

# HICL Infrastructure Company Limited

23 May 2012

## ANNUAL RESULTS FOR YEAR TO 31 MARCH 2012

The Directors of HICL Infrastructure Company Limited announce the results for the year ended 31 March 2012.

### Highlights

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for the year ended 31 March 2012 (on an Investment basis unless noted otherwise<sup>1</sup>)

- Portfolio performance and cash generation remain strong despite economic headwinds
- Directors' Valuation of the portfolio at 31 March 2012 of £902.0m, up from £673.1m at 31 March 2011, a 34% increase
- Raised £325.9m (before expenses) through a C Share issue of £250.0m in March 2012 and tap issues in aggregate of 65.9m shares (£75.9m) in the year
- 33 new investments and 5 incremental stakes acquired, with a combined investment value of £236.6m
- Additional £88.6m of investments since year end with pipeline of further investment opportunities under consideration
- Net asset value ("NAV") per Ordinary Share at 31 March 2012 of 117.0p (2011: 110.4p) on a consolidated IFRS basis and 116.3p (2011: 113.1p) on an Investment basis
- NAV per Ordinary Share post distribution of 112.8p at 31 March 2012 compared to 109.7p at 31 March 2011, a 2.8% increase
- Profit before tax of £62.0m (2011: £45.2m)
- Second interim distribution of 3.5p for the year to 31 March 2012 declared, with a scrip dividend alternative, giving total distributions of 6.85p for the year, an increase of 2.2%

<sup>1</sup> 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.

Graham Picken, Chairman of the Board, said:

"Another very successful year for the Company was marked by both the largest portfolio acquisition and capital raising since the IPO in 2006. At the trading level, the business continues to perform well and we are pleased to be able to deliver a total distribution for the year of 6.85p. The Company maintains its target distribution of 7.0p per share for the year ending 31 March 2013.

The year has been exceptionally busy. We have acquired 33 new investments and 5 incremental stakes for £236.6m and raised a total of £325.9m of new equity capital. We were delighted that the C Share issue in March 2012 was oversubscribed and we felt comfortable in accepting £250m based on our expectation of delivering new investments from our pipeline of opportunities. We have made three new investments since 31 March totalling £88.6m and, having repaid our bank debt, we expect to invest the remaining funds soon.

We have also successfully refinanced the Group's debt facilities. These are used to make acquisitions prior to the raising of equity capital, thus avoiding the drag of holding surplus cash.

Opportunities in the UK secondary market for PFI assets remain good. We welcomed the UK Government's new Infrastructure Plan and, although there is detail to be worked through, it is clear that the private sector has a crucial part to play in funding and managing the next generation of infrastructure projects.

Ever mindful of the need to clearly demonstrate value for money from public spending, we have been active across our portfolio assisting our clients to find and deliver savings. This is an on-going process in which we are taking a pro-active role."

Contacts for the Investment Adviser on behalf of the Board:

InfraRed Capital Partners Limited: +44 (0) 20 7484 1800  
Tony Roper  
Keith Pickard  
Robin Hubbard  
Sandra Lowe

Contacts for Tulchan Communications: +44 (0) 20 7353 4200  
Edward Orlebar  
Rebecca Scott

Copies of this announcement can be found on the Company's website, [www.hicl.com](http://www.hicl.com). The Annual Report and Consolidated Financial Statements for the year to 31 March 2012 will be posted to shareholders in early June, and an electronic version will be available from the Company's website at that time.

## Chairman's Statement

### Introduction

On behalf of the Board, I am pleased to report another very successful and busy year for the Company. The Company has continued to meet its stated objectives and has delivered a total return (based on share price) for shareholders of 8.0% in the year. Whilst uncertainty remains over the economic and financial prospects for the global economy, the Company's portfolio of assets continues to perform well which, in turn, enables us to provide investors with an attractive and growing distribution.

### Financial Results and Performance

#### *Financial results*

As in previous periods, the Company has prepared pro-forma accounts on an Investment basis (treating all 70 holdings as investments). Profit before tax on an Investment basis was £62.0m (2011: £45.2m) and earnings per share on an Investment basis were 9.8p (2011: 8.9p per share). This increase was driven by contributions from new investments, actual inflation exceeding the 2.75% valuation assumption and valuation uplifts from projects coming out of construction. Cash received from the portfolio by way of distributions, capital repayments and fees was £51.2m (2011: £45.6m). After Group costs, net cash inflows of £41.0m adequately covered the distributions paid in the year. The growth in cash generated 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 £84.2m (2011: £38.3m). Profit before tax has increased materially due to gains on finance receivables arising from a 1.0% reduction in UK long term gilt rates which has only partially been offset by adverse mark-to-market movements on interest rate swaps.

The Company has raised a total of £325.9m (before expenses) in the year: £75.9m through tap issues and £250.0m through the successful C Share capital raising in March 2012, which was oversubscribed.

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) amounted to £11.1m in the year, comprising their 1.1% per annum management fee (1.5% per annum for assets in construction), the 1.0% fee on the acquisitions made and an advisory fee of £0.1m. The Investment Adviser does not receive any fees from, nor are there any contracts with, the investment project companies in the portfolio. For example, directors' fees from these companies are for the benefit of the Group. Had these fees been paid to the Investment Adviser, they would have amounted in aggregate to £2.2m, equivalent to an additional fee of 0.28% on assets under management. We believe our approach ensures alignment of interests between stakeholders and conforms to our policy of transparency.

The total expense ratio ("TER") for the Group on an Investment basis was 1.34% (being the Group's £10.4m of operational expenses excluding acquisition costs as a percentage of the Group's £773.7m net assets on an Investment basis). This compares with 1.20% for the year to 31 March 2011, the increase arising from changes in the growth profile of net assets.

The Association of Investment Companies ("AIC") is now recommending reporting an Ongoing Charges Percentage instead of a TER. As at 31 March 2012, using the AIC methodology, the Company's Ongoing Charges Percentage was 1.36% (there is no performance fee payable to any service provider).

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 2012 consisted of 70 PFI/PPP/P3 projects. The Kemble Water junior loan was repaid in full in April 2011.

The Group currently has two projects under construction. On the M80 Motorway DBFO, construction is substantially complete with traffic now using the road, and we expect final construction completion this summer. On the Birmingham Hospitals project acquired since the year end, construction will also be finished this summer.

The Investment Adviser's asset management team continues its work across the Group's portfolio of assets, maintaining dialogue with our public sector clients and partners to find new efficiencies and savings. Guidance published by HM Treasury has prompted a constructive response from public sector clients.

#### *Valuation*

As in previous periods, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 31 March 2012. 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 as to the methodology used, the economic assumptions adopted, 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 £902.0m for the portfolio of 70 investments as at 31 March 2012. There were no outstanding investment commitments at 31 March 2012.

The valuation of £902.0m compares with £673.1m as at 31 March 2011, £719.3m as at 30 September 2011, and £889.7m as at 31 December 2011 (reported in the Company's IMS of 10 February 2012). An analysis of the increase in the valuation is detailed in the Investment Adviser's Report.

On an Investment basis the NAV per share was 116.3p at 31 March 2012 (2011: 113.1p). The Investment basis NAV per share after the second interim distribution at 31 March 2012 was 112.8p; an

increase of 2.8% over the comparable figure at 31 March 2011 being attributable 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 at 31 March 2012 was 117.0p (2011: 110.4p).

### *Acquisitions*

The Group has made 33 new investments and five incremental acquisitions during the year for a total consideration of £236.6m. Through the portfolio acquisition of 26 operational PPP projects in December 2011, the Group acquired its first two PPP investments in Ireland. Further details are set out in the Investment Adviser's report.

Since the period end the Group has acquired two new investments and a further incremental stake. These are the 19.5% interest in the Connect PFI project, a 30% interest in the Birmingham Hospitals project, and a 14% additional stake in the Colchester Garrison project. These are in line with our expectations at the time of the C Share in March 2012 and the total consideration was £88.6m. This leaves around £19m from the C Share capital raising still to be invested (after which the Group's £150m debt facility will be employed).

### *Distributions*

On 12 April 2012 the Board declared a second interim distribution of 3.5p per share for the year to 31 March 2012 (2011: 3.425p). This brings the total distributions declared for the year to 6.85p, representing a 2.2% growth on the prior year.

A circular has been sent to shareholders offering them the opportunity to participate in the Company's scrip dividend scheme. Shareholders need to decide by 12 June if they wish 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 20 April 2012, and will be settled at the end of June. As previously announced, Ordinary Shares resulting from the C Share conversion on 26 April are not entitled to this second interim distribution or the scrip dividend alternative.

At the Annual General Meeting ("AGM") in July 2011, shareholders gave the Board the power to offer a scrip dividend alternative and this power runs until the next AGM on 25 July 2012. Based on the level of take-up and feedback from shareholders, it is the Board's intention to seek a renewal of this power at the forthcoming AGM.

### *Risks and Uncertainties*

Over the last 12 months, there have been a number of developments in the UK which affect infrastructure procurement. The Board views such developments as broadly positive given the UK Government's recognition that the use of private sector capital and expertise is essential in delivering the UK's future infrastructure needs.

The combination of the HM Treasury PFI guidance issued in July 2011, the 2011 Infrastructure Plan and statements made by ministers in seeking new investors acknowledge the importance the UK Government attaches to creating a secure and stable environment where clients, contractors and funders are clear on their respective contractual obligations and returns. The ongoing public sector consultation on how the current PFI model can be improved and enhanced is likely to conclude in the autumn and the findings will be used to determine the new procurement model.

Whilst the Group is not involved in bidding for new projects, the 2011 Infrastructure Plan and its proposed use of private-sector capital will continue to generate projects and investment opportunities in the secondary market. It is too early to say whether, and how, the investment and risk parameters might change from those we have seen to date, and if they would be suitable for the Group.

Each of the Group's PPP/PFI/P3 projects within the portfolio has matching long term funding in place. There is therefore no refinancing risk in this regard. Projects have exposures to banks in the form of interest rate swaps and deposit accounts. We continue to monitor and manage these exposures where appropriate.

The projects in the portfolio rely on partners who contract to provide services. There is a good spread of service partners, which has increased with the new acquisitions made in the year. There are no material performance or credit issues to report. The Investment Adviser monitors project performance, and if issues arise, takes action to minimise any impact. As you would expect for a portfolio of this size, we have a number of investments where there are ongoing construction matters or operational issues to be resolved, and the Investment Adviser's team is actively engaged on these, to facilitate timely and acceptable outcomes. Our investments in Holland and Ireland have not been impacted by the Eurozone crisis and we keep this under careful review.

## Corporate 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.

On 30 September 2011 the Guernsey Financial Services Commission (the 'Commission') issued the Finance Sector Code of Corporate Governance. This Code comprises Principles and Guidance, and provides a formal expression of good corporate practice against which shareholders, boards and the Commission can better assess the governance exercised over companies in Guernsey's finance sector. As the Company reports against the AIC Code of Corporate Governance, it is also deemed to meet this Code.

As part of good corporate governance, all four directors offered themselves for re-election at the AGM held in July 2011 and were duly re-elected. It is proposed to continue with this process of seeking annual re-election, which is more regular than the Company's Articles require.

The Board decided in November 2011 to commission a third party to assist in reviewing both the Board's effectiveness and the level of fees paid to each director for duties performed on behalf of the Company. Trust Associates were retained by the Company for this purpose. Their reports have concluded that the Board is appropriately equipped, fully engaged and adequately advised to make the necessary decisions to run the Company. The remuneration of Directors has been benchmarked and recommendations made for the coming year which the Board proposes to adopt, substantially as presented, subject to approval of shareholders at the forthcoming AGM in July.

As part of good governance, we have engaged with the Investment Adviser to review their fees and the services that they provide, particularly in the context of the continuing growth of the Group. The Board has recognised that the Investment Adviser now provides the Company with a broader range of services than at launch and that such provision has been met from within the existing fee structure. The Board is also satisfied that the fee structure remains transparent, straightforward and highly competitive for the asset class. Nonetheless, we are pleased to have reached agreement with the Investment Adviser, in the role as Operator of the partnership, to introduce a further step down in the fee taper when assets under management exceed £1.5bn. The fee will then drop to 0.9% per annum (from the 1.0% per annum applicable to assets above £750m) and we will amend the relevant documentation so that this change to the fee structure is in place with effect from 1st July 2012.

## Corporate Social Responsibility

### *Public procurement*

As noted above, the last year has seen a number of initiatives in relation to UK infrastructure procurement. These include several Government Select Committee reports and also reports by the National Audit Office. The current consultation being led by HM Treasury aims to deliver the next generation infrastructure procurement model.

As we have previously commented, the UK's PFI model has been adopted by a number of countries around the world who have made modifications to suit their own particular requirements. Such countries procure new infrastructure with political and public support.

The Investment Adviser is tasked with building and maintaining good open relationships with all counterparties to the Group's contractual relationships. For clients, we are engaged in seeking

efficiencies and in facilitating variations, which may include the provision of additional services or assets.

