments share the same investment characteristics and as such constitute a single asset class for IFRS 7 disclosure purposes.

The carrying amount of the PFI/PPP/P3 investments would be an estimated £11.2 million higher or £10.8 million lower (2010: £7.5 million higher or £7.2 million lower) if the discount rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The weighted average discount rate for the PFI/PPP/P3 portfolio as at 31 March 2011 was 8.7% (2010: 8.7%).

The carrying amount of the PFI/PPP/P3 investments would be an estimated £6.8 million higher or £6.5 million lower (2010: £6.0 million higher or £5.3 million lower) if the inflation rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The UK inflation rate assumed for all future periods from 31 March 2011 is 2.75% (2010: 2.75%).

The carrying amount of the PFI/PPP/P3 investments would be an estimated £2.8 million higher or £2.7 million lower (2010: £1.9 million higher or £2.0 million lower) if the deposit rates used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The UK deposit rates assumed for all future periods from 31 March 2011 were 1% to March 2013 and 4% thereafter (2010: 1% to March 2012 and 4.5% thereafter).

(ii) Finance receivables at fair value through profit or loss

Fair values are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to risk free rates, specific risks and the evidence of recent transactions.

The carrying amount of finance receivables would be an estimated £17.4 million higher or £16.8 million lower (2010: £14.4 million higher or £13.8 million lower) if the discount rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The discount rates at 31 March 2011 were between 5.2% and 6.6% (2010: between 5.4% and 6.8%).

3. Critical Accounting Judgements, Estimates And Assumptions *(continued)*

(iii) IFRIC 12

Service concessions fall within the scope of IFRIC 12 where the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and the price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service agreement. Each subsidiary has been assessed to determine whether they fall within the scope of IFRIC 12. Following this review it was determined that all eleven subsidiaries controlled at the year end, fall within this scope. Service concessions are determined to be finance receivables where the operator has a contractual right to receive cash or another financial asset from or at the direction of the grantor. Alternatively, service concessions are determined to be intangible assets to the extent the operator has a contractual right to charge users of the public services.

(iv) Intangible assets

Intangible assets represent fair value of service concessions for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. Fair values are determined using the income approach which discounts the expected cash flows attributable to the services portion of the service concessions acquired at an appropriate rate to arrive at fair values. In determining the appropriate discount rate, regard is had to risk free rates and the specific risks of each project.

4. Financial Instruments

Financial risk management

Financial risk is managed by the group on an Investment basis, so for the purposes of this note, the group comprises the Company, its two wholly-owned Luxembourg subsidiaries (HICL Infrastructure 1 SARL and HICL Infrastructure 2 SARL) and the English Limited Partnership (Infrastructure Investments Limited Partnership ('IILP')), and is referred to as the "Investment Group". The objective of the Investment Group's financial risk management is to manage and control the risk exposures of its investment portfolio. The Board of Directors has overall responsibility for overseeing the management of financial risks, however the review and management of financial risks are delegated to the Investment Adviser and the Operator of the Group which has documented procedures designed to identify, monitor and manage the financial risks to which the Investment Group is exposed. This note presents information about the Group's exposure to financial risks, its objectives, policies and processes for managing risk and the Group's management of its financial resources.

The Investment Group owns a portfolio of investments predominantly in the subordinated loanstock and ordinary equity of project finance companies. These companies are structured at the outset to minimise financial risks where possible, and the Investment Adviser and Operator primarily focus their risk management on the direct financial risks of acquiring and holding the portfolio, but continue to monitor the indirect financial risks of the underlying projects through representation, where appropriate, on the Boards of the project companies and the receipt of regular financial and operational performance reports.

Interest rate risk

The Investment Group invests in subordinated loanstock of project companies, usually with fixed interest rate coupons. Where floating rate debt is owned the primary risk is that the Consolidated Group's cash flows will be subject to variation depending upon changes to base interest rates. The portfolio's cash flows are continually monitored and reforecasted both over the near future (five year time horizon) and the long-term (over whole period of projects' concessions) to analyse the cash flow returns from investments. The Investment Group has made limited use of borrowings to finance the acquisition of investments and the forecasts are used to monitor the impact of changes in borrowing rates against cash flow returns from investments as increases in borrowing rates will reduce net interest margins.

The Group's policy is to ensure that interest rates are sufficiently hedged to protect the Group's net interest margins from significant fluctuations when entering into material medium/long-term borrowings. This includes engaging in interest rate swaps or other interest rate derivative contracts.

The Investment Group has an indirect exposure to changes in interest rates through its investment in project companies, which are financed by senior debt. Senior debt financing of project companies is generally either through floating rate debt, fixed rate bonds or index linked bonds. Where senior debt is floating rate, the projects typically have concession length hedging arrangements in place, which are monitored by the project companies' managers, finance parties and boards of directors. Floating rate debt is hedged using fixed floating interest rate swaps.

The finance costs in the income statement would be an estimated £8.4 million higher or £8.4 million lower (2010: £9.7 million higher or £9.7 million lower) if the interest rates used in the fair value calculation of the interest rate swaps were to differ by 25 basis points.

4. Financial Instruments *(continued)*

Inflation risk

The Group's project companies are generally structured so that contractual income and costs are either wholly or partially linked to specific inflation where possible to minimise the risks of mismatch between income and costs due to movements in inflation indexes. The Investment Group's overall cashflows are estimated to partially vary with inflation and consequently the portfolio valuation will vary with inflation. The effects of these inflation changes do not always immediately flow through to the Investment Group's cashflows, particularly where a project's loanstock debt carries a fixed coupon and the inflation changes flow through by way of changes to dividends in future periods. The sensitivity of the portfolio valuation is shown in Note 3(i).

The finance costs in the income statement would be an estimated £6.4 million higher or £6.4 million lower (2010: £5.0 million higher or £5.0 million lower) if the RPI rates used in the fair value calculation of the inflation swaps were to differ by 25 basis points.

Market risk

Returns from the Investment Group's investments are affected by the price at which they are acquired. The value of these investments will be a function of the discounted value of their expected future cash flows, and as such will vary with, *inter alia*, movements in interest rates, market prices and the competition for such assets.

Currency risk

The projects in which the Group invests all conduct their business and pay interest, dividends and principal in sterling other than its investment in Dutch High Speed Rail project (comprising 13.1% of investments at fair value), which conducts its business and pays its interest, dividends and principal in Euros and its investments in North-West Anthony Henday P3 and Kicking Horse Canyon P3 projects (comprising 1.7% of investments at fair value), which conduct there business and pay interest, dividends and principal in Canadian dollars. The Group monitors its foreign exchange exposures using its near term and long-term cash flow forecasts. Its policy is to use foreign exchange hedging to provide protection to the level of sterling distributions that the Investment Group aims to pay over the medium term, where considered appropriate. This may involve the use of forward exchange and other currency hedging contracts, as well as the use of Euro, Canadian and other currency denominated borrowings. The Investment Group at 31 March 2011 hedged its currency exposure through forward sale of Euros and Canadian dollars.

Credit risk

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

The Group's key direct counterparties are the project companies in which it makes investments. The Investment Group's near term cash flow forecasts are used to monitor the timing of cash receipts from project counterparties. Underlying the cash flow forecast are project company cash flow models, which are regularly updated by project companies and provided to the Operator, for the purposes of demonstrating the projects' ability to pay interest and dividends based on a set of detailed assumptions. Many of the Investment Group's investment and subsidiary entities generally receive revenue from government departments, and public sector or local authority clients. Therefore a significant portion of the Group's investments' revenue is with counterparties of good financial standing.

The Group is also reliant on the project's subcontractors continuing to perform their service delivery obligations such that revenues to projects are not disrupted. The Investment Adviser has a subcontractor counterparty monitoring procedure in place. The credit standing of subcontractors is reviewed, and the risk of default estimated for each significant counterparty position. Monitoring is ongoing, and period end positions are reported to the Board on a quarterly basis. The Investment Group's largest credit risk exposure to a project at 31 March was to the Home Office project (14% of portfolio by value) and the largest subcontractor counterparty risk exposure was to subsidiaries of the Bouygues group which provided facilities management services in respect of 21% of the portfolio by value.

The Consolidated Group is subject to credit risk on its loans, receivables, cash and deposits. The Consolidated Group's cash and deposits are held with a variety of well known banks. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due, it is believed that the risk of default is small and capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the investment. Fair value adjustments, or "loan impairments", are made when the net present value of the future cash flows predicted to arise from the asset, discounted using the effective interest rate method, implies non-recovery of all or part of the Group's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall.

As at 31 March 2011, the ageing of trade receivables past due but not impaired were as follows:

	31 March 2011 *£million*	31 March 2010 *£million*
3 to 6 months due	–	0.2
Over 6 months due	0.5	0.1
	0.5	0.3

At 31 March 2011 there were no loans and other receivables considered past due or impaired (2010: £nil) for the Consolidated Group.

4. Financial Instruments *(continued)*

Credit risk *(continued)*

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as these fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient financial resources and liquidity to meets its liabilities when due. The Group ensures it maintains adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Investment Group's investments are predominantly funded by share capital and medium term debt funding.

The Investment Group's investments are generally in private companies in which there is no listed market and therefore such investment would take time to realise and there is no assurance that the valuations placed on the investments would be achieved from any such sale process. One of the Investment Group's investments is a loan to Kemble Water, which was repaid in full in April 2011.

The Investment Group's investments have borrowings which rank senior to the Investment Group's own investments into the companies. This senior debt is structured such that, under normal operating conditions, it will be repaid within the expected life of the projects. Debt raised by the investment companies from third parties is without recourse to the Investment Group.

The Investment Group's investments may include obligations to make future investment amounts. These obligations will typically be supported by standby letters of credit, issued by the Investment Group's bankers in favour of the senior lenders to the investment companies. Such subscription obligations are met from the Investment Group's cash resources when they fall due. Such obligations totalled £47.0 million (2010: £8.3 million) at the year end.

The Investment Group currently has a committed £200 million five year revolving bank facility expiring in December 2012 and is secured over all assets of the Consolidated Group. The facility is of a sufficient size to meet the Investment Group's foreseeable funding requirements, and to provide significant headroom available to support acquisitions, should suitable opportunities be identified and executed.

The table below analyses the Consolidated Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contracted undiscounted cashflows (including the impact of netting agreements).

31 March 2011	Less than 1 year *£million*	Between 1 and 2 years *£million*	Between 2 and 5 years *£million*	More than 5 years *£million*
Bank borrowings	17.7	17.4	45.4	289.1
Trade and other payables	28.9	–	–	–
Interest on bank borrowings	22.9	21.8	59.2	172.1
Other loans and borrowings	11.8	10.7	35.1	220.6
Interest on other loans and borrowings	13.6	13.4	38.7	132.1
Other financial liabilities	16.7	13.2	18.5	66.6
Total	111.6	76.5	196.9	880.5

31 March 2010	Less than 1 year *£million*	Between 1 and 2 years *£million*	Between 2 and 5 years *£million*	More than 5 years *£million*
Bank borrowings	16.6	17.8	93.2	304.9
Trade and other payables	20.9	–	–	–
Interest on bank borrowings	23.9	23.0	62.2	191.0
Other loans and borrowings	11.3	11.7	32.5	224.6
Interest on other loans and borrowings	13.5	13.4	38.8	143.3
Other financial liabilities	17.8	13.9	20.7	68.4
Total	104.0	79.8	247.4	932.2

4. Financial Instruments *(continued)*

Capital management

The Investment Group utilises a £200 million revolving acquisition facility of which £153.3 million is undrawn at year end to fund acquisitions. Further equity raisings are considered when debt drawings are at an appropriate level. The proceeds from the share issues are used to repay debt or to fund future investment commitments.

The Investment Group makes prudent use of its leverage. Under the Articles the Investment Group's outstanding borrowings, including any financial guarantees to support outstanding subscription obligations but excluding internal Investment Group borrowings of the Investment Group's underlying investments, are limited to 50% of the Adjusted Gross Asset Value of its investments and cash balances at any time.

The ratio of the Investment Group's debt to Adjusted Gross Asset Value at the end of the year was as follows:

	31 March 2011 *£million*	31 March 2010 *£million*
Outstanding drawings		
Bank borrowings	–	3.1
Letter of credit facility	46.7	7.2
	46.7	10.3
Adjusted Gross Asset Value		
Portfolio valuation	673.1	509.6
Cash and cash equivalents	54.7	12.8
	727.8	522.4
Borrowing concentration	6.4%	2.0%

From time to time the Investment Group issues its own shares on the market; the timing of these purchases depends on market prices.

In order to assist in the narrowing of any discount to the Net Asset Value at which the Ordinary Shares may trade from time to time, the Company may, at the sole discretion of the Directors:

- make market purchases of up to 14.99% p.a. of its issued Ordinary Shares; and
- make tender offers for the Ordinary Shares.

There were no changes in the Investment Group's approach to capital management during the year.

Fair value estimation

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

Non-derivative financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Consolidated Group uses the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values. In determining the discount rate, regard is had to risk free rates, the specific risks of each investment and the evidence of recent transactions.

Derivative financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Consolidated Group is the current bid price. Note 2 discloses the methods used in determining fair values on a specific asset/liability basis. Where applicable, further information about the assumptions used in determining fair value is disclosed in the notes specific to that asset or liability.

4. Financial Instruments *(continued)*

Classification of financial instruments

	31 March 2011 *£million*	31 March 2010 *£million*
Financial assets		
Designated at fair value through profit or loss		
Investment in Entity Investments	426.0	307.4
Operating Subsidiaries' financial assets	779.1	788.6
Financial assets at fair value	1,205.1	1,096.0
Loans and receivables		
Trade and other receivables	15.7	12.1
Cash and cash equivalents	114.9	67.1
Financial assets at amortised cost	130.6	79.2
Financial liabilities		
Designated at fair value through profit or loss		
Other financial liabilities (fair value of derivatives)	(82.8)	(84.9)
Financial liabilities at fair value	(82.8)	(84.9)
At amortised cost		
Trade and other payables	(28.9)	(20.9)
Current tax payable	(0.8)	(0.8)
Loans and borrowings	(647.7)	(660.1)
Financial liabilities at amortised cost	(677.4)	(681.8)

The Directors believe that the carrying values of all financial instruments, except the fixed rate and RPI-linked bonds, are not materially different to their fair values. See Note 21 for the comparison between fair values and the carrying values of the fixed rate and RPI-linked bonds.

Secured bank and bond borrowings totalling £623.6 million (2010: £642.3 million) are secured by fixed and/or floating charges over the Consolidated Group's financial assets. The terms of these charges are generally of a form that are usual and customary to project finance borrowing and lending activities.

Fair value hierarchy

The fair value hierarchy is defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 31 March 2011			
	Level 1 *£million*	Level 2 *£million*	Level 3 *£million*	Total *£million*
Investments at fair value through profit or loss (Note 15)	29.7	–	396.3	426.0
Finance receivables at fair value through profit or loss (Note 17)	–	–	779.1	779.1
	29.7	–	1,175.4	1,205.1
Other financial liabilities (fair value of derivatives) (Note 22)	–	82.8	–	82.8
	–	82.8	–	82.8

4. Financial Instruments *(continued)*

Fair value hierarchy *(continued)*

	As at 31 March 2010			
	Level 1 *£million*	Level 2 *£million*	Level 3 *£million*	Total *£million*
Investments at fair value through profit or loss (Note 15)	24.8	–	282.6	307.4
Finance receivables at fair value through profit or loss (Note 17)	–	–	788.6	788.6
	24.8	–	1,071.2	1,096.0
Other financial liabilities (fair value of derivatives) (Note 22)	–	84.9	–	84.9
	–	84.9	–	84.9

There were no transfers between Level 1 and 2 during the year.

Reconciliations of Level 3 assets from beginning balances to the ending balances, disclosing separately changes during the year are disclosed in notes 15 and 17 respectively. Sensitivity analyses disclosing the effect of different economic assumptions on the fair value of the Level 3 assets are disclosed in Note 3.

5. Services Revenue

	For year ended 31 March 2011 *£million*	For year ended 31 March 2010 *£million*
Service revenue	89.2	81.3
Construction revenue	31.2	19.8
Other revenue	0.8	1.5
	121.2	102.6

Revenue from 5 customers which each represent more than 10% of the Group's total revenues provide approximately £101.2 million (2010: £90.2 million) of revenue. The Group has treated each Government entity and/or department as a separate customer.

All services revenue is derived from customers domiciled in the United Kingdom.

Construction revenue includes £27.7 million (2010: £16.3 million) of capital variations funded by the Ministry of Defence and shareholders on the Helicopter Training project.

6. Gains/(Loss) on Investments

	For the year ended 31 March 2011			For the year ended 31 March 2010		
	Revenue *£million*	Capital *£million*	Total *£million*	Revenue *£million*	Capital *£million*	Total *£million*
Interest from investments	18.8	–	18.8	14.8	–	14.8
Dividend income from investments	5.8	–	5.8	5.5	–	5.5
Fees and other operating income	1.5	–	1.5	1.3	–	1.3
Gains/(loss) on valuation (Note 15)	–	9.7	9.7	–	(2.3)	(2.3)
	26.1	9.7	35.8	21.6	(2.3)	19.3

Included within the loss on valuation in 2010 is an unrealised exchange loss of £0.1 million on the Consolidated Group's Euro borrowings. The Consolidated Group had no overseas borrowing at the year end. The following exchange rates were used at the year end:

	31 March 2011	31 March 2010
Euro	0.89	0.89
Canadian	0.64	n/a

7. Services Costs

	For year ended 31 March 2011 *£million*	For year ended 31 March 2010 *£million*
Service and construction costs	93.6	76.9
Amortisation of intangibles (see Note 14)	8.6	8.3
Other costs	3.6	3.9
	105.8	89.1

8. Administrative Expenses

	For year ended 31 March 2011 *£million*	For year ended 31 March 2010 *£million*
Fees payable to the Consolidated Group's auditors for the audit of the Consolidated Group accounts	0.1	0.1
Fees payable to the Consolidated Group's auditors and its associates for other services:		
The audit of the Company's Operating Subsidiaries and other audit related services	0.2	0.3
Taxation advisory services	0.1	0.1
Management fees	1.1	1.1
Operator fees (Note 24)	6.5	5.2
Investment fees (Note 24)	1.6	0.8
Directors' fees (Note 24)	0.2	0.1
Professional fees	0.6	0.5
Project bid costs	0.3	0.8
Other costs	1.1	1.0
	11.8	10.0

In addition to the above an amount of £0.2 million (2010: £0.2 million) was paid to associates of the Consolidated Group's auditors in respect of audit and tax services provided to Entity Investments (and therefore not included within consolidated administrative expenses). The Consolidated Group had no employees during the year.