### *Investor Communications*

Given that the Company has over 4,000 shareholders and a market cap in excess of £1bn, the Board is keen to maintain and develop its engagement with shareholders. Regular and detailed feedback from investors is received via the Investment Adviser and the broker. The Directors have also made themselves available to major shareholders, collectively and on a one-on-one basis, for discussion of key issues and expectations around Company performance.

The Board regularly reviews the level and quality of the information which the Company publishes both on the Company website and in reports and presentations. Our intention is to remain at the forefront of disclosure and transparency for our asset class, which continues to grow in scale and relevance to investors.

### *ESG*

The Company operates within the Environmental, Social and Governance Policies that have been developed and documented for the Group. During the year, the Investment Adviser became a subscriber to the UN Policies for Responsible Investment and, as a consequence, we are working within this framework to update our policies for the relevant best practice.

### *Outlook*

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

The successful C Share issue and the new Group debt facilities provide adequate capacity to make further investments. This remains our aim whilst retaining our prudent position on the risk spectrum.

There is a steady flow of new investment opportunities to consider but we will not compromise our strict investment criteria and processes. The Investment Adviser has seen and declined a number of PPP/PFI/P3 opportunities as being either too small, inappropriately structured or being beset with operational issues.

We also remain cautious when considering new investments overseas given the sovereign risk, and whether the return is attractive on a risk adjusted basis. In the UK, where the majority of our assets are located, we accept 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 it is acknowledged that the valuation of the portfolio is in part correlated to the rates that apply to long-dated government debt, we are not anticipating significant fluctuations as a consequence.

We are maintaining our target of a distribution of 7.0p per share for the year ending 31 March 2013, and the Board intends to give guidance on likely distributions for subsequent years and a total return target with the Company's interim results in November.

We have made £88.6m of new investments since the year end and, have around £19m of C Share proceeds left to invest, and are confident of investing this in the near future.

Graham Picken  
*Chairman*  
22 May 2012

# Investment Adviser's Report

## Market Developments

As reported last year, the flow of new UK PFI/PPP projects coming to market has slowed down, whilst new procurement methods are being considered and developed. In its last update (November 2011), HM Treasury reported that there were 49 projects still being procured using the PFI/PPP method of procurement.

As the Group does not generally participate or invest in the public procurement phase of new PFI/PPP projects, it has not directly been affected by this reduced rate of procurement in the UK. Until a new successor procurement model is developed, it is too early to say whether future UK projects procured using private sector capital will have acceptable risk/return profiles to make them attractive potential investments for the Group.

Planned changes in procurement have not affected the secondary market for PFI/PPP/P3 assets, which continues to be active, and in the year there has been a good flow of assets onto the market with both single assets and portfolios being marketed by contractors, operators and financial institutions.

Pricing during the year in the secondary market for these types of assets has been stable as increased demand from investors has broadly matched the increased supply of assets for sale.

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 slowly seeing more sale processes involving overseas assets, and during the year we reviewed PFI/PPP/P3 investment opportunities in the UK, France, Ireland, Canada and Australia. We do not expect a material change in the overseas portion of the Group's portfolio as the UK secondary market still remains the best source for the majority of suitable opportunities.

Uncertainty over the tariff regimes for certain renewable energy schemes means we have not actively considered any renewable energy investment opportunities during the year. The continued fiscal challenges in the Eurozone have led us to be selective in which geographies we will look at for new investments.

## Current Investment Priorities

Our investment priorities remain unchanged.

For new investments our focus remains operational PFI/PPP/P3 concessions, 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 will continue to evaluate new assets in countries with a developed pipeline of opportunities and a stable fiscal position when these

opportunities arise. Canada, Australia and countries in northern Europe broadly satisfy our requirements.

## Portfolio Update

### Current performance

The Group's strategy is unchanged: to maximise value from the Group's portfolio by active asset management. The Group's portfolio continues to perform as expected with good cash generation. The difficult economic environment has not impacted significantly on performance other than to bring a renewed emphasis on working with our public sector clients to seek cost efficiencies.

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 and maintain 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 own budgets.

In July 2011, HM Treasury published new guidance on how to facilitate and achieve cost savings from existing PFI projects in the UK. This was based on the findings of pilot studies carried out earlier in the year, one of which was Romford Hospital, a project in which the Group has an investment. Members of the Investment Adviser were involved in the Romford pilot together with another pilot run by the Ministry of Defence.

This experience, together with the published guidance, has enabled the Investment Adviser's asset management team to facilitate cost saving debates and efficiency workshops with our clients and contractors on a number of projects in the year. 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, asset utilisation, increased outsourcing, improved energy management, space reconfiguration and third party revenue. We expect these initiatives to continue this year and we will take an active role in facilitating and assisting those clients who wish to benefit from the ideas and solutions in which we have participated to date.

Acquisitions in the year have increased the Group's portfolio to 70 PFI/PPP/P3 investments as at 31 March 2012. Since the year end, the Group has acquired an additional 14% stake in the Colchester Garrison project, a 30% stake in the Birmingham Hospitals project, and a 19.5% stake in the Connect PFI project. Therefore the Group currently has 72 PFI/PPP/P3 investments of which two remain in construction, namely the M80 DBFO Road and the newly acquired Birmingham Hospitals project. On the M80, the road is open to traffic and the majority of the contractual income is being paid by the client; however there are a small number of remaining construction matters and defects that are being dealt with. We expect both projects to finish construction this summer.

During the year, the Bradford Schools BSF project, Pinderfields and Pontefract Hospitals, and the North West Anthony Henday Road successfully achieved final construction completions and are now operational.

### Contract Variations

Our asset management team continues to seek value enhancements across the portfolio, an important component of which is 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:

- At Central Middlesex Hospital, significant savings were achieved for the project and the NHS Trust through an innovative financing initiative. An interest rate basis swap was introduced on the project which has the effect of reducing senior debt interest costs on the project by about 0.4% per annum



over a five year period. The cost savings arising from this are being shared 50:50 with the NHS Trust, the project's client.

- On the Home Office cost savings were achieved for the client by increasing the scope of the facilities management services. The mail and messenger service was outsourced from the client to the project company, which in turn subcontracted this service to ETDE, a Bouygues subsidiary and facilities manager on the project.
- On South East London Police Stations savings are being made through various energy saving initiatives. Solar panels have been fitted at Lewisham police station alongside installation of energy efficient lighting. This variation was funded by the Metropolitan Police Authority, the project's client.
- On the Helicopter Training Facility there continue to be a number of variations on the simulators to update them in line with changes to live aircraft. In addition there is a variation to provide extended hours of training for flight crews for the Olympics. These variations are funded by the MOD.
- On Barnet Hospital we are developing at the client's request a variation to expand the women's and children's facilities. These works will involve major and significant reconfiguration of the PFI hospital internal and external spaces including the construction of a new 2 storey building for a maternity unit.

## Acquisitions

As noted in the Chairman's Statement, the Group made 33 new investments and five incremental acquisitions in the year for an aggregate consideration of £236.6m.

- In May 2011, the Group announced the acquisition of three school PFI projects for a consideration of £17.2m. The interests acquired were 75% in each of Norwich and Oldham Schools and a 37.5% interest in Sheffield Schools.
- Also in May 2011, the Group acquired a 75% interest in the Brentwood Community Hospital project for £4.6m.
- In June 2011, the Group acquired a 100% interest in the South Ayrshire Schools PPP project for £15.8m, including the operation of three new primary schools, two new secondary schools, and a new performing arts complex at an existing secondary school.
- Also in June 2011, the Group acquired a 50% interest in the Pinderfields and Pontefract Hospitals PFI project together with three incremental stakes in existing investments for a total consideration of £32.8m. The three incremental stakes were in the Oxford John Radcliffe Hospital and the Queen Alexandra Hospital, together with a small stake in the Helicopter Training Facility.
- In November 2011, the Group acquired a 75% interest in the Sheffield Hospital PFI project, a 32 year concession to design, build, finance and maintain a 168 bed after-care facility at the Northern General Hospital in Sheffield.
- Also in November 2011, the Group completed the acquisition of a further equity and loan note interest in the Blackburn Hospital PFI project, taking its total equity and loan note interests in the project to 100%.
- In December 2011, the Group completed the acquisition of investments in 26 PFI/PPP projects from two infrastructure funds managed by Barclays Infrastructure Management Limited, for a total gross consideration of £143.4m. The portfolio comprised ten schools projects, eight health projects, five fire and police projects, two road projects and a library project. Apart from two projects located in the Republic of Ireland, all projects are based in the UK.

- In February 2012, the Group completed the acquisition of an incremental equity and loan note interest in the Dorset Fire and Rescue Project, taking its total equity and loan note interests in the project to 67%.

Since 31 March 2012, the Group has announced three further acquisitions:

- On 8 May 2012, the Group announced that it had completed the incremental acquisition of a 14% stake in the Colchester Garrison project from a subsidiary of WS Atkins plc for £15 million. This takes the Group's interest to 56%.
- The Group has recently completed the acquisition of a 19.5% interest in the Connect PFI project for £39.0m from another fund managed by the Investment Adviser. This "related party" transaction was approved by shareholders at the EGM held on 23 March 2012.
- On 21 May 2012 the Group announced it had completed the acquisition of a 30% interest in the Birmingham Hospitals project for £34.6m from RBS.

In the year to 31 March 2012, contractual investment obligations of £46.7m were made to the M80 Motorway DBFO, The Helicopter Training Facility project and North West Anthony Henday Road.

### **Realisations**

As previously reported, the £30.0m Kemble Water Junior Loan was repaid at par in April 2011.

### **Valuation of the Portfolio**

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 (being all the investments in the current portfolio), 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 was the case for 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 Company's latest C Share prospectus, available from the Company's website).

The Directors' Valuation of the portfolio as at 31 March 2012 was £902.0m, with no outstanding investment obligations. This valuation compares to £673.1m as at 31 March 2011 (up 34%) 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 outstanding on three projects which have all now been satisfied).

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

<b>Valuation movement during the year to 31 March 2012</b>		<b>£m</b>
<b>Valuation at 31 March 2011</b>		<b>673.1</b>
Investments	236.6	
Divestment	(30.0)	
Cash receipts from investments	(51.2)	
Change in discount rate	9.8	
Economic assumptions	(6.2)	
Forex movement on non-UK investments	(5.8)	
Return	75.7	
<b>Valuation at 31 March 2012</b>		<b>902.0</b>

Netting out acquisitions in the year of £236.6m, the divestment of £30.0m (Kemble Water Junior Loan redeemed at par) and investment receipts of £51.2m, the growth over the rebased value of £828.5m was 8.9%. This increase is a product of the £75.7m Return from the portfolio which was driven by actual inflation in the year being greater than the 2.75% valuation assumption, contributions from new investments and the £9.8m uplift from reductions in discount rates primarily on projects finishing construction and becoming operational.

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 2011	8.4% to 10.0%	8.7%	7.8% to 10.0%	8.7%
30 September 2011	8.4% to 9.4%	8.7%		
<b>31 March 2012</b>	<b>8.2% to 11.0%</b>	<b>8.6%</b>		

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 2012	31 March 2011	Movement
Risk free rate	3.2%	4.2%	(1.0)%
Risk premium	5.4%	4.5%	0.9%
<b>Discount Rate</b>	<b>8.6%</b>	<b>8.7%</b>	<b>(0.1)%</b>

Government bonds have continued to be volatile over the year driven by a combination of fiscal concerns and the effects of quantitative 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 Developments section above, 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 2012	31 March 2011	Movement
Operational phase	8.6%	8.6%	0.0%
Construction phase	9.0%	9.3%	(0.3)%
<b>PFI/PPP/P3 Portfolio</b>	<b>8.6%</b>	<b>8.7%</b>	<b>(0.1)%</b>

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 0.3% reflecting the lower risks in fewer assets still in construction 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 2012			31 March 2011 Discount rate	Movement
	Risk free rate	Risk Premium	Discount rate		
UK	3.3%	5.3%	8.6%	8.6%	0.0%
Canada	2.6%	5.6%	8.2%	8.8%	(0.6)%
Holland	2.7%	6.1%	8.8%	8.9%	(0.1)%
Ireland	6.9%	4.1%	11.0%	n/a	n/a
<b>PFI/PPP/P3 Portfolio</b>	<b>3.2%</b>	<b>5.4%</b>	<b>8.6%</b>	<b>8.7%</b>	<b>(0.1)%</b>

The risk premiums and discount rates applied to value the Canadian and Dutch 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 of the underlying assets, which include a rail asset.

## Valuation Assumptions

### Discount Rate Sensitivity

The discount rates used to derive the Directors' valuation is a key judgement, based on the knowledge of the Investment Adviser and the third party advice the Board receives on the valuation. As in previous years, the Company prepares certain valuation sensitivities including changing the weighted average discount rate. A change to the weighted average rate of 8.6% by plus or minus 0.5% has the following effect on the valuation.