9. Net Finance Costs

		For the year ended 31 March 2011			For the year ended 31 March 2010	
	Revenue *£million*	Capital *£million*	Total *£million*	Revenue *£million*	Capital *£million*	Total *£million*
Interest expense:						
Interest on bank loans and overdrafts	(26.8)	–	(26.8)	(23.9)	–	(23.9)
Interest and indexation on other loans	(21.6)	–	(21.6)	(9.4)	–	(9.4)
Other finance costs	(2.7)	–	(2.7)	(2.3)	–	(2.3)
Total finance costs	(51.1)	–	(51.1)	(35.6)	–	(35.6)
Interest income:						
Interest on bank deposits	0.4	–	0.4	0.3	–	0.3
Other finance income	–	0.7	0.7	–	3.2	3.2
Change in fair value of interest and inflation rate swaps	–	1.7	1.7	–	0.8	0.8
Total finance income	0.4	2.4	2.8	0.3	4.0	4.3
Net finance (costs)/income	(50.7)	2.4	(48.3)	(35.3)	4.0	(31.3)

10. Income Tax

Under the current system of taxation in Guernsey, the Company itself is exempt from paying taxes on income, profits or capital gains. Therefore, income from investments is not subject to any further tax in Guernsey, although these investments will bear tax in the individual jurisdictions in which they operate.

The Company's Operating Subsidiaries are UK based and as a consequence are bound by UK tax legislation. Operating Subsidiaries in the UK have provided for UK corporation tax at the rate of 28% for current tax liabilities (2010: 28%) and 26% for deferred tax assets and liabilities (2010: 28%).

Changes in overseas tax rates

Finance (no. 2) Act 2010 enacted the reduction in the UK corporation tax rate from 28% to 27% with effect from April 2011. In addition, the UK Government announced three further annual 1% cuts to reduce the rate to 24% from April 2014.

At the 2011 Budget on 23 March 2011 the UK Government announced that the corporation tax rate would instead reduce to 26% from April 2011 with three further annual 1% cuts to 23% by April 2014.

Other than the enacted change to 26%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 March 2011 as they have not yet been enacted however the impact would be a reduction in deferred tax assets and liabilities.

10a. Income Tax Expense

	For year ended 31 March 2011 *£million*	For year ended 31 March 2010 *£million*
Foreign current tax:		
Foreign corporation tax on profits for the year	(0.8)	(1.2)
Total current tax expense	(0.8)	(1.2)
Deferred tax:		
Origination and reversal of temporary differences (Note 10d)	9.1	4.4
Total income tax credit in the income statement (Note 10b)	8.3	3.2

The income tax credit in the year of £8.3 million (2010: £3.2 million) is due to movements in deferred tax. The main component of the deferred tax movement arises from a reduction in the UK corporation tax rate of 26% which has led to a re-measurement of the Consolidated Group's deferred tax asset and liability. The effect has resulted in a reduction in the deferred tax asset and liability and a corresponding tax credit. Further analysis of deferred tax movements recognised in the consolidated income statement is detailed in Note 10d.

10b. Reconciliation of Effective Tax Rate

	For year ended 31 March 2011 *£million*	For year ended 31 March 2010 *£million*
Profit before taxation	38.3	7.7
Expected tax on profit at 0% (2010: 0%)	–	–
Different tax rates applied in overseas jurisdictions	7.5	2.0
Tax losses recognised	0.8	1.2
Total income tax credit for the year	8.3	3.2

10C. Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	As at 31 March 2011			As at 31 March 2010		
	Assets *£million*	Liabilities *£million*	Net *£million*	Assets *£million*	Liabilities *£million*	Net *£million*
Finance receivables at fair value through profit or loss	0.5	(22.4)	(21.9)	0.2	(21.3)	(21.1)
Intangible assets	–	(43.2)	(43.2)	–	(49.0)	(49.0)
Subordinated debt	8.2	(0.6)	7.6	10.1	(1.5)	8.6
Other financial liabilities (fair value of derivatives)	20.9	(12.6)	8.3	22.6	(15.3)	7.3
Tax losses	4.6	–	4.6	3.8	–	3.8
Carrying value of finance receivable on acquisition where there is no available tax deduction	–	(26.1)	(26.1)	–	(29.5)	(29.5)
Other	0.1	–	0.1	–	0.2	0.2
Net assets/(liabilities)	34.3	(104.9)	(70.6)	36.7	(116.4)	(79.7)

10D. Deferred Tax Movements

	For the year ended 31 March 2011			
	Opening balance *£million*	Acquired in business combination *£million*	Recognised in profit or loss *£million*	Closing balance *£million*
Finance receivables at fair value through profit or loss	(21.1)	–	(0.8)	(21.9)
Intangible assets	(49.0)	–	5.8	(43.2)
Subordinated debt	8.6	–	(1.0)	7.6
Other financial liabilities (fair value of derivatives)	7.3	–	1.0	8.3
Tax losses	3.8	–	0.8	4.6
Carrying value of finance receivable on acquisition where there is no available tax deduction	(29.5)	–	3.4	(26.1)
Other	0.2	–	(0.1)	0.1
	(79.7)	–	9.1	(70.6)

	For the year ended 31 March 2010			
	Opening balance *£million*	Acquired in business combination *£million*	Recognised in profit or loss *£million*	Closing balance *£million*
Finance receivables at fair value through profit or loss	(14.9)	(15.7)	9.5	(21.1)
Intangible assets	(48.5)	(2.8)	2.3	(49.0)
Subordinated debt	7.3	1.9	(0.6)	8.6
Other financial liabilities (fair value of derivatives)	10.2	4.2	(7.1)	7.3
Tax losses	5.0	–	(1.2)	3.8
Carrying value of finance receivable on acquisition where there is no available tax deduction	(27.6)	(3.2)	1.3	(29.5)
Other	–	–	0.2	0.2
	(68.5)	(15.6)	4.4	(79.7)

11. Earnings per Share and Diluted Earnings per Share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to equity holders of the Company	£45.2 million	£6.0 million
Weighted average number of ordinary shares in issue	504.5 million	379.5 million
Basic and diluted earnings per share	9.0 pence	1.6 pence

The denominator for the purposes of calculating both basic and diluted earnings per share are the same as the Company had not issued any share options or other instruments that would cause dilution.

	2011	2010
Weighted average number of ordinary shares in issue		
In millions of shares		
Issued ordinary shares at 1 April	454.3	338.3
Effect of shares issued as a script dividend alternative	0.6	0.3
Effect of shares issued under the block listing	30.1	26.1
Effect of shares issued under the Placing and Offer for Subscription of C shares	19.5	14.8
Weighted average number of ordinary shares at 31 March	504.5	379.5

Further details of shares issued in the year are set out in Note 23.

12. Dividends

	For year ended 31 March 2011 *£million*	For year ended 31 March 2010 *£million*
Amounts recognised as distributions to equity holders during the year:		
Second interim dividend for the year ended 31 March 2010 of 3.35p (2009: 3.275p) per share	15.2	11.0
Interim dividend for the year ended 31 March 2011 of 3.275p (2010: 3.2p) per share	16.3	12.0
	31.5	23.0
Second interim dividend for the year ended 31 March 2011 of 3.425p (2010: 3.35p) per share	20.4	15.2

The second interim dividend was approved by the Board on 19 May 2011 and is payable by 30 June 2011 to shareholders on the register as at 27 May 2011. The second interim dividend is payable to shareholders as a cash payment or alternatively as a scrip dividend. The dividend has not been included as a liability at 31 March 2011.

The 2010 second interim distribution and the 2011 interim distribution are included in the statement of changes in shareholder equity.

	For year ended 31 March 2011	For year ended 31 March 2010	For year ended 31 March 2009	For year ended 31 March 2008	For year ended 31 March 2007
Interim dividend for the period ended September	3.275p	3.20p	3.125p	3.05p	2.875p
Interim dividend for the period ended March	3.425p	3.35p	3.275p	3.20p	3.225p
	6.7p	6.55p	6.4p	6.25p	6.1p

13. Net Assets

The calculation of net assets per share is based on shareholders' equity of £657.0 million as at 31 March 2011 (2010: £486.6 million) and 595.1 million (2010: 454.3 million) ordinary shares in issue at that date.

14. Intangible Assets

	31 March 2011 £million	31 March 2010 £million
Cost		
Opening balance	189.5	179.5
Acquisition through business combinations	–	10.0
Balance as at 31 March	189.5	189.5
Amortisation		
Opening balance	(18.9)	(10.6)
Amortisation for the year	(8.6)	(8.3)
Balance as at 31 March	(27.5)	(18.9)
Carrying amounts		
At 31 March	162.0	170.6

Intangible assets represent the fair value of customer contracts for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. See Note 3(iv) for the methods and assumptions used in determining the fair values. Intangibles are being amortised on a straight line basis over the forecast remaining life of the concessions concerned on acquisition of the subsidiaries (range from between 11.5 and 30.5 years). Amortisation of £8.6 million (2010: £8.3 million) is included within service cost expenses in the consolidated income statement.

15. Investments at Fair Value Through Profit or Loss

	31 March 2011 £million	31 March 2010 £million
Opening balance	307.4	280.1
Investments in the year	106.3	60.1
Accrued interest	2.3	(1.3)
Repayments in the year	(6.5)	(3.5)
Subscription obligations	8.0	1.0
Gain/(loss) on valuation	10.9	(1.8)
Investments consolidated during the year	–	(25.8)
Other movements	(2.4)	(1.4)
Carrying amount at year end	426.0	307.4
This is represented by:		
Less than one year	29.7	–
Greater than one year	396.3	307.4
Carrying amount at year end	426.0	307.4
(Gain)/loss on valuation as above	10.9	(1.8)
Less: transaction costs incurred	(1.2)	(0.5)
(Gain)/loss on investments	9.7	(2.3)

The losses have been included in Gains/(loss) on investments presented in the consolidated income statement as capital items.

The Kemble Water junior loan, which is classified as Level 1 in the fair value hierarchy, had a gain in valuation of £4.9 million during the year (2010: £6.4 million). The remaining investments were all classified as Level 3 in the fair value hierarchy.

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2011. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. The Directors have also obtained an independent opinion from a third party, with considerable expertise in valuing these type of investments, supporting the reasonableness of the valuation. The Kemble Water junior loan was valued on a market quote basis and the other investments, which are all investments in PFI/PPP/P3 projects, are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior year. Discount rates applied range from 8.4% to 10.0% (weighed average of 8.7%) (2010: 8.4% to 11.0% (weighted average of 8.7%)).

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

The following economic assumptions were used in the discounted cashflow valuations:

UK inflation rates	2.75%
UK deposit interest rates	1% for 2 years to March 2013 and 4% thereafter
Euro/Sterling exchange rate	0.89 for all future periods
Can$/Sterling exchange rate	0.64 for all future periods

The economic assumptions for the year ended 31 March 2010 were as follows:

UK inflation rates	2.75%
UK deposit interest rates	1% for 2 years to March 2012 and 4.5% thereafter
Euro/Sterling exchange rate	0.89 for all future periods

Investments are generally restricted on their ability to transfer funds to the Group under the terms of their senior funding arrangement for that investment. Significant restrictions include:

- Historic and projected debt service and loan life cover ratios exceed a given threshold;
- Required cash reserve account levels are met;
- Senior lenders have agreed the current financial model that forecasts the economic performance of the project company;
- Project company is in compliance with the terms of its senior funding arrangements; and
- Senior lenders have approved the annual budget for the company.

Details of investments recognised at fair value through profit or loss were as follows:

	Percentage Holding					
	31 March 2011			31 March 2010		
Investments (project name)	**Equity**	**Subordinated loanstock**	**Mezzanine debt**	**Equity**	**Subordinated loanstock**	**Mezzanine debt**
Bishop Auckland Hospital	36.0%	36.0%	100.0%	36.0%	36.0%	100.0%
Blackburn Hospital	50.0%	50.0%	–	50.0%	50.0%	–
Bradford Schools[1]	34.0%	34.0%	–	34.0%	34.0%	–
Colchester Garrison	42.0%	42.0%	–	42.0%	42.0%	–
Darlington Schools	50.0%	50.0%	–	50.0%	50.0%	–
Defence Sixth Form College	45.0%	45.0%	–	45.0%	45.0%	–
Durham and Cleveland Firearms Training Centre	–	–	–	–	–	–
Dutch High Speed Rail Link[2]	43.0%	43.0%	–	37.5%	37.5%	–
Ealing Schools	50.0%	50.0%	–	50.0%	50.0%	–
GMPA Police Stations	–	–	–	–	–	–
Haverstock School	50.0%	50.0%	–	50.0%	50.0%	–
Health & Safety Laboratory	80.0%	90.0%	–	80.0%	90.0%	–
Health & Safety HQ	50.0%	50.0%	–	50.0%	50.0%	–
Helicopter Training Facility[1/3]	21.8%	59.0%	–	21.8%	59.0%	–
Highland Schools	50.0%	50.0%	–	50.0%	50.0%	–
Kemble Water Junior Loan	–	–	3.6%	–	–	3.6%
Kent Schools	50.0%	50.0%	–	–	–	–

15. Investments at Fair Value Through Profit or Loss *(continued)*

	Percentage Holding					
	31 March 2011			31 March 2010		
Investments (project name)	**Equity**	**Subordinated loanstock**	**Mezzanine debt**	**Equity**	**Subordinated loanstock**	**Mezzanine debt**
Kicking Horse Canyon P3 [4]	50.0%	–	–	–	–	–
M80 Motorway DBFO [1]	41.6% [5]	41.6% [5/6]	–	–	–	–
MPA South East London Police Stations	50.0%	50.0%	–	50.0%	50.0%	–
MPA Specialist Training Centre	–	–	–	–	–	–
Newcastle Libraries	50.0%	50.0%	–	50.0%	50.0%	–
North Tyneside Schools	50.0%	50.0%	–	50.0%	50.0%	–
North-West Anthony Henday P3 [1/4]	50.0%	50.0% [6]	–	–	–	–
Oxford John Radcliffe Hospital	89.9%	100.0%	–	50.0%	50.0%	–
Pinnacle Schools, Fife	40.0%	40.0%	100.0%	40.0%	40.0%	100.0%
Queen Alexandra Hospital	89.9%	100.0%	–	–	–	–
Renfrewshire Schools	30.0%	30.0%	–	30.0%	30.0%	–
Romford Hospital	50.0%	50.0%	–	50.0%	50.0%	–
Sussex Custodial Centre	89.9%	100.0%	–	82.3%	82.3%	–
Wooldale Centre	50.0%	50.0%	–	50.0%	50.0%	–

1 The Consolidated Group has future investment obligations totalling £47.0 million and its share of the projects capital commitments is £38.0 million.

2 The investment company is incorporated in the Netherlands.

3 The Consolidated Group's economic interest in the Helicopter Training project includes the above investment in CAE Aircrew Training Services Plc (Op Co) and the controlling interest in CVS Leasing Limited (Asset Co) (see note 28).

4 The investment company is incorporated in Canada.

5 The Consolidated Group has put and call options to increase these interests to 49.9%.

6 Subordinated loanstock subscription commitments.

There are no other future loanstock or capital commitments on other investments at fair value through the profit or loss.

16A. Acquisition of Subsidiaries

Year ended 31 March 2011

There were no acquisitions of subsidiaries during the year ended 31 March 2011.

Year ended 31 March 2010

During the prior year the Group acquired additional interests in the equity and loan stock of Durham and Cleveland Firearms Training Centre, GMPA Police Stations and MPA Specialist Training Centre. The acquisitions took the group's economic interest in these four projects to 72.9% in each. The total consideration paid in cash for the interests in these projects was £8.0 million. The transaction cost for the three acquisitions was de minimus.

Intangible assets represent the fair value of customer contracts for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. Intangibles are amortised on a straight line basis over the remaining life of the concessions concerned.

16A. Acquisition of Subsidiaries *(continued)*

Durham and Cleveland Firearms Training Centre

In November 2009 the Group acquired 22.9% of the equity and loan stock in the project bringing the total equity and loan stock interests to 72.9%. The aggregate consideration paid for the interests in the project before the November acquisition was £1.3 million.

This project is a concession to design, construct, finance, operate and maintain a new firearms training facility for the Cleveland Police Authority, which became operational in 2001.

	Book value at acquisition *£million*	Fair value adjustments *£million*	Fair value acquired *£million*
Finance receivables at fair value through profit or loss*	6.7	2.2	8.9
Deferred tax assets	–	0.5	0.5
Cash and cash equivalents	1.5	–	1.5
Current liabilities	(0.3)	–	(0.3)
Deferred tax liabilities	(1.8)	(0.5)	(2.3)
Other non-current liabilities	(5.9)	(1.8)	(7.7)
Non-controlling interests	–	(0.2)	(0.2)
Net assets acquired	0.2	0.2	0.4
Goodwill			–
Fair value of consideration for equity			0.4
Fair value of consideration for loan stock			1.4
			1.8
Less: Carrying amount of investment previously held as fair value through profit or loss			(1.2)
Consideration paid for the remaining interests			0.6
Cash acquired			(1.5)
Net cash inflow			(0.9)

**The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.*

16A. Acquisition of Subsidiaries *(continued)*

GMPA Police Stations

In November 2009 the Group acquired 22.9% of the equity and loan stock in the project bringing the total equity and loan stock interests to 72.9%. The aggregate consideration paid for the interests in the project before the November acquisition was £14.1 million.

This project is a concession to design, construct, finance, operate and maintain a new traffic headquarters and 16 new police stations.

	Book value at acquisition *£million*	Fair value adjustments *£million*	Fair value acquired *£million*
Intangible assets	–	4.4	4.4
Finance receivables at fair value through profit or loss*	89.6	25.8	115.4
Deferred tax assets	–	4.0	4.0
Cash and cash equivalents	8.3	–	8.3
Other current assets	0.1	–	0.1
Current liabilities	(3.8)	–	(3.8)
Deferred tax liabilities	–	(8.5)	(8.5)
Other non-current liabilities	(93.7)	(14.3)	(108.0)
Non-controlling interests	–	(3.2)	(3.2)
Net assets acquired	0.5	8.2	8.7
Goodwill			–
Fair value of consideration for equity			8.7
Fair value of consideration for loan stock			8.7
			17.4
Less: Carrying amount of investment previously held as fair value through profit or loss			(12.1)
Consideration paid for the remaining interests			5.3
Cash acquired			(8.3)
Net cash inflow			(3.0)

**The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.*

16A. Acquisition of Subsidiaries *(continued)*

Metropolitan Police Specialist Training Centre

In November 2009 the Group acquired 22.9% of the equity and loan stock in the project bringing the total equity and loan stock interests to 72.9%. The aggregate consideration paid for the interests in the project before the November acquisition was £5.3 million.

This project involved a complete remodelling and refurbishment of the Metropolitan Police's existing training school, which was completed in 2003.

	Book value at acquisition *£million*	Fair value adjustments *£million*	Fair value acquired *£million*
Intangible assets	–	5.5	5.5
Finance receivables at fair value through profit or loss*	37.8	8.7	46.5
Deferred tax assets	–	1.6	1.6
Cash and cash equivalents	5.2	–	5.2
Other current assets	1.5	–	1.5
Current liabilities	(2.3)	–	(2.3)
Deferred tax liabilities	(6.7)	(4.0)	(10.7)
Other non-current liabilities	(35.0)	(5.7)	(40.7)
Non-controlling interests	–	(1.8)	(1.8)
Net assets acquired	0.5	4.3	4.8
Goodwill			–
Fair value of consideration for equity			4.8
Fair value of consideration for loan stock			2.2
			7.0
Less: Carrying amount of investment previously held as fair value through profit or loss			(4.9)
Consideration paid for the remaining interests			2.1
Cash acquired			(5.2)
Net cash inflow			(3.1)

**The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.*

If all the acquisitions had occurred on 1 April 2009, the estimated consolidated total income would have been £151.3 million and consolidated profit for the year would have been £11.6 million. The aggregate loss in respect of the acquired subsidiaries was £2.1 million during the year.