Discount rate	-0.5% change	Base 8.6%	+0.5% change
Directors' valuation	+£46.2m	£902.0m	-£42.6m
Implied change in NAV per Ordinary Share <sup>1</sup>	+5.2p/share		-4.8p/share

1. NAV per share based on 883.5m Ordinary shares post the April 2012 C Share conversion and total net assets at 31 March 2012 on an investment basis of £1,020.5m (being the sum of the net assets attributable to the Ordinary Shares and the C Shares at 31 March 2012)

### 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% per annum for both RPI and RPIx, the same assumption as for the prior year. The March 2012 forecasts for RPI out to December 2013 range from 1.4% to 4.0% from 25 independent forecasters as compiled by HM Treasury, with an average forecast of 2.7%.

Inflation assumption (UK)	-0.5% pa change	Base 2.75%pa	+0.5% pa change
Directors' valuation	-£28.6m	£902.0m	+£31.1m
Implied change in NAV per Ordinary Share <sup>1</sup>	-3.2p/share		+3.5p/share

1. NAV per share based on 883.5m Ordinary shares post the April 2012 C Share conversion and total net assets at 31 March 2012 on an investment basis of £1,020.5m (being the sum of the net assets attributable to the Ordinary Shares and the C Shares at 31 March 2012)

Changing the assumption for future inflation by a 1.0% pa increase (ie from 2.75% pa to 3.75% pa for the UK investments) has the effect of increasing the forecast return from the portfolio from 8.6% (being the weighted average discount rate) to 9.3%.

### Deposit Rate Sensitivity

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

As at 31 March 2012 cash deposits for the portfolio were earning interest at a rate of 0.9% per annum on average. There is a consensus that UK base rates will remain low for an extended period, with a current median forecast for UK base rates in December 2013 of 0.5%.

The portfolio valuation assumes UK deposit interest rates are 1% to March 2015 and 3.75% thereafter. This is lower than applied in the March 2011 valuation, which assumed 1% deposit interest rates to March 2013 and 4.0% thereafter. These changes have reduced the portfolio valuation by approximately £13.2m and are included within the £6.2m aggregate reduction in portfolio value attributable to changes in Economic Assumptions.

Cash deposit rate	-0.5% pa change	Base 1.0% pa, then 3.75% pa	+0.5% pa change
Directors' valuation	-£12.3m	£902.0m	+£12.4m
Implied change in NAV per Ordinary Share <sup>1</sup>	-1.4p/share		+1.4p/share

1. NAV per share based on 883.5m Ordinary Shares post the April 2012 C Share conversion and total net assets at 31 March 2012 on an investment basis of £1,020.5m (being the sum of the net assets attributable to the Ordinary Shares and the C Shares at 31 March 2012)

### 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 26% to 24% from April 2012 with an aspiration to reduce corporation tax further to 22% in 1% annual increments.

The UK corporation tax assumption for the portfolio valuation is 24%, which has reduced by 2% from 26% at March 2011, to reflect the current rate of UK corporation tax. This change has increased the portfolio valuation by approximately £7.0m and is included within the £6.2m aggregate change in portfolio value attributable to changes in Economic Assumptions.

## Financing

The Company raised £325.9m (before expenses) in the year from the £250m C Share issue in March 2012 and the issue of 65.9m Ordinary Shares by way of tap issues. The net proceeds from the share issues were used to fund new investments and to reduce the Group's debt. As at 31 March 2012, the Group had overall net cash of £129.4m (being £245.7m cash attributable to the C Shares and net debt of £116.3m attributable to the Ordinary Shares) and no outstanding future investment obligations.

The strategy is to use the Group's new £150m revolving debt facility, which was secured in February 2012 to replace the Group's previous facility, to fund new acquisitions, and to provide letters of credit for future investment obligations.

The Board's policy is that the Company should not hold cash to any material extent above any outstanding equity commitments in respect of existing investments or to fund potential acquisitions which are likely to be secured in the near future.

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 23.4 years at 31 March 2012 and the weighted average debt tenor is 21.8 years.

## Counterparty Exposures

All the PFI/PPP/P3 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.

On a quarterly basis the portfolio's counterparty exposure to both the operational supply chain and the financial providers of bank deposit accounts and interest rate swaps is reviewed. 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 2012, the Group had 20 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 has increased by nine in the year due to three of the incremental acquisitions and the purchase of six wholly-owned new investments, including five from the portfolio of investments in December 2011. 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 show all investments accounted for on an Investment basis, which are reconciled to the consolidated financial statements on a line by line 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.

## Income and Costs

### Summary income statement

£m	Year to 31 March 2012			Year to 31 March 2011		
	Investment basis	Consolidation adjustments	IFRS basis	Investment basis	Consolidation adjustments	IFRS basis
<b>Total revenue income</b>	<b>48.1</b>	<b>201.7</b>	<b>249.8</b>	<b>37.4</b>	<b>150.5</b>	<b>187.9</b>
<b>Expenses &amp; finance costs</b>	<b>(14.9)</b>	<b>(214.0)</b>	<b>(228.9)</b>	<b>(13.1)</b>	<b>(155.2)</b>	<b>(168.3)</b>
<b>Profit/(loss) before tax &amp; valuation movements</b>	<b>33.2</b>	<b>(12.3)</b>	<b>20.9</b>	<b>24.3</b>	<b>(4.7)</b>	<b>19.6</b>
<b>Fair value movements</b>	<b>28.8</b>	<b>34.5</b>	<b>63.3</b>	<b>20.9</b>	<b>(2.2)</b>	<b>18.7</b>
<b>Tax and non-controlling interests</b>	<b>(0.1)</b>	<b>(1.3)</b>	<b>(1.4)</b>	<b>(0.1)</b>	<b>7.0</b>	<b>6.9</b>
<b>Earnings</b>	<b>61.9</b>	<b>20.9</b>	<b>82.8</b>	<b>45.1</b>	<b>0.1</b>	<b>45.2</b>
<b>Earnings per share</b>	<b>9.8p</b>		<b>13.1p</b>	<b>8.9p</b>		<b>9.0p</b>

On an Investment basis, Profit before tax and valuation movements was £33.2m (2011: £24.3m), an increase due to contributions from acquisitions and reduced finance costs.

Fair value movements are a £28.8m profit (2011: £20.9m) which represents the increase in the portfolio valuation recognised in the income statement. The portfolio valuation benefited from positive contributions from acquisitions, actual inflation above the 2.75% valuation assumption and reductions in the discount rates applied to assets coming out of construction. Further detail on the valuation movement is given in the Investment Adviser's Report.

Earnings on an Investment basis were £61.9m, an increase of £16.8m compared to the prior year, with earnings per share of 9.8p up 0.9p or 10.1% as compared to 2011. The uplift in earnings reflects reductions in discount rates primarily on projects finishing construction and becoming operational coupled with contributions from acquisitions.

On a consolidated IFRS basis, the earnings per share were 13.1p (2011: 9.0p). The results on a consolidated IFRS basis show a more significant improvement than on an Investment basis due to increased gains on financial receivables. Gains on finance receivables have increased due to the 1.0% fall in UK long term gilt rates in the year compared to the 0.2% reduction in the prior year.

Total income on a consolidated IFRS basis increased to £249.8m (2011: £187.9m) driven by contributions from the nine new subsidiaries. Profit before tax and valuation movements on a consolidated IFRS basis increased only marginally as inflation above 2.75% in the year increased finance costs on the index-linked financing on the Home Office and Queen Alexandra Hospital without comparable increases in gains on finance receivables.

## Cost analysis

£m	Year to 31 March 2012	Year to 31 March 2011
	Investment basis	Investment basis
Interest income	0.3	0.1
Interest expense	(2.4)	(3.6)
Investment Adviser	(11.1)	(8.1)
Auditor – KPMG – for the Group	(0.2)	(0.2)
Directors fees & expenses	(0.2)	(0.1)
Other expenses	(1.3)	(1.2)
<b>Expenses &amp; finance costs</b>	<b>(14.9)</b>	<b>(13.1)</b>

Interest was a net cost of £2.1m in the year (2011: £3.5m) reduced from the prior year due to lower levels of interest rate swaps during the year.

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) totalled £11.1m (2011: £8.1m) in the year, comprising the 1.1% per annum management fee (1.0% for assets above £750m and 1.5% for assets in construction), the 1.0% fee on the acquisitions made from third parties, and the £0.1m per annum 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 the year, the Group incurred £0.4m of third party bid costs (mainly legal, technical and tax due diligence) on unsuccessful bids. The Investment Adviser earned £2.4m in fees relating to the 1.0% acquisition fee, for its work on the financial, commercial and structuring due diligence.

Neither the Investment Adviser nor any of its affiliates receives other fees from the Group or the Group's portfolio of investments. If the Investment Adviser had received the directors' fees and other fee income from the portfolio project companies, it would have been equivalent to an increase of approximately 20% in its annual fee.

## Total Expense Ratio ('TER')

£m	Year to 31 March 2012	Year to 31 March 2011
	Investment basis	Investment basis
Administrative expenses	12.8	9.6
Less operator acquisition investment fees	(2.4)	(1.5)
<b>Total expenses</b>	<b>10.4</b>	<b>8.1</b>
<b>Net assets</b>	<b>773.7</b>	<b>673.2</b>
<b>TER</b>	<b>1.34%</b>	<b>1.20%</b>

The TER for the Group has increased in the year from 1.20% to 1.34%. This is due to the effect of the Investment Adviser's fee being based on the value of the portfolio where the value of the portfolio has increased faster than the net assets, due to higher Group gearing, combined with an uneven growth in net assets in the prior year which flattered the prior year figure.

The AIC has recently published new guidance in relation to calculating Ongoing Charges which is defined as annualised ongoing charges (ie excluding acquisition costs and other non-recurring items) divided by average undiluted net asset value in the period. On this basis, the Ongoing Charges



Percentage is 1.36% (2011 equivalent : 1.32%). This is higher than the TER stated above as there was considerable growth in the NAV in the year to 31 March 2012. As the Investment Adviser does not have a performance fee, in a year when there is no bidding activity and NAV is steady, both the TER and Ongoing Charges Percentage should be the same.

## Balance Sheet

### Summary balance sheet

£m	31 March 2012			31 March 2011		
	Investment basis	Consolidation adjustments	IFRS basis	Investment basis	Consolidation adjustments	IFRS basis
Investments at fair value	902.0	(377.7)	524.3	626.1	(200.1)	426.0
Other non-current assets	-	2,224.3	2,224.3	-	957.9	957.9
Working capital	(12.0)	21.8	9.8	(5.3)	8.8	3.5
Net cash/(borrowings)	(116.3)	(1,357.0)	(1,473.3)	54.7	(587.5)	(532.8)
Other non-current liabilities	-	(498.6)	(498.6)	(2.3)	(185.4)	(187.7)
Non-controlling interests	-	(8.4)	(8.4)	-	(9.9)	(9.9)
Net assets* attributable to Ordinary shares	773.7	4.4	778.1	673.2	(16.2)	657.0
NAV per Ordinary share (before distribution)	116.3p		117.0p	113.1p		110.4p
Net assets attributable to C Shares	246.8	-	246.8	-	-	-
NAV per C Share	98.7p		98.7p			

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

On an Investment basis, Investments at fair value were £902.0m (2011: £626.1m). This is an increase from 31 March 2011 of £275.9m or 44.1%. There were no outstanding investment obligations as at 31 March 2012. Further detail on the movement in Investments at fair value is given in this Report under Valuation.

Following the acquisitions and tap issues in the year the Group had a net cash position at 31 March 2012 on an Investment basis of £129.4m (2011: net cash of £54.7m). An analysis of the movements in net cash is shown in the cashflow analysis below. In April, the C Share conversion occurred, with the C Share proceeds being used to repay the Group's borrowing and fund subsequent acquisitions made in May.

Other financial liabilities were £nil (2011: £2.3m) because the Group's interest rate swaps were cancelled as the Group moved into a net cash position on an Investment basis.

On an Investment basis, NAV per Ordinary Share was 116.3p before the 3.5p distribution (2011: 113.1p).

On a consolidated IFRS basis, net assets attributable to Ordinary Shares have increased to £778.1m (2011: £657.0 m) reflecting £80.2m from the issue of shares (net of costs) in the year and £40.9m of retained profits. NAV per Ordinary Share was 117.0p (2011: 110.4p).

## Cashflow analysis

### Summary cash flow

£m	Year to 31 March 2012	Year to 31 March 2011
	Investment basis	Investment basis
<b>Net cash at start of year</b>	<b>54.7</b>	<b>11.0</b>
<b>Cash from investments</b>	<b>51.2</b>	<b>45.6</b>
<b>Operating + finance costs</b>	<b>(10.2)</b>	<b>(10.7)</b>
<b>Net cash inflow before acquisitions/financing</b>	<b>41.0</b>	<b>34.9</b>
<b>Redemption of investment</b>	<b>30.0</b>	<b>-</b>
<b>Cost of new investments</b>	<b>(283.3)</b>	<b>(115.1)</b>
<b>Share capital raised net of costs</b>	<b>320.9</b>	<b>154.6</b>
<b>Forex movement on borrowings/hedging</b>	<b>2.9</b>	<b>(1.3)</b>
<b>Dividend for operational assets</b>	<b>(33.2)</b>	<b>(27.6)</b>
<b>Dividend for construction assets</b>	<b>(3.6)</b>	<b>(1.8)</b>
<b>Dividends paid</b>	<b>(36.8)</b>	<b>(29.4)</b>
<b>Net cash at end of year</b>	<b>129.4</b>	<b>54.7</b>

On an Investment basis the Group's net cash at 31 March 2012 was £129.4m (31 March 2011: net cash of £54.7m)

Cash inflows from the portfolio were up 12% at £51.2m (2011: £45.6m). The growth in cash generation was driven by contributions from acquisitions combined with active cash management across the portfolio.

Cost of investments of £283.3m (2011: £115.1m) represents the cash cost of the 33 new investments, 5 incremental acquisitions, £46.7m of loan note subscriptions (on M80 Motorway DBFO, the Helicopter Training Facility and the North West Anthony Henday Road) coupled with associated acquisition costs of £3.1m.

The £2.9m (2011: £1.3m) 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, two Irish assets and two Canadian assets.

The £250m C Share capital raising in March 2012 and placing of 65.9m Ordinary Shares via tap issues provided cash receipts in the year of £320.9m (2011: £154.6m).

Dividends paid increased £7.4m to £36.8m (2011: £29.4m) for the year (being the payment of 3.425p in June 2011 and the payment of 3.35p per share in December 2011). The dividends declared for the year to 31 March 2012 represents a total of 6.85p per share (2011: 6.70p).

Dividend cash cover was 1.23 times (2011: 1.26 times) which compares operational cash flow of £41.0m (2011: £34.9m) to dividends from operational assets. The dividend attributable to operational

assets (90.3%) and construction assets (9.7%) was based on their respective share of the portfolio valuation during the year.

## Gearing

The Group started the year with a committed £200m five year revolving facility from Bank of Scotland plc ('BoS') expiring in December 2012. This was successfully refinanced in February 2012 with a committed £150m revolving facility from the Royal Bank of Scotland and National Australia Bank. The facility is split into two tranches: a £50m tranche with an 18 month term and a £100m multi-currency tranche with a three year term.

The Group's debt 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 2012, the Group's drawings under the BoS facility were £141.3m relating to investments made in the year and this balance was repaid in April from the proceeds of the C Share issue .

Following the successful C Share equity raising in March 2012, the Group is ungeared with net cash on an Investment basis as at 31 March 2012 of £129.4m (31 March 2011: £54.7m). Since 31 March 2012, the Group has utilised £88.6m to make two new investments and one incremental acquisition, with £23.3m to be utilised for the payment of the second interim dividend of 3.5p per share in June.

To manage interest rate risk the Group uses interest rate swaps to partially hedge the Group's debt facility. Following the reduction in gearing of the Group in March 2012 the interest rate hedges were cancelled to reflect the Group moving to a net cash position on an Investment basis.

On a consolidated IFRS basis, the Group had net debt of £1,473.3m at 31 March 2012 (31 March 2011: £532.8m). This increase in net debt over the year reflects the nine new subsidiaries arising from the various acquisitions in the year.

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 Group's previous debt facility with Bank of Scotland. This has prevented the volatility in the Group's NAV from foreign exchange movements.

As previously flagged, the Group has adjusted its foreign currency hedging strategy since 31 March 2012 in part to reflect the increased costs of the new £150m debt facility. The change is to increase the hedging of investment income from overseas assets coupled with appropriate balance sheet hedging.

# Unaudited consolidated proforma income statement

for the year ended 31 March 2012

	Year ended 31 March 2012					Year ended 31 March 2011				
	Investment basis			Consolidation adjustments £million	Consolidated IFRS basis £million	Investment basis			Consolidation adjustments £million	Consolidated IFRS basis £million
	Revenue £million	Capital £million	Total £million			Revenue £million	Capital £million	Total £million		
Services revenue	-	-	-	149.9	149.9	-	-	-	121.2	121.2
Gains on finance receivables	-	-	-	177.8	177.8	-	-	-	47.2	47.2
Gains/(loss) on investments	48.1	24.0	72.1	(22.0)	50.1	37.4	18.8	56.2	(20.4)	35.8
<b>Total income</b>	<b>48.1</b>	<b>24.0</b>	<b>72.1</b>	<b>305.7</b>	<b>377.8</b>	<b>37.4</b>	<b>18.8</b>	<b>56.2</b>	<b>148.0</b>	<b>204.2</b>
Services costs	-	-	-	(130.0)	(130.0)	-	-	-	(105.8)	(105.8)
Administrative expenses	(12.8)	-	(12.8)	(4.6)	(17.4)	(9.6)	-	(9.6)	(2.2)	(11.8)
<b>Profit before net finance costs and tax</b>	<b>35.3</b>	<b>24.0</b>	<b>59.3</b>	<b>171.1</b>	<b>230.4</b>	<b>27.8</b>	<b>18.8</b>	<b>46.6</b>	<b>40.0</b>	<b>86.6</b>
Finance costs	(2.4)	-	(2.4)	(149.5)	(151.9)	(3.6)	-	(3.6)	(47.5)	(51.1)
Finance income	0.3	4.8	5.1	0.6	5.7	0.1	2.1	2.2	0.6	2.8
<b>Profit/(loss) before tax</b>	<b>33.2</b>	<b>28.8</b>	<b>62.0</b>	<b>22.2</b>	<b>84.2</b>	<b>24.3</b>	<b>20.9</b>	<b>45.2</b>	<b>(6.9)</b>	<b>38.3</b>
Income tax (expense)/credit	(0.1)	-	(0.1)	0.7	0.6	(0.1)	-	(0.1)	8.4	8.3
<b>Profit for the year</b>	<b>33.1</b>	<b>28.8</b>	<b>61.9</b>	<b>22.9</b>	<b>84.8</b>	<b>24.2</b>	<b>20.9</b>	<b>45.1</b>	<b>1.5</b>	<b>46.6</b>
Attributable to:										
Equity holders of the parent	33.1	28.8	61.9	20.9	82.8	24.2	20.9	45.1	0.1	45.2
Non-controlling interests	-	-	-	2.0	2.0	-	-	-	1.4	1.4
	<b>33.1</b>	<b>28.8</b>	<b>61.9</b>	<b>22.9</b>	<b>84.8</b>	<b>24.2</b>	<b>20.9</b>	<b>45.1</b>	<b>1.5</b>	<b>46.6</b>
<b>Earnings per share – basic and diluted</b> (pence)	<b>5.2</b>	<b>4.6</b>	<b>9.8</b>	<b>3.3</b>	<b>13.1</b>	<b>4.8</b>	<b>4.1</b>	<b>8.9</b>	<b>0.1</b>	<b>9.0</b>

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 2012

	31 March 2012			31 March 2011		
	Investment basis	Consolidation adjustments	Consolidated IFRS basis	Investment basis	Consolidation adjustments	Consolidated IFRS basis
	£million	£million	£million	£million	£million	£million
<b>Non-current assets</b>						
Investments at fair value through profit or loss ( <i>Note 1</i> )	902.0	(377.7)	524.3	596.4	(200.1)	396.3
Finance receivables at fair value through profit or loss	-	1,739.4	1,739.4	-	761.6	761.6
Intangible assets	-	375.2	375.2	-	162.0	162.0
Deferred tax assets	-	109.7	109.7	-	34.3	34.3
<b>Total non-current assets</b>	<b>902.0</b>	<b>1,846.6</b>	<b>2,748.6</b>	<b>596.4</b>	<b>757.8</b>	<b>1,354.2</b>
<b>Current assets</b>						
Investments at fair value through profit or loss ( <i>Note 1</i> )	-	-	-	29.7	-	29.7
Trade and other receivables	1.8	27.4	29.2	1.0	14.7	15.7
Finance receivables at fair value through profit or loss	-	31.2	31.2	-	17.5	17.5
Cash and cash equivalents	267.9	105.8	373.7	54.7	60.2	114.9
<b>Total current assets</b>	<b>269.7</b>	<b>164.4</b>	<b>434.1</b>	<b>85.4</b>	<b>92.4</b>	<b>177.8</b>
<b>Total assets</b>	<b>1,171.7</b>	<b>2,011.0</b>	<b>3,182.7</b>	<b>681.8</b>	<b>850.2</b>	<b>1,532.0</b>
<b>Current liabilities</b>						
Trade and other payables	(12.5)	(35.6)	(48.1)	(6.0)	(22.9)	(28.9)
Current tax payable	(0.2)	(1.2)	(1.4)	(0.3)	(0.5)	(0.8)
Loans and borrowings	(138.5)	(52.9)	(191.4)	-	(31.4)	(31.4)
<b>Total current liabilities</b>	<b>(151.2)</b>	<b>(89.7)</b>	<b>(240.9)</b>	<b>(6.3)</b>	<b>(54.8)</b>	<b>(61.1)</b>
<b>Non-current liabilities</b>						
Loans and borrowings	-	(1,409.9)	(1,409.9)	-	(616.3)	(616.3)
Other financial liabilities (fair value of derivatives)	-	(259.9)	(259.9)	(2.3)	(80.5)	(82.8)
Deferred tax liabilities	-	(238.7)	(238.7)	-	(104.9)	(104.9)
<b>Total non-current liabilities</b>	<b>-</b>	<b>(1,908.5)</b>	<b>(1,908.5)</b>	<b>(2.3)</b>	<b>(801.7)</b>	<b>(804.0)</b>
<b>Total liabilities</b>	<b>(151.2)</b>	<b>(1,998.2)</b>	<b>(2,149.4)</b>	<b>(8.6)</b>	<b>(856.5)</b>	<b>(865.1)</b>
<b>Net assets</b>	<b>1,020.5</b>	<b>12.8</b>	<b>1,033.3</b>	<b>673.2</b>	<b>(6.3)</b>	<b>666.9</b>
<b>Equity</b>						
Shareholders' equity	1,020.5	4.4	1,024.9	673.2	(16.2)	657.0
Non-controlling interests	-	8.4	8.4	-	9.9	9.9
<b>Total equity</b>	<b>1,020.5</b>	<b>12.8</b>	<b>1,033.3</b>	<b>673.2</b>	<b>(6.3)</b>	<b>666.9</b>
<b>Net assets per Ordinary Share (pence)</b>	<b>116.3</b>	<b>0.7</b>	<b>117.0</b>	<b>113.1</b>	<b>(2.7)</b>	<b>110.4</b>
<b>Net assets per C Share (pence)</b>	<b>98.7</b>	<b>-</b>	<b>98.7</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Unaudited consolidated proforma cash flow