16B. Acquisition of Other Investments

Year ended 31 March 2011

The Consolidated Group has acquired a greater than 50% shareholding in certain entities (see Note 15), where in the opinion of the Directors it is unable to govern the financial and operating policies of the entities by virtue of agreements with the other shareholder(s). These entities are consequently not treated as subsidiaries, and instead they are accounted for as financial assets at fair value through profit or loss, as set out in Note 2(b).

In June 2010, the Group acquired a 74.9% interest in the equity and loanstock of The Hospital Company (QAH) Limited through the acquisition of a 74.9% interest in the investment holding company, The Hospital Company (QAH) Holdings Limited. The total consideration paid in cash for the interest in this project was £46.4 million.

In September 2010, the Group acquired a further 7.55% equity interest and 17.65% loan note interest in the Sussex Custodial Services Limited, taking its total equity interest in the project to 89.9% and loan note interest to 100%. The total consideration paid in cash for these interests was £1.1 million.

In November and December 2010, the Group acquired interests in two UK PFI and two Canadian P3 projects. The consideration was £65.9 million, including deferred investment obligations of approximately £46.1 million at October 2010 exchange rates.

16B. Acquisition of Other Investments *(continued)*

The four interests are:

- a 50.0% interest in the equity and loanstock of Kent Education Partnership Limited through the acquisition of a 50.0% interest in the investment holding company, Kent Education Partnership Holdings Limited;
- a 41.6% indirect interest in the equity and loanstock of Highway Management (Scotland) Limited, currently under construction in Scotland, through the acquisition of a 41.6% interest in the investment holding company, Highway Management M80 Investment Management Limited. Through the future exercise of options rights over the holdings of the other shareholders, this interest will increase to 49.9%;
- a 50.0% interest in the North-West Connect General Partnership, currently in construction in Alberta, Canada, through the acquisition of a 50.0% interest in the investment holding company, North-West Connect Holdings Inc; and
- a 50.0% interest in the Transpark Highway General Partnership in British Columbia, Canada, part of the Trans-Canada Highway through the acquisition of a 50.0% interest in the investment holding company, Transpark Highway Holding Inc.

In October 2010, the Group acquired a further 15.0% equity interest and 25.1% loan note interest in The Hospital Company (QAH) Limited, taking its total equity interest in the project to 89.9% and loan note interest to 100%. The total consideration paid in cash for the incremental interest in this project was £13.4 million.

In October 2010, the Group acquired a further 39.9% equity interest and 50% loan note interest in The Hospital Company (Oxford John Radcliffe) Limited, taking its total equity interest in the project to 89.9% and loan note interest to 100%. The total consideration paid in cash for the incremental interest in this project was £13.9 million.

In March 2011, the Group acquired a further 5.49% equity and loan note interest in Infraspeed BV, the Dutch High Speed Rail PPP project, taking its total equity and loan note interests in the project to 42.99%. The total consideration paid in cash for the incremental interest in this project was €11.6 million (£10.3 million).

Year ended 31 March 2010

In June 2009, the Group acquired a 30% interest in the equity and loanstock of The Renfrewshire Schools Partnerships Limited through the acquisition of a 30% interest in the investment holding company, RSP (Holdings) Limited. The total consideration paid in cash for the interest in this project was £6.8 million.

In July 2009, the Group acquired a 50% interest in the equity and loanstock of Alpha Schools Highland Limited through the acquisition of a 50% interest in the investment holding company, Alpha Schools Highland (Holdings) Limited. The total consideration paid in cash for the interest in this project was £16.8 million.

In September 2009, the Group acquired a 34% interest in the equity and loanstock of Integrated Bradford SPV Two Limited through the acquisition of a 34% interest in the investment holding company, Integrated Bradford Hold Co Two Limited. The total consideration for the interest in this project was £7.4 million, the majority of which is a loanstock subscription obligation payable at the end of construction in 2011.

In December 2009, the Group acquired a 50% interest in the equity and loanstock of Catalyst Healthcare (Romford) Limited through the acquisition of a 50% interest in the investment holding company, Catalyst Healthcare (Romford) Holdings Limited. The total consideration paid in cash for the interest in this project was £23.9 million.

In March 2010, the Group acquired a 50% interest in the equity and loanstock of Kajima Newcastle Library Limited through the acquisition of a 50% interest in the investment holding company, Kajima Newcastle Library Holdings Limited. The total consideration paid in cash for the interest in this project was £3.0 million.

17. Finance Receivables at Fair Value Through Profit or Loss

	31 March 2011 *£million*	31 March 2010 *£million*
Opening balance	788.6	646.6
Acquisition of subsidiaries	–	170.8
Gain/(loss) on valuation	6.6	(19.3)
Repayments in the year	(17.4)	(13.6)
Other movements	1.3	4.1
Carrying amount at year end	779.1	788.6
This is represented by:		
Less than one year	17.5	16.6
Greater than one year	761.6	772.0
Carrying amount at year end	779.1	788.6

The operating subsidiaries' concession contracts with public sector bodies are considered as financial assets. Gain in fair values of financial assets of £6.6 million for the year ended 31 March 2011 (2010: £19.3 million loss), are separately disclosed in the consolidated income statement as a capital amount. See Note 3 (ii) for the methods and assumptions used in determining the fair values. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in the balance sheet.

Interest income in relation to finance receivables of £40.6 million has been recognised in the consolidated income statement for the year ended 31 March 2011 as a revenue amount (2010: £35.5 million).

18. Trade and Other Receivables

	31 March 2011 *£million*	31 March 2010 *£million*
Trade receivables	9.8	5.1
Other debtors	1.0	0.5
Prepayments and accrued income	4.9	6.5
	15.7	12.1

19. Cash and Cash Equivalents

	31 March 2011 *£million*	31 March 2010 *£million*
Bank balances	34.5	39.5
Call deposits	80.4	27.6
Cash and cash equivalents	114.9	67.1

The effective interest rate on call deposits was between 0.3% and 1.0% (2010: between 0.3% and 0.9%). The deposits had a maturity of between 7 and 338 days (2010: between 30 and 183 days).

20. Trade and Other Payables

	31 March 2011 *£million*	31 March 2010 *£million*
Trade payables	7.6	4.4
Accruals	15.7	11.5
Other payables	5.6	5.0
	28.9	20.9

21. Loans and Borrowings

	31 March 2011 *£million*	31 March 2010 *£million*
Non-current liabilities		
Bank borrowings	350.1	369.5
Subordinated debt	23.4	16.8
RPI-linked bonds	157.6	159.7
Fixed rate bond	85.2	84.5
	616.3	630.5
Current liabilities		
Bank borrowings	19.4	18.6
Subordinated debt	0.7	1.0
RPI-linked bonds	11.3	10.0
	31.4	29.6
Total loans and borrowings	647.7	660.1

Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

	Weighted average effective interest rate	Average year of maturity	Carrying amount 2011 *£million*	Carrying amount 2010 *£million*
Secured bank borrowings – Operating Subsidiaries	5.9%	2025	369.5	386.3
Secured bank borrowings – Partnership	5.8%	2012	–	1.8
Subordinated debt	12.9%	2021	24.1	17.8
RPI-linked bonds	6.0%	2030	168.9	169.7
Fixed rate bond	5.7%	2031	85.2	84.5
			647.7	660.1

The interest rate profile for secured bank borrowings is floating. This debt is hedged using fixed floating interest rate swaps. The bonds have either fixed interest coupons or are RPI-linked bonds where the interest coupon varies with inflation.

The bonds are guaranteed by FSA (UK) Limited and Ambac Assurance UK Limited and are secured by a fixed and floating charge over the assets of the respective subsidiary companies. The index-linked bonds are indexed annually and semi-annually using published RPI figures. The index ratio uses a base index figure ranging from 173.3 to 174.5 and a numerator index figure that is published by the Office for National Statistics.

The fair value of all borrowings is deemed to reflect their carrying value, except fixed rate and RPI-linked bonds. An analysis of fair values and carrying values of bonds is detailed below:

	31 March 2011		31 March 2010	
	Carrying amount *£million*	Fair value *£million*	Carrying amount *£million*	Fair value *£million*
RPI-linked bonds	168.9	190.8	169.7	204.5
Fixed rate bond	85.2	94.1	84.5	91.4
	254.1	284.9	254.2	295.9

The fair value of fixed rate and RPI-linked bonds has been determined on a market quote basis.

21. Loans and Borrowings *(continued)*

The currency profile of the Consolidated Group's loans and borrowings is as follows:

	2011 £million	2010 £million
Pound Sterling	647.7	657.0
Euro	–	3.1
	647.7	660.1

The exchange rate used as at 31 March 2010 to convert the Euro loan was 0.89.

The Consolidated Group has the following undrawn borrowing facilities at 31 March:

Floating rate	2011 £million	2010 £million
Secured		
– expiring within one year	–	–
– expiring between 1 and 2 years	153.3	–
– expiring between 2 and 5 years	–	189.7
– expiring after 5 years	8.0	8.0
	161.3	197.7
Unsecured		
– expiring within one year	–	–
	161.3	197.7

The Operating Subsidiaries are required to meet certain bank covenants on its debt, the most significant of which are maintaining debt service cover ratios (cash flows available for debt service as a ratio of debt servicing amounts) above 1.05 and Loan Life Cover Ratio above 1.05. There were no material events of non-compliance in the Operating Subsidiaries in the year.