for the year ended 31 March 2012

	Year ended 31 March 2012			Year ended 31 March 2011		
	Investment basis £million	Consolidation adjustments £million	Consolidated IFRS basis £million	Investment basis £million	Consolidation adjustments £million	Consolidated IFRS basis £million
<b>Cash flows from operating activities</b>						
Profit/(loss) before tax	62.0	22.2	84.2	45.2	(6.9)	38.3
Adjustments for:						
(Gains)/loss on investments	(72.1)	22.0	(50.1)	(56.2)	22.2	(34.0)
Gains on finance receivables	-	(177.8)	(177.8)	-	(44.5)	(44.5)
Interest payable and similar charges	2.4	80.0	82.4	3.6	42.0	45.6
Changes in fair value of derivatives	(4.8)	69.5	64.7	(2.1)	(0.3)	(2.4)
Operator acquisition investment fees	2.4	-	2.4	1.5	-	1.5
Interest income	(0.3)	(0.6)	(0.9)	(0.1)	(0.3)	(0.4)
Amortisation of intangible assets	-	13.5	13.5	-	8.6	8.6
Operating cash flow before changes in working capital	(10.4)	28.8	18.4	(8.1)	20.8	12.7
Changes in working capital:						
Decrease/(Increase) in receivables	0.9	2.2	3.1	(0.9)	(13.5)	(14.4)
Increase/(Decrease) in payables	0.5	-	0.5	(0.4)	5.8	5.4
Cash flow (used in)/from operations	(9.0)	31.0	22.0	(9.4)	13.1	3.7
Interest received on bank deposits and finance receivables	0.3	0.6	0.9	0.1	0.3	0.4
Cash received from finance receivables	-	99.9	99.9	-	58.8	58.8
Interest paid	(3.5)	(81.6)	(85.1)	(5.3)	(28.0)	(33.3)
Corporation tax received/(paid)	0.5	(0.7)	(0.2)	-	(0.9)	(0.9)
Interest received on investments	32.9	(14.2)	18.7	30.5	(5.3)	25.2
Dividends received	15.1	(5.4)	9.7	12.8	(2.7)	10.1
Fees and other operating income	2.2	(0.9)	1.3	2.2	(0.7)	1.5
Loanstock and equity repayments received	31.0	-	31.0	0.1	-	0.1
<b>Net cash from operating activities</b>	<b>69.5</b>	<b>28.7</b>	<b>98.2</b>	<b>31.0</b>	<b>34.6</b>	<b>65.6</b>
<b>Cash flows from investing activities</b>						
Purchases of investments	(283.3)	66.4	(216.9)	(115.1)	-	(115.1)
Acquisition of subsidiaries net of cash acquired	-	(15.9)	(15.9)	-	-	-
<b>Net cash (used in)/from investing activities</b>	<b>(283.3)</b>	<b>50.5</b>	<b>(232.8)</b>	<b>(115.1)</b>	<b>-</b>	<b>(115.1)</b>
<b>Cash flows from financing activities</b>						
Proceeds from issue of share capital	320.9	-	320.9	154.6	-	154.6
Proceeds from issue of loans and borrowings	183.2	-	183.2	77.1	-	77.1
Repayment of loans and borrowings	(44.5)	(30.2)	(74.7)	(80.2)	(24.3)	(104.5)
Distributions paid to Company shareholders	(36.8)	-	(36.8)	(29.4)	-	(29.4)
Distributions paid to non-controlling interests	-	(3.4)	(3.4)	-	(4.4)	(4.4)
<b>Net cash from/(used in) financing activities</b>	<b>422.8</b>	<b>(33.6)</b>	<b>389.2</b>	<b>122.1</b>	<b>(28.7)</b>	<b>93.4</b>
<b>Net increase in cash and cash equivalents</b>	<b>209.0</b>	<b>45.6</b>	<b>254.6</b>	<b>38.0</b>	<b>5.9</b>	<b>43.9</b>
Cash and cash equivalents at beginning of year	54.7	60.2	114.9	12.8	54.3	67.1
Exchange gains on cash	4.2	-	4.2	3.9	-	3.9
<b>Cash and cash equivalents at end of year</b>	<b>267.9</b>	<b>105.8</b>	<b>373.7</b>	<b>54.7</b>	<b>60.2</b>	<b>114.9</b>

## Notes to the unaudited consolidated proforma financial statements for the year ended 31 March 2012

### 1. Investments

The valuation of the Group's portfolio at 31 March 2012 reconciles to the consolidated balance sheet as follows:

	31 March 2012 £million	31 March 2011 £million
Portfolio valuation	902.0	673.1
Less : undrawn investment commitments	-	(47.0)
Portfolio valuation on an investment basis	902.0	626.1
Less : equity and loanstock investments in operating subsidiaries eliminated on consolidation	(377.7)	(200.1)
Investments per audited consolidated balance sheet on an IFRS basis	524.3	426.0

Portfolio valuation on an investment basis is represented by:

Less than one year	-	29.7
Greater than one year	902.0	596.4
<b>Carrying amount at year end</b>	<b>902.0</b>	<b>626.1</b>

Investments per audited consolidated balance sheet on an IFRS basis is represented by:

Less than one year	-	29.7
Greater than one year	524.3	396.3
<b>Carrying amount at year end</b>	<b>524.3</b>	<b>426.0</b>

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' 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 the 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 Companies (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 and Corporate Governance Statement that comply with Company law and 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

22 May 2012

Registered Office:

1 Le Truchot

St Peter Port

Guernsey

Channel Islands GY1 1WD



# **Independent auditor's report to the members of HICL Infrastructure Company Limited**

We have audited the Group financial statements (the "financial statements") of HICL Infrastructure Company Limited (the "Company") for the year ended 31 March 2012 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement 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, 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 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 affairs as at 31 March 2012 and of the Group'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 UK Corporate Governance 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

22 May 2012

## Consolidated income statement

for the year ended 31 March 2012

	Note	Year ended 31 March 2012			Year ended 31 March 2011		
		Revenue £million	Capital £million	Total £million	Revenue £million	Capital £million	Total £million
Services revenue	5	149.9	-	149.9	121.2	-	121.2
Gains on finance receivables	17	70.6	107.2	177.8	40.6	6.6	47.2
Gains on investments	6	29.3	20.8	50.1	26.1	9.7	35.8
<b>Total income</b>		249.8	128.0	377.8	187.9	16.3	204.2
Services costs	7	(130.0)	-	(130.0)	(105.8)	-	(105.8)
Administrative expenses	8	(17.4)	-	(17.4)	(11.8)	-	(11.8)
<b>Profit before net finance costs and tax</b>		102.4	128.0	230.4	70.3	16.3	86.6
Finance costs	9	(82.4)	(69.5)	(151.9)	(51.1)	-	(51.1)
Finance income	9	0.9	4.8	5.7	0.4	2.4	2.8
<b>Profit before tax</b>		20.9	63.3	84.2	19.6	18.7	38.3
Income tax credit/(expense)	10a	10.0	(9.4)	0.6	10.3	(2.0)	8.3
<b>Profit for the year</b>		30.9	53.9	84.8	29.9	16.7	46.6
Attributable to:							
Equity holders of the parent		29.5	53.3	82.8	25.3	19.9	45.2
Non-controlling interests		1.4	0.6	2.0	4.6	(3.2)	1.4
		30.9	53.9	84.8	29.9	16.7	46.6
<b>Earnings per share – basic and diluted</b> (pence)	11			13.1			9.0

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 2012

	Note	31 March 2012 £million	31 March 2011 £million
<b>Non-current assets</b>			
Investments at fair value through profit or loss	15	524.3	396.3
Finance receivables at fair value through profit or loss	17	1,739.4	761.6
Intangible assets	14	375.2	162.0
Deferred tax assets	10c	109.7	34.3
<b>Total non-current assets</b>		<b>2,748.6</b>	<b>1,354.2</b>
<b>Current assets</b>			
Investments at fair value through profit or loss	15	-	29.7
Trade and other receivables	18	29.2	15.7
Finance receivables at fair value through profit or loss	17	31.2	17.5
Cash and cash equivalents	19	373.7	114.9
<b>Total current assets</b>		<b>434.1</b>	<b>177.8</b>
<b>Total assets</b>		<b>3,182.7</b>	<b>1,532.0</b>
<b>Current liabilities</b>			
Trade and other payables	20	(48.1)	(28.9)
Current tax payable		(1.4)	(0.8)
Loans and borrowings	21	(191.4)	(31.4)
<b>Total current liabilities</b>		<b>(240.9)</b>	<b>(61.1)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	(1,409.9)	(616.3)
Other financial liabilities (fair value of derivatives)	22	(259.9)	(82.8)
Deferred tax liabilities	10c	(238.7)	(104.9)
<b>Total non-current liabilities</b>		<b>(1,908.5)</b>	<b>(804.0)</b>
<b>Total liabilities</b>		<b>(2,149.4)</b>	<b>(865.1)</b>
<b>Net assets</b>		<b>1,033.3</b>	<b>666.9</b>
<b>Equity</b>			
Ordinary Share capital	23	-	-
C Share capital	23	-	-
Share premium	23	717.7	390.7
Retained reserves		307.2	266.3
Total equity attributable to equity holders of the parent		1,024.9	657.0
Non-controlling interests		8.4	9.9
<b>Total equity</b>		<b>1,033.3</b>	<b>666.9</b>
<b>Net assets per Ordinary Share (pence)</b>	13	117.0	110.4
<b>Net assets per C Share (pence)</b>	13	98.7	-

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 22 May 2012, 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 2012

Year ended 31 March 2012					
	Attributable to equity holders of the parent			Non-controlling interests	Total equity
	Share capital and share premium	Retained reserves	Total shareholders' equity		
	£million	£million	£million	£million	£million
Shareholders' equity at beginning of year	390.7	266.3	657.0	9.9	666.9
<b>Profit for the year</b>	-	82.8	82.8	2.0	84.8
Distributions paid to Company shareholders	-	(41.9)	(41.9)	-	(41.9)
Distributions paid to non-controlling interests	-	-	-	(3.5)	(3.5)
C Shares issued	250.0	-	250.0	-	250.0
Costs of C Share issue	(3.2)	-	(3.2)	-	(3.2)
Ordinary Shares issued	80.9	-	80.9	-	80.9
Costs of Ordinary Share issue	(0.7)	-	(0.7)	-	(0.7)
<b>Shareholders' equity at end of year</b>	<b>717.7</b>	<b>307.2</b>	<b>1,024.9</b>	<b>8.4</b>	<b>1,033.3</b>

Year ended 31 March 2011					
	Attributable to equity holders of the parent			Non-controlling interests	Total equity
	Share capital and share premium	Retained reserves	Total shareholders' equity		
	£million	£million	£million	£million	£million
Shareholders' equity at beginning of year	234.0	252.6	486.6	12.8	499.4
<b>Profit for the year</b>	-	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 Ordinary Share issue	(2.3)	-	(2.3)	-	(2.3)
<b>Shareholders' equity at end of year</b>	<b>390.7</b>	<b>266.3</b>	<b>657.0</b>	<b>9.9</b>	<b>666.9</b>

## Consolidated cash flow statement

for the year ended 31 March 2012

	Year ended 31 March 2012 £million	Year ended 31 March 2011 £million
<b>Cash flows from operating activities</b>		
Profit before tax	84.2	38.3
Adjustments for:		
Gains on investments	(50.1)	(34.0)
Gains on finance receivables	(177.8)	(44.5)
Interest payable and similar charges	82.4	45.6
Changes in fair value of derivatives	64.7	(2.4)
Operator acquisition investment fees	2.4	1.5
Interest income	(0.9)	(0.4)
Amortisation of intangible assets	13.5	8.6
Operating cash flow before changes in working capital	18.4	12.7
Changes in working capital:		
Decrease/(Increase) in receivables	3.1	(14.4)
Increase in payables	0.5	5.4
Cash flow from operations	22.0	3.7
Interest received on bank deposits and finance receivables	0.9	0.4
Cash received from finance receivables	99.9	58.8
Interest paid	(85.1)	(33.3)
Corporation tax paid	(0.2)	(0.9)
Interest received on investments	18.7	25.2
Dividends received	9.7	10.1
Fees and other operating income	1.3	1.5
Loanstock and equity repayments received	31.0	0.1
<b>Net cash from operating activities</b>	<b>98.2</b>	<b>65.6</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(216.9)	(115.1)
Acquisition of subsidiaries net of cash acquired (Note 16a)	(15.9)	-
<b>Net cash used in investing activities</b>	<b>(232.8)</b>	<b>(115.1)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	320.9	154.6
Proceeds from issue of loans and borrowings	183.2	77.1
Repayment of loans and borrowings	(74.7)	(104.5)
Distributions paid to Company shareholders	(36.8)	(29.4)
Distributions paid to non-controlling interests	(3.4)	(4.4)
<b>Net cash from financing activities</b>	<b>389.2</b>	<b>93.4</b>
<b>Net increase in cash and cash equivalents</b>	<b>254.6</b>	<b>43.9</b>
Cash and cash equivalents at beginning of year	114.9	67.1
Exchange gains on cash	4.2	3.9
<b>Cash and cash equivalents at end of year</b>	<b>373.7</b>	<b>114.9</b>

# Notes to the consolidated financial statements for the year ended 31 March 2012

## 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 2012 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.

Of the Consolidated Group's portfolio of 70 investments at 31 March 2012, 50 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 20 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 were approved and authorised for issue by the Board of Directors on 22 May 2012.

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 Company'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. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Results. 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 continuing 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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 2. Key accounting policies *(continued)*

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.

#### **New standards effective for the current year**

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

- 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 2012. 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).

#### **Standards not yet applied**

As at 31 March 2012 there were no 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.

### **(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 2012. 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. Sixteen of the twenty Operating 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.



## **Notes to the consolidated financial statements** *(continued)* **for the year ended 31 March 2012**

### **2. Key accounting policies (continued)**

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**

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.

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 acquiree; 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.

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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 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 or income. Fair value is based on price quotations from financial institutions active in the relevant market. The Consolidated Group has not used hedge accounting.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 2. Key accounting policies (continued)

#### *(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.

#### *(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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 2. Key accounting policies (continued)

#### **(g) Share capital and share premium**

Ordinary and C 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 consolidated cash flow statement.

#### **(i) Non-controlling interests**

The interest of non-controlling shareholders is stated at the non-controlling shareholders' 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 shareholder 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 calculated as the fair value of services provided.

##### **(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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 2. Key accounting policies (continued)

#### **(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, 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.

##### **(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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 2. Key accounting policies (continued)

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 and 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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 2. Key accounting policies (continued)

#### (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 scrip 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.

#### (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.

### 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 £13.1 million higher or £12.7 million lower (2011: £11.2 million higher or £10.8 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

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

value calculation. The weighted average discount rate for the PFI/PPP/P3 portfolio as at 31 March 2012 was 8.6% (2011: 8.7%).

The carrying amount of the PFI/PPP/P3 investments would be an estimated £9.0 million higher or £8.3 million lower (2011: £6.8 million higher or £6.5 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 from 31 March 2012 is 2.75% (2011: 2.75%).

The carrying amount of the PFI/PPP/P3 investments would be an estimated £3.6 million higher or £3.6 million lower (2011: £2.8 million higher or £2.7 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 2012 were 1% to March 2015 and 3.75% thereafter (2011: 1% to March 2013 and 4% 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 £42.9 million higher or £41.3 million lower (2011: £17.4 million higher or £16.8 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 2012 were between 4.2% and 7.5% (2011: between 5.2% and 6.6%).

### **(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 twenty 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.



## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 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 £18.5 million higher or £18.5 million lower (2011: £8.4 million higher or £8.4 million lower) if the interest rates used in the fair value calculation of the interest rate swaps were to differ by 25 basis points.

#### ***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).

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 4. Financial instruments (continued)

The finance costs in the income statement would be an estimated £14.9 million higher or £14.9 million lower (2011: £6.4 million higher or £6.4 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 investments in Dutch High Speed Rail, Cork School of Music and Irish Grouped Schools projects (comprising 10% of the portfolio by 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 3% of the portfolio by value), which conduct their 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 2012 hedged its currency exposure through borrowing 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 2012 was to the Home Office project (10% 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 17% 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.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**4. Financial instruments (continued)**

As at 31 March 2012, the ageing of trade receivables past due but not impaired were as follows:

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
3 to 6 months due	0.4	-
Over 6 months due	0.6	0.5
	1.0	0.5

At 31 March 2012 there were no loans and other receivables considered past due or impaired (2011: £Nil) for the Consolidated Group.

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 meet 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.

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 £Nil (2011: £47.0 million) at the year end.

At 31 March 2012 the Investment Group currently had a committed £200 million five year revolving bank facility expiring in December 2012 which was secured over all assets of the Consolidated Group. The Investment Group negotiated and signed a new £150 million bank facility on 28 February 2012 to ensure the Investment Group can meet its foreseeable funding requirements, and to provide significant headroom available to support acquisitions, should suitable opportunities be identified and executed. Included within the Consolidated Group's balance sheet as at 31 March 2012 are capitalised arrangement fees of £2.8 million.

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).

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**4. Financial instruments (continued)**

<b>31 March 2012</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
	£million	£million	£million	£million
Bank borrowings	165.3	21.4	70.0	649.2
Trade and other payables	48.1	-	-	-
Interest on bank borrowings	42.3	40.9	119.6	386.1
Other loans and borrowings	19.8	18.6	72.4	752.5
Interest on other loans and borrowings	19.4	19.2	60.3	234.0
Other financial liabilities	31.9	30.6	59.3	163.9
<b>Total</b>	<b>326.8</b>	<b>130.7</b>	<b>381.6</b>	<b>2,185.7</b>

  

<b>31 March 2011</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
	£million	£million	£million	£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
<b>Total</b>	<b>111.6</b>	<b>76.5</b>	<b>196.9</b>	<b>880.5</b>

**Capital management**

The Investment Group utilised a £200 million revolving acquisition facility of which £58.7 million was undrawn at year end. Further equity raisings are considered when debt drawings are at an appropriate level. The proceeds from the share issues are used to repay debt and to fund future investment commitments. In March the Company raised £250 million (before costs) in a C Share equity capital raising, the net proceeds of which were on deposit at year end prior to repayment of the Investment Group's £200 million revolving facility in April 2012.

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:

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Outstanding drawings		
Bank borrowings	141.3	-
Letter of credit facility	-	46.7
	<b>141.3</b>	<b>46.7</b>
Adjusted Gross Asset Value		
Portfolio valuation	902.0	673.1
Cash and cash equivalents	267.9	54.7
	<b>1,169.9</b>	<b>727.8</b>
<b>Borrowing concentration</b>	<b>12.1%</b>	<b>6.4%</b>

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

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**4. Financial instruments (continued)**

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% per annum 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.

**Classification of financial instruments**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
<b>Financial assets</b>		
Designated at fair value through profit or loss		
Investment in Entity Investments	524.3	426.0
Operating Subsidiaries' financial assets	1,770.6	779.1
Financial assets at fair value	2,294.9	1,205.1
Loans and receivables		
Trade and other receivables	29.2	15.7
Cash and cash equivalents	373.7	114.9
Financial assets at amortised cost	402.9	130.6
<b>Financial liabilities</b>		
Designated at fair value through profit or loss		
Other financial liabilities (fair value of derivatives)	(259.9)	(82.8)
Financial liabilities at fair value	(259.9)	(82.8)
At amortised cost		
Trade and other payables	(48.1)	(28.9)
Loans and borrowings	(1,601.3)	(647.7)
Financial liabilities at amortised cost	(1,649.4)	(676.6)

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**4. Financial instruments (continued)**

The Directors believe that the carrying values of all financial instruments, except the fixed rate and RPI-linked borrowings, 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 borrowings.

Secured loans and borrowings totalling £1,576.6 million (2011: £623.6 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 2012**

	Level 1 £million	Level 2 £million	Level 3 £million	Total £million
Investments at fair value through profit or loss (Note 15)	-	-	524.3	524.3
Finance receivables at fair value through profit or loss (Note 17)	-	-	1,770.6	1,770.6
	-	-	2,294.9	2,294.9
Other financial liabilities (fair value of derivatives) (Note 22)	-	259.9	-	259.9
	-	259.9	-	259.9

**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

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.

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**5. Services revenue**

	<b>For year ended 31 March 2012</b>	<b>For year ended 31 March 2011</b>
	£million	£million
Service revenue	140.7	89.2
Construction revenue	8.5	31.2
Other revenue	0.7	0.8
	<b>149.9</b>	<b>121.2</b>

Revenue from 3 customers which each represent more than 10% of the Consolidated Group's total revenues provide approximately £62.9 million of revenue (2011: £101.2 million from 5 customers each representing more than 10% of the Consolidated Group's total revenues). The Consolidated 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 £7.7 million (2011: £27.7 million) of capital variations funded by the Ministry of Defence and shareholders on the Helicopter Training project.

**6. Gains on investments**

	<b>For the year ended 31 March 2012</b>			<b>For the year ended 31 March 2011</b>		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	£million	£million	£million	£million	£million	£million
Interest from investments	21.2	-	21.2	18.8	-	18.8
Dividend income from investments	6.7	-	6.7	5.8	-	5.8
Fees and other operating income	1.4	-	1.4	1.5	-	1.5
Gains on valuation (Note 15)	-	20.8	20.8	-	9.7	9.7
	<b>29.3</b>	<b>20.8</b>	<b>50.1</b>	<b>26.1</b>	<b>9.7</b>	<b>35.8</b>

Included within the gain on valuation is an unrealised exchange gain of £0.2 million on the Consolidated Group's Euro and Canadian borrowings (2011: £Nil). The following exchange rates were used at the year end:

	<b>31 March 2012</b>	<b>31 March 2011</b>
Euro	0.83	0.89
Canadian	0.63	0.64

**7. Services costs**

	<b>For year ended 31 March 2012</b>	<b>For year ended 31 March 2011</b>
	£million	£million
Service and construction costs	110.6	93.6
Amortisation of intangibles (see Note 14)	13.5	8.6
Other costs	5.9	3.6
	<b>130.0</b>	<b>105.8</b>

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**8. Administrative expenses**

	For year ended 31 March 2012 £million	For year ended 31 March 2011 £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	0.2
Taxation advisory and non-audit services	0.1	0.1
Management fees	2.6	1.1
Operator fees (Note 24)	8.6	6.5
Investment fees (Note 24)	2.5	1.6
Directors' fees (Note 24)	0.2	0.2
Professional fees	0.9	0.6
Project bid costs	0.7	0.3
Other costs	1.5	1.1
	17.4	11.8

In addition to the above an amount of £0.3 million (2011: £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 year ended 31 March 2012			For year ended 31 March 2011		
	Revenue £million	Capital £million	Total £million	Revenue £million	Capital £million	Total £million
Interest expense:						
Interest on bank loans and overdrafts	(40.4)	-	(40.4)	(26.8)	-	(26.8)
Interest and indexation on other loans	(39.1)	-	(39.1)	(21.6)	-	(21.6)
Other finance costs	(2.9)	(4.7)	(7.6)	(2.7)	-	(2.7)
Change in fair value of interest and inflation rate swaps	-	(64.8)	(64.8)	-	-	-
<b>Total finance costs</b>	<b>(82.4)</b>	<b>(69.5)</b>	<b>(151.9)</b>	<b>(51.1)</b>	<b>-</b>	<b>(51.1)</b>
Interest income:						
Interest on bank deposits	0.9	-	0.9	0.4	-	0.4
Other finance income	-	4.8	4.8	-	0.7	0.7
Change in fair value of interest and inflation rate swaps	-	-	-	-	1.7	1.7
<b>Total finance income</b>	<b>0.9</b>	<b>4.8</b>	<b>5.7</b>	<b>0.4</b>	<b>2.4</b>	<b>2.8</b>
<b>Net finance (costs)/income</b>	<b>(81.5)</b>	<b>(64.7)</b>	<b>(146.2)</b>	<b>(50.7)</b>	<b>2.4</b>	<b>(48.3)</b>

**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.



**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

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 26% for current tax liabilities (2011: 28%) and 24% for deferred tax assets and liabilities (2011: 26%).

**Changes in overseas tax rates**

Under the Provisional Collection of Taxes Act 1968, a resolution was passed on 26 March 2012 to amend the UK corporation tax rate to 24% with effect from 1 April 2012. In addition, the UK Government announced further reductions of the rate to 23% and 22% by 1 April 2013 and 1 April 2014 respectively.

Other than the change to 24%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 March 2012 as they have not yet been enacted however the impact would be a reduction in deferred tax assets and liabilities.

**10a. Income tax expense**

	<b>For year ended 31 March 2012</b>	<b>For year ended 31 March 2011</b>
	£million	£million
<b>Foreign current tax:</b>		
Foreign corporation tax on profits for the year	(0.3)	(0.8)
<b>Total current tax expense</b>	<b>(0.3)</b>	<b>(0.8)</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences (Note 10d)	0.9	9.1
<b>Total income tax credit in the consolidated income statement (Note 10b)</b>	<b>0.6</b>	<b>8.3</b>

**10b. Reconciliation of effective tax rate**

	<b>For year ended 31 March 2012</b>	<b>For year ended 31 March 2011</b>
	£million	£million
Profit before taxation	84.2	38.3
Expected tax on profit at 0% (2011: 0%)	-	-
Different tax rates applied in overseas jurisdictions	1.7	7.5
Tax losses (utilised)/recognised	(1.1)	0.8
<b>Total income tax credit for the year</b>	<b>0.6</b>	<b>8.3</b>

The income tax credit in the year of £0.6 million (2011: £8.3 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 to 24% 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.

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**10c. Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	As at 31 March 2012			As at 31 March 2011		
	Assets £million	Liabilities £million	Net £million	Assets £million	Liabilities £million	Net £million
Finance receivables at fair value through profit or loss	0.9	(85.7)	(84.8)	0.5	(22.4)	(21.9)
Intangible assets	-	(91.0)	(91.0)	-	(43.2)	(43.2)
Subordinated debt	15.0	(1.3)	13.7	8.2	(0.6)	7.6
Other financial liabilities (fair value of derivatives)	77.7	(12.3)	65.4	20.9	(12.6)	8.3
Tax losses	16.1	-	16.1	4.6	-	4.6
Carrying value of finance receivable on acquisition where there is no available tax deduction	-	(48.4)	(48.4)	-	(26.1)	(26.1)
Other	-	-	-	0.1	-	0.1
<b>Net assets/(liabilities)</b>	<b>109.7</b>	<b>(238.7)</b>	<b>(129.0)</b>	<b>34.3</b>	<b>(104.9)</b>	<b>(70.6)</b>

**10d. Deferred tax movements**

	For the year ended 31 March 2012			
	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	(21.9)	(39.6)	(23.3)	(84.8)
Intangible assets	(43.2)	(56.7)	8.9	(91.0)
Subordinated debt	7.6	6.0	0.1	13.7
Other financial liabilities (fair value of derivatives)	8.3	44.5	12.6	65.4
Tax losses	4.6	12.6	(1.1)	16.1
Carrying value of finance receivable on acquisition where there is no available tax deduction	(26.1)	(26.1)	3.8	(48.4)
Other	0.1	-	(0.1)	-
	<b>(70.6)</b>	<b>(59.3)</b>	<b>0.9</b>	<b>(129.0)</b>

	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
	<b>(79.7)</b>	<b>-</b>	<b>9.1</b>	<b>(70.6)</b>

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**11. Basic and diluted earnings per share**

Basic and diluted earnings per share are 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.