The Company is also required to meet certain bank covenants on its debt, the most significant of which are maintaining a Forward and Historic Interest Cover Ratio above 1.15 and Gearing Ratio not greater than 1:1.

22. Other Financial Liabilities (Fair Value of Derivatives)

	31 March 2011 £million	31 March 2010 £million
Non-current liabilities		
Interest rate swaps	56.4	63.5
Inflation swap	26.1	22.6
Forward foreign exchange contract	0.3	(1.2)
	82.8	84.9

Financial liabilities have been fair valued in accordance with Note 2(d). The gain in fair value of interest and inflation rate swaps of £1.7 million for the year ended 31 March 2011 (2010: gain £0.8 million) is disclosed within finance income in the consolidated income statement as a capital amount (see Note 9).

In order to manage exposure to movements in interest rates, project companies financed by floating rate debt swap their floating rate exposure for fixed rates using interest rate swaps. The notional amounts of the outstanding interest rate swap contracts at 31 March 2011 were £444.7 million (2010: £438.4 million). As at 31 March 2011, the fixed interest rates on the swaps range from 4.53% to 6.51% (2010: 4.53% to 6.51%) and maturities range from 2012 to 2036 (2010: 2012 to 2036). The notional amount of the outstanding inflation rate swap contracts at 31 March 2011 was £1.4 million (2010: £1.4 million). As at 31 March 2011, the fixed inflation rates on the swaps range from 2.12% to 2.77% (2010: 2.12% to 2.77%) and maturities range from 2034 to 2036 (2010: 2034 to 2036).

23. Capital and Reserves

	Ordinary shares		Management shares	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	million	*million*	*million*	*million*
On issue at 1 April	454.3	338.3	–	–
Issued for cash	139.0	115.0	–	–
Issued as a script dividend alternative	1.8	1.0	–	–
On issue at 31 March – fully paid	595.1	454.3	–	–

The holders of the 595,139,454 ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company (2010: 454,301,314).

The 2 Management Shares of 0.01p each carry one vote each on a poll, do not carry any right to dividends and, in winding-up, rank only for a return of the amount of the paid-up capital on such shares after return of capital on Ordinary Shares and Nominal Shares. The Management Shares are not redeemable and are accrued for and on behalf of a Guernsey charitable trust.

Share capital and share premium

	31 March 2011	31 March 2010
	£million	*£million*
Opening balance	234.0	106.5
Premium arising on issue of equity shares	159.0	129.3
Expenses of issue of equity shares	(2.3)	(1.8)
Balance at 31 March	390.7	234.0

Share capital is £59.5 thousand (2010: £45.4 thousand).

For the year ended 31 March 2011
On 30 June 2010 0.3 million new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2010.

On 31 December 2010 1.5 million new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the year ending 31 March 2011.

On 13 December 2010 the Company announced the results of its Placing and Offer for Subscription of C shares. The Company raised £110.0m (before expenses) through the issue of 110,000,000 C shares at a price of £1.00 per C share, of which 56,739,235 C Shares were issued pursuant to the Open Offer, 2,769,811 C Shares were issued pursuant to the Offer for Subscription and 50,490,954 C Shares were issued by way of the Placing. The C shares were converted to 97,350,000 ordinary shares and admitted to trading on the London Stock Exchange on 17 January 2011.

In the year ending 31 March 2011 41.7 million new ordinary shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 112.5p and 115.0p.

For the year ended 31 March 2010
On 30 June 2009 0.1 million new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2009.

On 31 December 2009 0.9 million new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the year ending 31 March 2010.

On 11 December 2009 the Company announced the results of its Placing and Offer for Subscription of C shares. The Company raised £80.0m (before expenses) through the issue of 80,000,000 C shares at a price of £1.00 per C share, of which 19,838,594 C shares were issued pursuant to the offer for subscription and 60,161,406 C shares were issued by way of the placing. The C shares were converted to 71,856,000 ordinary shares and admitted to trading on the London Stock Exchange on 15 January 2010.

In the year ending 31 March 2010 43.1 million new ordinary shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 109.9p and 115.75p.

Retained reserves
Retained reserves comprise retained earnings and the balance of the share premium account, as detailed in the consolidated statements of changes in shareholders' equity.

24. Related Party Transactions

The Investment Adviser to the Company and the Operator of a limited partnership through which the group holds its investments is InfraRed Capital Partners Limited ("IRCP"). At 31 March 2011 IRCP was a wholly owned subsidiary of HSBC Group. Since year end IRCP's ownership changed as outlined in Note 26.

IRCP's appointment as Investment Adviser is governed by an Investment Advisory Agreement which may be terminated after an initial four year term, starting in February 2006, by either party giving one year's written notice. The appointment may also be terminated if IRCP's appointment as Operator is terminated. The Investment Adviser is entitled to a fee of £0.1 million p.a. (disclosed within investment fees in Note 8) (2010: £0.1 million), payable half-yearly in arrears and which is subject to review, from time to time, by the Company.

IRCP has been appointed as the Operator of Infrastructure Investments Limited Partnership by the General Partner of the Partnership, Infrastructure Investments General Partner Limited, a sister subsidiary of IRCP. The Operator and the General Partner may each terminate the appointment of the Operator by either party giving one year's written notice. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Advisory Agreement is terminated in accordance with its terms. The General Partner's appointment does not have a fixed term, however if IRCP ceases to be the Operator, the Company has the option to buy the entire share capital of the General Partner and IRCP Group has the option to sell the entire share capital of the General Partner to the Company, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In aggregate IRCP and the General Partner are entitled to fees and/or profit share equal to: i) 1.1 per cent p.a. of the adjusted gross asset value of all investments of the group that are not in either their construction or ramp-up phases up to £750 million and 1.0 per cent p.a. for the incremental value in excess of £750 million; ii) 1.5 per cent p.a. of investments of the group that are in either their construction or ramp-up phases, excluding investments acquired with the acquisition of the initial portfolio (the ramp-up phase of an investment means the period following completion of a project's construction phase during which it is building up to be fully operational with full service provision); and iii) 1.0 per cent of the value of new portfolio investments, that are not sourced from entities, funds or holdings managed by the IRCP Group.

The total Operator fees charged to the Income Statement was £6.5 million (2010: £5.2 million) of which £3.6 million remained payable at year end (2010: £2.7 million). The total charge for new portfolio investments (disclosed within investment fees in Note 8) was £1.5 million (2010: £0.7 million) of which £1.0 million remained payable at year end (2010: £0.3 million).

Transactions during the year

The following summarises the transactions between the Consolidated Group and its associates in the year:

	Transactions		Balance	
	Year ended 31 March 2011 *£million*	Year ended 31 March 2010 *£million*	31 March 2011 *£million*	31 March 2010 *£million*
Loanstock investments	66.1	29.1	285.2	199.9
Loanstock repayments	(2.5)	(2.1)	–	–
Equity investments	47.0	21.6	152.9	84.1
Equity repayments	(4.0)	(1.3)	–	–
Outstanding subscription obligations	–	–	–	–
Loanstock interest	18.8	14.8	10.8	10.9
Dividends received	5.8	5.4	–	–
Fees and other income	1.5	1.3	–	–

At 31 March 2011 the Consolidated Group had total cash holdings with HSBC Bank plc of £81.4 million (2010: £34.5 million). Total interest income earned from cash holdings held with HSBC Bank plc for the year was £0.1 million (2010: £0.2 million).

The Consolidated Group paid £nil (2010: £0.1 million) to HSBC Insurance Brokers Limited in the year for premiums in respect of Directors and Officers liability insurance.

The Consolidated Group entered into Euro and Canadian dollar to Sterling sale and forward sale agreements with HSBC Bank plc during the year. Net payments received in respect of these agreements were £1.4 million (2010: £1.5 million paid), and as at 31 March 2011 the mark to market of the outstanding Euro and Canadian sale agreements was a £0.3 million liability (2010: £1.2 million asset).

The Directors of the Consolidated Group, who are considered to be key management, received fees for their services. Further details are provided in the Report of the Directors on page 36.

Total fees for the year were £155,000 (2010: £129,000). Directors expenses of £10,634 (2010: £3,982) were also paid in the year.

All of the above transactions were undertaken on an arm's length basis.

25. Guarantees and Other Commitments

As at 31 March 2011 the Consolidated Group had £47.0 million in commitments for future project investments (2010: £8.3 million) and £20.3 million in capital commitments (2010: £12.3 million).

26. Events after Balance Sheet Date

On 11 April 2011, the Group received £30 million from its investment in the Kemble Water junior loan which was fully repaid at par. The £30 million proceeds received compares with the valuation of the investment in the Group's portfolio as at 31 March 2011 of £29.7 million. The Company will seek to invest the proceeds of the repayment as and when suitable acquisition opportunities arise.

On 30 April 2011, HSBC Group successfully completed the majority sale of its infrastructure and real estate fund management business, of which the Investment Adviser is part, to the businesses' senior management. HSBC Group retained a 19.9% stake. The Company's Investment Advisor changed its name to InfraRed Capital Partners Limited (formerly HSBC Specialist Fund Management Limited).

On 23 May 2011 the Group completed the acquisition of three school PFI projects from subsidiaries of Kier Group plc and Dexia SA for a consideration of £17.2 million. The interests acquired are 75% of the equity and loan note interests in both Norwich and Oldham Schools and 37.5% of the equity and loan note interests in Sheffield Schools.

There were no other events after the balance sheet date, which are required to be disclosed.

27. Disclosure – Service Concession Arrangements

The Group holds investments in 37 service concession arrangements in the Accommodation, Education, Health, Transport and Law and Order sectors. The concessions vary on the required obligations but typically require the financing and operation of an asset during the concession period. As at 31 March 2011 34 of the service concessions were fully operational.

The rights of both the concession provider and concession operator are stated within the specific project agreement. The standard rights of the provider to terminate the project include poor performance and in the event of force majeure. The operator's rights to terminate include the failure of the provider to make payment under the agreement, a material breach of contract and relevant changes of law which would render it impossible for the service company to fulfil its requirements.

27. Disclosure – Service Concession Arrangements (continued)

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Barnet Hospital	Design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust.	1999	2032	33	£65m	Ecovert South Ltd Compass Contract Services (UK) Ltd
Bishop Auckland Hospital	Design, construct, finance, service and maintain a redevelopment of Bishop Auckland General Hospital, County Durham for South Durham Health Care NHS Trust.	1999	2062	60 (with break clause option by Grantor at Year 30, 40 & 50)	£66m	ISS Mediclean Ltd
Blackburn Hospital	Design, construct, finance and maintain new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust.	2003	2041	38	£100m	Haden Building Management
Bradford Schools	Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council.	2009	2036	27	£175m	Amey Communities
Central Middlesex Hospital	Design, construct, finance and maintain new hospital facilities, and to refurbish some existing facilities, for the Brent Emergency Care and Diagnostic Centre on the Central Middlesex Hospital site in North West London.	2003	2036	33	£75m	Ecovert FM Ltd
Colchester Garrison	Design, construct, finance and maintain a new garrison facility at Colchester, Essex for The Secretary of State for Defence.	2004	2039	35	£550m	Sodexo Defence Services Ltd WS Watkins Facilities Management Ltd
Conwy Schools	Design, build, operate and maintain three schools for Conwy County Borough Council in North Wales.	2003	2030	27	£40m	Sodexo Education Services Ltd
Cleveland and Durham Police Tactical Training Centre	Construction of a state of the art firearms and tactical training centre at Urlay Nook in the North of England. Construction completed successfully in March 2002.	2000	2026	26	£6m	John Laing Integrated Services Ltd
Darlington Schools	Darlington Schools is a four-school education PFM project consisting of an Education Village (which brought together three existing schools) and one primary school. The facilities became available on a phased basis in 2005 and 2006	2004	2031	27	£31m	Mitie PFI Ltd
Defence 6th Form College	Design, build, operate, finance and maintaining a new residential sixth form college for the Secretary of State for Defence.	2003	2033	30	£40m	TQ Education and Training Ltd Interserve Defence Ltd
Dutch High Speed Rail	Design, construct, finance, operate and maintain one of the largest high speed railway projects in Europe to date.	2001	2031	30	£625m	Siemens Nederland By Koninklijke BAM NBM NV Fluor Infrastructure BV
Ealing Schools	Ealing Schools is a four-school education PFI project consisting of one secondary school and three primary schools in the London Borough of Ealing. The schools became operational in 2004.	2004	2031	27	£31m	Mitie PFI Ltd

27. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Exeter Crown Court	Build and service a new crown and county court building in Exeter.	2002	2034	32	£20m	Sodexo Ltd
Fife Schools	The facility involved the construction of 3 new schools and a sports hall, all of which have been constructed successfully and are now fully operational.	2001	2028	27	£40m	Sodexo Ltd
GMPA Police Stations	Construction of 17 police stations on 16 sites around Greater Manchester. Construction of all stations were complete by September 2006.	2002	2030	28	£82m	John Laing Integrated Services Ltd
Haverstock School	Haverstock is a single school education PFI project consisting of a new secondary school on an existing school site on Haverstock Hill, Camden. Phase 1 of the new school became operational in 2004 with subsequent phases handed over one year later.	2003	2030	27	£21m	Mitie PFI Ltd
Health & Safety Merseyside HQ	HSE Merseyside HQ is an accommodation PFI project. It is a four-storey office building that serves as the HSE's operational headquarters and houses 1,500 employees. The building became operational in 2005.	2002	2035	30	£62m	Honeywell Control Systems Reliance Integrated Services Ltd
Health & Safety Laboratory	Building of new workshops and offices in Buxton and the disposal of old facilities at Sheffield.	2002	2035	33	£60m	Interserve (Facilities Management) Ltd
Helicopter Training Facility	Design, construction, management, operation and financing of a simulator based training facility for RAF helicopter pilots.	1997	2037	40 (with break clause by Grantor at Year 20)	£100m	Serco Ltd Vega Software Engineering Ltd
Highland Schools	Design, construction and operate eleven urban and rural schools.	2006	2037	30	£143m	Morrison Facilities Services
Home Office HQ	Build, finance, operate and maintain a new headquarters building to replace the Home Office's existing London office accommodation with purpose-built serviced offices.	2002	2032	29	£200m	Ecovert FM ltd
Kicking Horse Canyon	Upgrade, operate and maintain a section of highway in British Columbia. Full availability was completed in August 2007.	2008	2030	22	CAD$ 127m	HMC Services Inc
Kent Schools	Design, build, funding and partial operation of six schools in Kent under the UK Government's PFI programme. Construction was completed in June 2007.	2007	2035	26	£95m	Mitie PFI Ltd
M80 Motorway	Design, build, finance and operate a section of the M80 motorway in Scotland. Final completion is scheduled for December 2011.	2011	2041	30	£275m	Bear (Scotland) Ltd
MPA Specialist Training Centre	Construction of a firearms and public order training facility in Gravesend, Kent for the Metropolitan Police Authority. Construction was completed in February 2003.	2001	2028	27	£40m	John Laing Integrated Services Ltd

27. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
MPA SEL Police Stations	Construction of 4 police stations in South East London for the Metropolitan Police Authority. Construction was completed in February 2004.	2001	2029	28	£80m	John Laing Integrated Services Ltd
Newcastle Libraries	Finance, develop, construct and operate a new city centre library in Newcastle and an additional satellite library in High Heaton, both in the North East of the UK. Construction was completed in March 2009.	2007	2034	27	£30m	Integral UK Limited
North Tyneside Schools	North Tyneside Schools is a four-school education PFI project consisting of one secondary school (Burnside) and three primary schools (Western, Marine, Coquet) in North Tyneside. The schools became operational in 2003/2004.	2002	2034	32	£30m	Mitie PFI Ltd
North West Anthony Henday	Financing, building, maintaining and rehabilitating the northwest leg of the Anthony Henday Drive ring road in the City of Edmonton, Alberta. Traffic availability is expected on or before November 2011.	2011	2041	30	CAD$ 995m	Carmacks Maintenance Services Ltd
Oxford John Radcliffe Hospital	Design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary. Construction was completed ahead of schedule in March 2001.	2003	2036	33	£161m	Carillion Services Ltd
Portsmouth Hospital	Design and construction of a new hospital and retained estates work in Portsmouth. Construction was completed in June 2010.	2005	2040	35	£255m	Carillion Services Ltd
Renfrewshire Schools	Design, construction, management, financing, operation and maintenance of six primary and four secondary schools in Renfrewshire, Scotland.	2005	2037	32	£100m	Amey BPO Services Ltd
Romford Hospital	Design, construction, management, financing, operation and maintenance of a new hospital in Romford.	2004	2040	36	£211m	Sodexo Healthcare Services Ltd Sodexo Services Ltd Bovis Lend Lease Ltd
Stoke Mandeville Hospital	Design, finance, construct, refurbish, operate and maintain a new hospital facility for the Buckingham Hospitals NHS Trust.	2004	2036	30	£40m	Sodexo Healthcare Services Ltd
Sussex Custodial Centre	Build and service three custody centres in Sussex for Sussex Police Authority. The centres are at Worthing, Chichester and Brighton. A fourth centre at Eastbourne was subsequently contracted for as a variation.	2001	2031	30	£20m	Reliance Task Management Ltd
West Middlesex Hospital	Design, construct, finance, operate and maintain a new 228 bed hospital for West Middlesex University Hospital NHS Trust.	2001	2036	35	£60m	Ecovert FM Ltd
Wooldale Centre for Learning	Wooldale Centre for Learning is an education PFI project consisting of a Centre for Learning (CfL) comprising a secondary school with sixth form, public library, primary school and nursery on a large site in Northamptonshire. The first phase of the CfL (the primary school, library and part of the secondary school) became operational in 2004.	2003	2029	26	£24m	Mitie PFI Ltd

28. Principal Subsidiaries

Name	**Country**	**Ownership interest**
HICL Infrastructure 1 SARL	Luxembourg	100.0%
HICL Infrastructure 2 SARL	Luxembourg	100.0%
HICL Infrastructure 3 SARL	Luxembourg	100.0%
HICL Infrastructure (Canada) Inc	Canada	100.0%
Infrastructure Investments Limited Partnership	United Kingdom	100.0%
Infrastructure Investments Holdings Limited	United Kingdom	100.0%
Infrastructure Investments (Portsmouth) Limited	United Kingdom	100.0%
AGP Holdings (1) Limited*	United Kingdom	100.0%
AGP (2) Limited*	United Kingdom	100.0%
Annes Gate Property PLC*	United Kingdom	100.0%
ByCentral Holdings Limited*	United Kingdom	100.0%
ByCentral Limited*	United Kingdom	100.0%
ByWest Holdings Limited*	United Kingdom	100.0%
ByWest Limited*	United Kingdom	100.0%
CVS Leasing Limited	United Kingdom	80.4%
Enterprise Civic Buildings (Holdings) Limited*	United Kingdom	90.0%
Enterprise Civic Buildings Limited*	United Kingdom	90.0%
Enterprise Education Conwy (Holdings) Limited*	United Kingdom	90.0%
Enterprise Education Conwy Limited*	United Kingdom	90.0%
Enterprise Healthcare (Holdings) Limited*	United Kingdom	90.0%
Enterprise Healthcare Limited*	United Kingdom	90.0%
Metier Healthcare Limited	United Kingdom	100.0%
Metier Holdings Limited	United Kingdom	100.0%
Services Support (Cleveland) Holdings Limited*	United Kingdom	72.9%
Services Support (Cleveland) Limited*	United Kingdom	72.9%
Services Support (Gravesend) Holdings Limited*	United Kingdom	72.9%
Services Support (Gravesend) Limited*	United Kingdom	72.9%
Services Support (Manchester) Holdings Limited*	United Kingdom	72.9%
Services Support (Manchester) Limited*	United Kingdom	72.9%

** = Reporting date 31 December*

All the consolidated revenues and the material net assets of the subsidiaries above are derived from the United Kingdom.