	<b>2012</b>	<b>2011</b>
Profit attributable to equity holders of the Company	£82.8 million	£45.2 million
Weighted average number of Ordinary Shares in issue	633.4 million	504.5 million
Basic and diluted earnings per Ordinary Share	13.1 pence	9.0 pence

The Company issued C Shares on 30 March 2012 which has a dilutive effect. Further details of shares issued in the year are set out in Note 23.

	<b>Basic 2012</b>	<b>Diluted 2012</b>	<b>Basic and diluted 2011</b>
<b>Weighted average number of Ordinary Shares in issue</b>			
<i>In millions of shares</i>			
Issued Ordinary Shares at 1 April	595.1	595.1	454.3
Effect of Ordinary Shares issued as a scrip dividend alternative	2.2	2.2	0.6
Effect of Ordinary Shares issued under the block listing	36.1	36.1	30.1
Effect of Ordinary Shares issued under the Placing and Offer for Subscription of C Shares	-	-	19.5
Effect of C Shares issued under the Placing and Offer for Subscription of C Shares	-	0.6	-
Weighted average number of Ordinary Shares at 31 March	633.4	634.0	504.5

**12. Dividends**

	<b>For year ended 31 March 2012</b>	<b>For year ended 31 March 2011</b>
	£million	£million
<b>Amounts recognised as distributions to equity holders during the year:</b>		
Second interim dividend for the year ended 31 March 2011 of 3.425p (2010: 3.35p) per share	20.4	15.2
Interim dividend for the year ended 31 March 2012 of 3.35p (2011: 3.275p) per share	21.5	16.3
	41.9	31.5
Second interim dividend for the year ended 31 March 2012 of 3.5p (2011: 3.425p) per share	23.3	20.4

The second interim dividend was approved by the Board on 12 April 2012 and is payable on 29 June 2012 to shareholders on the register as at 20 April 2012. 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 2012.

The 2011 second interim dividend and the first 2012 interim dividend are included in the statement of changes in shareholder equity.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**12. Dividends (continued)**

	<b>For year ended 31 March 2012</b>	<b>For year ended 31 March 2011</b>
Interim dividend for the period ended September	3.35p	3.275p
Interim dividend for the period ended March	3.50p	3.425p
	<u>6.85p</u>	<u>6.7p</u>

**13. Net assets**

The calculation of net assets per share is based on shareholders' equity of £1,024.9 million as at 31 March 2012 (2011: £657.0 million) and 665.4 million (2011: 595.1 million) Ordinary Shares and 250.0 million C Shares in issue at that date.

**14. Intangible assets**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
<b>Cost</b>		
Opening balance	189.5	189.5
Acquisition through business combinations	226.7	-
Balance as at 31 March	<u>416.2</u>	<u>189.5</u>
<b>Amortisation</b>		
Opening balance	(27.5)	(18.9)
Amortisation for the year	(13.5)	(8.6)
Balance as at 31 March	<u>(41.0)</u>	<u>(27.5)</u>
<b>Carrying amounts</b>		
At 31 March	<u>375.2</u>	<u>162.0</u>

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 £13.5 million (2011: £8.6 million) is included within service cost expenses in the consolidated income statement.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**15. Investments at fair value through profit or loss**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Opening balance	426.0	307.4
Investments in the year	236.6	106.3
Accrued interest	(6.7)	2.3
Repayments in the year	(37.8)	(6.5)
Subscription obligations	46.7	8.0
Gains on valuation	21.9	10.9
Investments consolidated during the year	(161.6)	-
Other movements	(0.8)	(2.4)
<b>Carrying amount at year end</b>	<b>524.3</b>	<b>426.0</b>
This is represented by:		
Less than one year	-	29.7
Greater than one year	524.3	396.3
<b>Carrying amount at year end</b>	<b>524.3</b>	<b>426.0</b>
Gains on valuation as above	21.9	10.9
Less : transaction costs incurred	(1.1)	(1.2)
Gains on investments	20.8	9.7

The gains on investment have been included in Gains on investments presented in the consolidated income statement as capital items.

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2012. 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. 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 8.2% to 11.0% (weighed average of 8.6%) (2011: 8.4% to 10.0% (weighed average of 8.7%)).

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

UK inflation rates	2.75%
Holland, Ireland and Canada inflation rates	2.0%
UK deposit interest rates	1% to March 2015 and 3.75% thereafter
UK corporation tax rate	24%
Euro/Sterling exchange rate	0.83 for all future periods
Can\$/Sterling exchange rate	0.63 for all future periods

The economic assumptions for the year ended 31 March 2011 were as follows:

UK inflation rates	2.75%
UK deposit interest rates	1% for 2 years to March 2013 and 4% thereafter
UK corporation tax rate	26%
Euro/Sterling exchange rate	0.89 for all future periods
Can\$/Sterling exchange rate	0.64 for all future periods

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**15. Investments at fair value through profit or loss (continued)**

Investments are generally restricted on their ability to transfer funds to the Group under the terms of their senior funding arrangements 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:

Investments (project name)	Percentage Holding					
	Equity	31 March 2012			31 March 2011	
		Subordinated loanstock	Mezzanine debt	Equity	Subordinated loanstock	Mezzanine debt
A249 Road	50.0%	50.0%	-	-	-	-
A92 Road	50.0%	50.0%	-	-	-	-
Barking & Dagenham Schools	85.0%	100.0%	-	-	-	-
Bishop Auckland Hospital	36.0%	36.0%	100.0%	36.0%	36.0%	100.0%
Blackburn Hospital <sup>1</sup>	-	-	-	50.0%	50.0%	-
Bradford Schools	34.0%	34.0%	-	34.0%	34.0%	-
Brentwood Community Hospital	75.0%	75.0%	-	-	-	-
Colchester Garrison	42.0%	42.0%	-	42.0%	42.0%	-
Cork School Of Music <sup>2</sup>	50.0%	50.0%	-	-	-	-
Darlington Schools	50.0%	50.0%	-	50.0%	50.0%	-
Defence Sixth Form College	45.0%	45.0%	-	45.0%	45.0%	-
Derby Schools	80.0%	80.0%	-	-	-	-
Doncaster Mental Health Hospital	50.0%	50.0%	-	-	-	-
Doncaster Schools	50.0%	50.0%	-	-	-	-
Dorset Fire & Rescue	67.0%	67.0%	-	-	-	-
Dorset Police	80.0%	80.0%	-	-	-	-
Dutch High Speed Rail Link <sup>3</sup>	43.0%	43.0%	-	43.0%	43.0%	-
Ealing Care Homes	68.0%	68.0%	-	-	-	-
Ealing Schools	50.0%	50.0%	-	50.0%	50.0%	-
Fife Schools	40.0%	40.0%	100.0%	40.0%	40.0%	100.0%
Glasgow Hospital	25.0%	25.0%	-	-	-	-
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 <sup>4/5</sup>	23.5%	74.1%	-	21.8%	59.0%	-
Highland Schools	50.0%	50.0%	-	50.0%	50.0%	-
Irish Grouped Schools <sup>2</sup>	50.0%	50.0%	-	-	-	-
Kemble Water Junior Loan	-	-	-	-	-	3.6%
Kent Schools	50.0%	50.0%	-	50.0%	50.0%	-
Kicking Horse Canyon P3 <sup>6</sup>	50.0%	-	-	50.0%	-	-
M80 Motorway DBFO	49.9%	50.0%	-	41.6%	41.6%	-
Manchester School	50.0%	50.0%	-	-	-	-
Medway Police	80.0%	80.0%	-	-	-	-
MPA South East London Police Stations	50.0%	50.0%	-	50.0%	50.0%	-

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**15. Investments at fair value through profit or loss (continued)**

Investments (project name)	Percentage Holding					
	Equity	31 March 2012		Equity	31 March 2011	
		Subordinated loanstock	Mezzanine debt		Subordinated loanstock	Mezzanine debt
Newcastle Libraries	50.0%	50.0%	-	50.0%	50.0%	-
Newport Schools	80.0%	80.0%	-	-	-	-
Newton Abbot Hospital	50.0%	100.0%	-	-	-	-
North Tyneside Schools	50.0%	50.0%	-	50.0%	50.0%	-
North West Anthony Henday P3 <sup>6</sup>	50.0%	50.0%	-	50.0%	50.0%	-
Norwich Schools	75.0%	75.0%	-	-	-	-
Oldham Library	50.0%	50.0%	-	-	-	-
Oldham Schools	75.0%	75.0%	-	-	-	-
Oxford Churchill Oncology	40.0%	40.0%	-	-	-	-
Oxford John Radcliffe Hospital <sup>1</sup>	-	-	-	89.9%	100.0%	-
Oxford Nuffield Hospital	25.0%	25.0%	-	-	-	-
Pontefract & Pinderfields Hospitals	50.0%	50.0%	-	-	-	-
Queen Alexandra Hospital <sup>1</sup>	-	-	-	89.9%	100.0%	-
Renfrewshire Schools	30.0%	30.0%	-	30.0%	30.0%	-
Romford Hospital	50.0%	50.0%	-	50.0%	50.0%	-
Sheffield Hospital	75.0%	75.0%	-	-	-	-
Sheffield Schools	37.5%	37.5%	-	-	-	-
Sussex Custodial Centre	89.9%	100.0%	-	89.9%	100.0%	-
Swindon Police	80.0%	80.0%	-	-	-	-
Willesden Hospital	50.0%	50.0%	-	-	-	-
Wooldale Centre	50.0%	50.0%	-	50.0%	50.0%	-

1 – Incremental acquisitions of additional stakes during the year have resulted in these investments being deemed subsidiaries of the Company (see Note 16 and 28).

2 – The company is incorporated in Ireland.

3 - The company is incorporated in the Netherlands.

4 - The Consolidated Group's share of the project's capital commitments is £11.8 million.

5 - 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).

6 - The company is incorporated in Canada.

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

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 16a. Acquisition of subsidiaries

#### *Year ended 31 March 2012*

Investments which become subsidiaries through the acquisition of an additional equity interest are held as investments at fair value and therefore there is no gain or loss as a result of re-measuring to fair value the interests held prior to the acquisitions. Fair values were determined using the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values.

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.

#### **South Ayrshire Schools Project (“SAS”)**

On 10 June 2011 the Group obtained control of SAS, by acquiring 100.0% of the equity and loanstock in the project. The transaction costs were £0.1 million and have been expensed to administrative expenses in the consolidated income statement.

The project involved the financing, design and construction and subsequent operation of three new primary schools, two new secondary schools and a new performing arts annex at an existing secondary school. All the schools became operational between January 2008 and January 2010.

a) Consideration	£million
Cash	15.8
b) Identifiable assets acquired and liabilities assumed	£million
Intangibles	23.4
Finance receivables at fair value through profit or loss	83.2
Deferred tax assets	3.9
Cash and cash equivalents	2.2
Other current assets	1.4
Current liabilities	(2.2)
Deferred tax liabilities	(5.9)
Other non-current liabilities	(90.2)
	<u>15.8</u>
c) Goodwill	£million
Total consideration transferred	15.8
Less fair value of net identifiable assets	<u>(15.8)</u>
	<u>-</u>

In the nine months to 31 March 2012 the acquisition contributed income of £8.9 million and losses of £9.4 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue for the Group would have been £380.8 million, and consolidated profit for the year for the Group would have been £83.3 million.

The results for the nine months to 31 March 2012 are materially impacted by movements in gilt rates between acquisition and year end. Therefore, it is not possible to extrapolate the results from the nine months to get an indicative operating result for the subsidiary for the year. This is relevant for all subsidiaries acquired in the year.



**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**16a. Acquisition of subsidiaries (continued)**

**The Hospital Company (QAH) Limited (“QAH”)**

On 23 June 2011 the Group obtained control of QAH, by acquiring 10.1% of the equity in the project. As a result, the Group’s equity interest increased from 89.9% to 100.0%. The transaction cost was de minimus.

This project is a concession to design and construct a new hospital and retained estates work in Portsmouth, which became operational in 2010.

a)	Consideration	£million
	Cash	2.8
b)	Identifiable assets acquired and liabilities assumed	£million
	Intangibles	35.8
	Finance receivables at fair value through profit or loss	345.4
	Deferred tax assets	14.2
	Cash and cash equivalents	17.9
	Other current assets	9.6
	Current liabilities	(7.0)
	Deferred tax liabilities	(25.1)
	Other non-current liabilities	(324.3)
		<hr/> 66.5 <hr/>
c)	Goodwill	£million
	Total consideration transferred	2.8
	Fair value of previous interest in acquiree	63.7
	Less fair value of net identifiable assets	(66.5)
		<hr/> - <hr/>

In the nine months to 31 March 2012 the acquisition contributed income of £62.6 million and profits of £16.6 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue for the Group would have been £398.7 million, and consolidated profit for the year for the Group would have been £86.8 million.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**16a. Acquisition of subsidiaries (continued)**

**The Hospital Company (OJR) Limited (“OJR”)**

On 23 June 2011 the Group obtained control of OJR, by acquiring 10.1% of the equity in the project. As a result, the Group’s equity interest increased from 89.9% to 100.0%. The transaction cost was de minimus.