Company Income Statement

for the year ended 31 March 2011

	Note	Year ended 31 March 2011 £million	Year ended 31 March 2010 £million
Gain on financial assets	A	46.3	25.7
Total income		46.3	25.7
Administrative expenses		(1.2)	(1.0)
Profit before net finance costs and tax		45.1	24.7
Finance income		–	–
Profit before tax		45.1	24.7
Income tax expense		–	–
Profit for the year		45.1	24.7

All results are derived from continuing operations. There is no other comprehensive income or expense apart from those disclosed above and consequently a consolidated statement of comprehensive income has not been prepared.

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

Company Balance Sheet

as at 31 March 2011

	Note	31 March 2011 £million	31 March 2010 £million
Non-current assets			
Investments in subsidiaries	B	0.1	0.1
Financial assets at fair value through profit or loss	C	673.3	502.9
Total non-current assets		673.4	503.0
Current assets			
Trade and other receivables	D	–	0.1
Cash and cash equivalents		0.1	0.1
Total current assets		0.1	0.2
Total assets		673.5	503.2
Current liabilities			
Trade and other payables		(0.3)	(0.3)
Total current liabilities		(0.3)	(0.3)
Net assets		673.2	502.9
Equity			
Ordinary share capital	23	–	–
Share premium	23	390.7	234.0
Retained reserves		282.5	268.9
Total equity attributable to equity holders of the parent		673.2	502.9

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

The financial statements were approved and authorised for issue by the Board of Directors on 23 May 2011, and signed on its behalf by:

J Hallam
Director

G Picken
Director

Company Statement of Changes in Shareholders' Equity

for the year ended 31 March 2011

	For the year ended 31 March 2011		
	Share capital and share premium *£million*	**Retained reserves** *£million*	**Total** *£million*
Shareholders' equity at beginning of year	234.0	268.9	502.9
Profit for the year	**–**	**45.1**	**45.1**
Distributions paid	–	(31.5)	(31.5)
Ordinary shares issued	159.0	–	159.0
Costs of shares issued	(2.3)	–	(2.3)
Shareholders' equity at end of year	**390.7**	**282.5**	**673.2**

	For the year ended 31 March 2010		
	Share capital and share premium *£million*	**Retained reserves** *£million*	**Total** *£million*
Shareholders' equity at beginning of year	106.5	267.2	373.7
Profit for the year	**–**	**24.7**	**24.7**
Distributions paid	–	(23.0)	(23.0)
Ordinary shares issued	129.3	–	129.3
Costs of shares issued	(1.8)	–	(1.8)
Shareholders' equity at end of year	**234.0**	**268.9**	**502.9**

Company Cash Flow Statement

for the year ended 31 March 2011

	Year ended 31 March 2011 £million	Year ended 31 March 2010 £million
Cash flows from operating activities		
Profit before tax	45.1	24.7
Adjustments for:		
Gain on financial assets	(46.3)	(25.7)
Interest income	–	–
Operating cash flow before changes in working capital	(1.2)	(1.0)
Changes in working capital:		
Decrease in receivables	0.1	–
Cash flow from operations	(1.1)	(1.0)
Net cash used in operating activities	(1.1)	(1.0)
Cash flows from investing activities		
Interest received on financial assets	26.1	23.5
Financial assets – loans given	(159.1)	(131.4)
Financial assets – repayments received	8.9	4.6
Net cash generated used in investing activities	(124.1)	(103.3)
Cash flows from financing activities		
Proceeds from issue of share capital	154.6	126.3
Dividends paid to Company shareholders	(29.4)	(21.9)
Net cash from financing activities	125.2	104.4
Net decrease in cash and cash equivalents	–	0.1
Cash and cash equivalents at beginning of year	0.1	–
Cash and cash equivalents at end of year	0.1	0.1

Key accounting policies

The accounting policies relevant to the Company are the same as those set out in the accounting policies of the Consolidated Group in Note 2, except as set out below:

Investments

Investments in equity shares of subsidiaries are carried at cost less impairment.

Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IAS 39 'Financial instruments: Recognition and Measurement'.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise certain securities held with the Company's wholly owned subsidiary. These financial assets are designated at fair value through profit or loss since the Company manages these as a portfolio of assets and takes investment decisions based on their fair values. After initial recognition, financial assets at fair value through profit or loss are measured at fair value with changes recognised in the income statement. Fair values are determined by discounting the expected future principal, interest and dividend cash flows associated with these assets at an appropriate rate to arrive at fair values. The rate applied at 31 March 2011 was the weighted average rate used in determining the fair value of the Group's investments.

Interest income

Interest income arising on financial assets at fair value through profit or loss is recognised in the income statement as it accrues, using the effective interest rate of the instrument concerned as calculated at the origination date. The effective interest rate is that rate that exactly discounts estimated cash payments or receipts through the expected life of the financial instrument to the relevant asset's carrying amount.

Financial risk management

The relevant risks to the Company are managed as described in Note 4 to the consolidated accounts.

A. Gains on Financial Assets

	For the year ended 31 March 2011 *£million*	For the year ended 31 March 2010 *£million*
Interest from financial assets	26.1	23.5
Gain/(loss) on financial assets (see Note C)	20.2	2.2
	46.3	25.7

B. Investments in Subsidiary Undertakings

	31 March 2011 *£million*	31 March 2010 *£million*
Investments in subsidiary undertakings	0.1	0.1

The Company owns 100% of the share capital of HICL Infrastructure 1 SARL, a company incorporated in Luxembourg.

C. Financial Assets at Fair Value Through Profit or Loss

	31 March 2011 £million	31 March 2010 £million
Opening balance	502.9	373.8
Acquisitions during the year	159.1	131.4
Gain in fair value	20.2	2.2
Repayments in the year	(8.9)	(4.6)
Other movements	–	0.1
Carrying amount at the end of the year	673.3	502.9

Financial assets at fair value through profit or loss represent receivables from HICL Infrastructure 1 SARL ("Luxco 1") and comprise interest financing loans and redeemable convertible bonds. These financial assets were valued at 31 March 2011 by the Directors by discounting the expected future principal, interest and dividend cash flows associated with these instruments at an appropriate rate to arrive at fair values. The rate applied at 31 March 2011 was 8.7% (2010: 8.8%).

Financial assets at fair value through profit or loss are classified as Level 3 which is defined as assets where the inputs are not based on observable market data (unobservable inputs).

The nominal value of the financial assets at 31 March 2011 was £609.4 million (2010: £457.6 million). The gain in fair value of financial assets of £20.2 million for the year to 31 March 2011 (2010: £2.2 million gain) is disclosed in the income statement.

The carrying amount of financial assets at fair value through profit or loss would be an estimated £16.5 million (2010: £12.2 million) higher or £15.8 million (2010: £11.7 million) lower if the discounted rate used in the cash flow analysis to differ by 25 basis points from that used in the fair value calculations.

D. Trade and Other Receivables

	31 March 2011 £million	31 March 2010 £million
Prepayments	–	0.1
	–	0.1

There are no material differences between the carrying value and fair value of trade and other receivables as at 31 March 2010 or 2011. No classes within trade and other receivables contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

E. Related Party Transactions

Financial assets acquired by the Company's subsidiary had a value at 31 March 2011 of £673.3 million (2010: £502.9 million) (see Note C). Total interest earned in relation to these instruments was £26.1 million (2010: £23.5 million) in the year, of which £nil remains receivable at 31 March 2011 (2010: £nil).

The Company paid £nil (2010: £0.1 million) to HSBC Insurance Brokers Limited in the year for premiums in respect of Directors and Officers liability insurance.

Refer to Note 24 of the consolidated accounts for disclosures regarding payments to related parties for insurance, Directors fees, investment advice and priority profit share to the General Partner.

Directors and Advisers

Directors
Graham Picken (chairman)
Sarah Evans
John Hallam
Chris Russell

Registrar
Capita Registrars (Guernsey) Limited
Longue Hougue House
St. Sampson
Guernsey GY2 4JN

Administrator to Company, Company Secretary And Registered Office
Dexion Capital (Guernsey) Limited
1, Le Truchot
St Peter Port
Guernsey GY1 1WD

Investment Adviser and Operator
Infrared Capital Partners Limited
12 Charles II Street
London SW1Y 4QU

Financial PR
M: Communications
34th Floor
1 Ropemaker Street
London EC2Y 9HT

UK Transfer Agent
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Helpline: 0871 664 0300

Auditors
KPMG Channel Islands Limited
20 New Street
St Peter Port
Guernsey GY1 4AN

Joint Brokers
Collins Stewart Europe Limited
9th Floor
8 Wood Street
London EC2V 7QR

Oriel Securities Limited
150 Cheapside
London EC2V 6ET

1879. Designed and produced by studio401

1 Le Truchot
St Peter Port
GY1 3SZ
Guernsey

T +44 (0)1481 743 940
E info@hicl.com
W www.hicl.com

Registered Office: 1 Le Truchot St Peter Port Guernsey.
This report has been produced using recycled paper.