This project is a concession to design, construct, manage, finance, operate and maintain a new wing adjacent to the former Radcliffe Infirmary. Construction was completed ahead of schedule in March 2011.

a)	Consideration	£million
	Cash	1.2
b)	Identifiable assets acquired and liabilities assumed	£million
	Intangibles	70.5
	Finance receivables at fair value through profit or loss	150.3
	Deferred tax assets	19.4
	Cash and cash equivalents	10.4
	Other current assets	3.1
	Current liabilities	(4.6)
	Deferred tax liabilities	(24.4)
	Other non-current liabilities	(191.6)
		<hr/> 33.1 <hr/>
c)	Goodwill	£million
	Total consideration transferred	1.2
	Fair value of previous interest in acquiree	31.9
	Less fair value of net identifiable assets	(33.1)
		<hr/> - <hr/>

In the nine months to 31 March 2012 the acquisition contributed income of £31.4 million and losses of £2.4 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue for the Group would have been £388.3 million, and consolidated profit for the year for the Group would have been £85.0 million.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**16a. Acquisition of subsidiaries (continued)**

**Blackburn Hospital**

On 10 November 2011 the Group obtained control of Blackburn Hospital, by acquiring 50.0% of the equity in the project. As a result, the Group's equity interest increased from 50.0% to 100.0%. The Group also acquired the remaining 50.0% of the loanstock. The transaction cost was de minimus.

The project involved the design, construction, financing and maintenance of new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust. The new facilities have been operational since 2003.

a) Consideration	£million
Cash	13.8
b) Identifiable assets acquired and liabilities assumed	£million
Intangibles	38.2
Finance receivables at fair value through profit or loss	170.9
Deferred tax assets	12.7
Cash and cash equivalents	9.3
Other current assets	2.5
Current liabilities	(3.4)
Deferred tax liabilities	(48.7)
Other non-current liabilities	(155.5)
	<hr/> 26.0 <hr/>
c) Goodwill	£million
Total consideration transferred	13.8
Fair value of previous interest in acquire	12.2
Less fair value of net identifiable assets	(26.0)
	<hr/> - <hr/>

In the six months to 31 March 2012 the acquisition contributed income of £11.4 million and profits of £2.8 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue would have been £389.2 million, and consolidated profit for the year would have been £83.4 million.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**16a. Acquisition of subsidiaries (continued)**

**Portfolio acquisition**

On 19 December the Group acquired a portfolio of 26 PFI/PPP projects from two infrastructure funds managed by Barclays Infrastructure Funds Management Limited. Of the 26, 5 have been treated as subsidiaries and 21 have been treated as investments in associates or joint ventures. Transaction costs of £0.2 million relating to the subsidiaries have been expensed to administrative expenses in the consolidated income statement and £0.7 million relating to the other projects have been capitalised.

All of the 26 projects are operational and, apart from two investments in The Republic of Ireland (the Cork School of Music and Irish Grouped schools project) all are based in the UK.

a) Consideration	£million
Cash	143.4
b) Identifiable assets acquired and liabilities assumed	£million
Intangibles	58.9
Finance receivables at fair value through profit or loss	159.1
Investments at fair value through profit or loss	108.1
Deferred tax assets	12.6
Cash and cash equivalents	13.8
Other current assets	1.4
Current liabilities	(5.9)
Deferred tax liabilities	(18.9)
Other non-current liabilities	(185.7)
	<hr/> 143.4 <hr/>
c) Goodwill	£million
Total consideration transferred	140.4
Deferred consideration	3.0
Less fair value of net identifiable assets	(143.4)
	<hr/> - <hr/>

The deferred consideration of £3.0 million relates to five outstanding construction and operation matters on one project. As and when these are resolved satisfactorily, portions of the consideration will be released. Any deferred consideration not paid by June 2013 will remain with the Group.

In the three months to 31 March 2012 the acquisition contributed negative income of £0.5 million and losses of £0.4 million. If the acquisition occurred on 1 April 2011, management estimates that consolidated revenue would have been £376.2 million, and consolidated profit for the year would have been £72.3 million.

*Year ended 31 March 2011*

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

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 16b. Acquisition of other investments (continued)

*Year ended 31 March 2012*

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 May 2011 the Group and Kajima Partnerships Limited established a new joint venture holding company, Redwood Partnership Ventures 2 Limited ("RPV2L"). The Group has a 75% shareholding in RPV2L.

In May 2011 the Group through RPV2L completed the acquisition of equity investments in three UK PFI schools for £17.2 million. The three projects acquired by RPV2L were:

- a 100% interest in the Norwich Area Schools PFI Project;
- a 100% interest in the Oldham Secondary Schools PFI Project; and
- a 50% interest in the Sheffield Schools PFI Project.

In May 2011 the Group completed the acquisition of a 75.0% equity investment in Brentwood Community Hospital for £4.6 million through RPV2L.

In June 2011 the Group completed the acquisition of an indirect 50.0% equity investment in Pontefract and Pinderfields Hospitals and a further small equity interest in the Medium Support Helicopter Aircrew Training Facility for £28.8 million in aggregate.

In November 2011 the Group completed the acquisition of 75.0% of the equity and loan note interests in Sheffield Hospital for £5.2 million through RPV2L.

In February 2012 the Group acquired a further 33.5% of the equity and loan note interests in Dorset Fire and Rescue for £3.8 million.

The Directors have analysed the shareholder rights of these projects and are of the opinion that they should be treated as investments in joint ventures in accordance with IAS 31 Interests in Joint Ventures.

### 16b. Acquisition of other investments (continued)

*Year ended 31 March 2011*

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.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

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 Infrasppeed 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).

### 17. Finance receivables at fair value through profit or loss

	31 March 2012	31 March 2011
	£million	£million
Opening balance	779.1	788.6
Acquisition of subsidiaries	908.8	-
Gain/(loss) on valuation	107.2	6.6
Repayments in the year	(25.3)	(17.4)
Other movements	0.8	1.3
<b>Carrying amount at year end</b>	<b>1,770.6</b>	<b>779.1</b>
This is represented by:		
Less than one year	31.2	17.5
Greater than one year	1,739.4	761.6
<b>Carrying amount at year end</b>	<b>1,770.6</b>	<b>779.1</b>

The Operating Subsidiaries' concession contracts with public sector bodies are considered as financial assets. Gain in fair values of financial assets of £107.2 million for the year ended 31 March 2012 (2011: £6.6 million gain), 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.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

Interest income in relation to finance receivables of £70.6 million has been recognised in the consolidated income statement for the year ended 31 March 2012 as a revenue amount (2011: £40.6 million).

**18. Trade and other receivables**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Trade receivables	14.8	9.8
Other debtors	2.1	1.0
Prepayments and accrued income	12.3	4.9
	<b>29.2</b>	<b>15.7</b>

**19. Cash and cash equivalents**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Bank balances	56.3	34.5
Call deposits	317.4	80.4
Cash and cash equivalents	<b>373.7</b>	<b>114.9</b>

The effective interest rate on call deposits was between 0.1% and 2.4% (2011: between 0.3% and 1.0%). The deposits had a maturity of between 1 and 367 days (2011: between 7 and 338 days).

**20. Trade and other payables**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Trade payables	11.8	7.6
Accruals	28.6	15.7
Other payables	7.7	5.6
	<b>48.1</b>	<b>28.9</b>

**21. Loans and borrowings**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
<b>Non-current liabilities</b>		
Libor borrowings	755.2	350.1
Subordinated debt	24.3	23.4
RPI-linked borrowings	529.0	157.6
Fixed rate borrowings	101.4	85.2
	<b>1,409.9</b>	<b>616.3</b>
<b>Current liabilities</b>		
Libor borrowings	168.6	19.4
Subordinated debt	0.4	0.7
RPI-linked borrowings	21.4	11.3
Fixed rate borrowings	1.0	-
	<b>191.4</b>	<b>31.4</b>
<b>Total loans and borrowings</b>	<b>1,601.3</b>	<b>647.7</b>

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**21. Loans and borrowings (continued)**

***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	
			2012 £million	2011 £million
Secured libor borrowings – Operating Subsidiaries	4.6%	2031	785.3	369.5
Secured libor borrowings – Partnership	5.2%	2012	138.5	-
Subordinated debt	12.8%	2020	24.7	24.1
RPI-linked borrowings	3.2%	2036	550.4	168.9
Fixed rate borrowings	5.7%	2031	102.4	85.2
			1,601.3	647.7

The interest rate for secured libor borrowings varies with changes in libor. This debt is hedged using fixed to floating interest rate swaps. The interest rate on RPI-linked borrowings varies with inflation whereas fixed rate borrowings have fixed interest coupons.

RPI-linked and fixed rate borrowings include bonds which 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 borrowings are indexed annually and semi-annually using published RPI figures. The index ratio uses a base index figure ranging from 173.3 to 178.2 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 borrowings. An analysis of fair values and carrying values of these borrowings is detailed below:

	31 March 2012		31 March 2011	
	Carrying amount £million	Fair value £million	Carrying amount £million	Fair value £million
RPI-linked borrowings	550.4	646.1	168.9	190.8
Fixed rate borrowings	102.4	112.9	85.2	94.1
	652.8	759.0	254.1	284.9

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

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

	2012 £million	2011 £million
Pound Sterling	1,494.6	647.7
Euro	79.1	-
Canadian Dollar	27.6	-
	1,601.3	647.7

The exchange rate used as at 31 March 2012 to convert the Euro loan was 0.83 and 0.63 for the Canadian Dollar loan.



**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

**21. Loans and borrowings (continued)**

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

	<b>2012</b>	<b>2011</b>
	£million	£million
Floating rate:		
Secured		
- expiring within one year	58.7	-
- expiring between 1 and 2 years	50.0	153.3
- expiring between 2 and 5 years	100.0	-
- expiring after 5 years	16.7	8.0
	<b>225.4</b>	<b>161.3</b>

The Operating Subsidiaries are required to meet certain bank covenants on its debt, the most significant of which are maintaining debt service cover ratios (annual 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 Group was also required to meet certain bank covenants on its £200 million five year revolving bank facility, the most significant of which were 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)**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
<b>Non-current liabilities</b>		
Interest rate swaps	206.9	56.4
Inflation swap	53.0	26.1
Forward foreign exchange contract	-	0.3
	<b>259.9</b>	<b>82.8</b>

Financial liabilities have been fair valued in accordance with Note 2(d). The loss in fair value of interest and inflation rate swaps of £64.8 million for the year ended 31 March 2012 (2011: Gain £1.7 million) is disclosed within finance costs 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 2012 was £794.4 million (2011: £444.7 million). As at 31 March 2012, the fixed interest rates on the swaps range from 1.73% to 6.48% (2011: 4.53% to 6.51%) and maturities range from 2016 to 2038 (2011: 2012 to 2036). The notional amount of the outstanding inflation rate swap contracts at 31 March 2012 was £11.8 million (2011: £1.4 million). As at 31 March 2012, the fixed inflation rates on the swaps range from 2.53% to 2.96% (2011: 2.12% to 2.77%) and maturities range from 2029 to 2039 (2011: 2034 to 2036).

**23. Capital and reserves**

	<b>Ordinary Shares</b>		<b>C Shares</b>	
	<b>31 March 2012</b>	<b>31 March 2011</b>	<b>31 March 2012</b>	<b>31 March 2011</b>
	million	million	million	million
Issued at 1 April	595.1	454.3	-	-
Issued for cash	65.9	139.0	250.0	-
Issued as a scrip dividend alternative	4.4	1.8	-	-
Issued at 31 March – fully paid	<b>665.4</b>	<b>595.1</b>	<b>250.0</b>	<b>-</b>

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

The holders of the 665,422,215 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 (2011: 595,139,454).

250,000,000 C Shares were issued by the Company at a price of £1.00 per C Share on 30 March 2012. The holders of C Shares are entitled to one vote per share at any general meetings of the Company.

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.

**Ordinary Share capital and share premium**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Opening balance	390.7	234.0
Premium arising on issue of equity shares	80.9	159.0
Expenses of issue of equity shares	(0.7)	(2.3)
Balance at 31 March	470.9	390.7

Share capital is £66.5 thousand (2011: £59.5 thousand).

**C Share capital and share premium**

	<b>31 March 2012</b>	<b>31 March 2011</b>
	£million	£million
Opening balance	-	-
Premium arising on issue of C Shares	250.0	-
Expenses of issue of C Shares	(3.2)	-
Balance at 31 March	246.8	-

C Share capital is £25.0 thousand (2011: £Nil)

*For the year ended 31 March 2012*

On 30 June 2011 1.9 million new Ordinary Shares of 0.01 p 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 2011.

On 31 December 2011 2.5 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 2012.

In the year ending 31 March 2012 65.9 million new Ordinary Shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 115.0 p and 117.0 p.

## Notes to the consolidated financial statements *(continued)* for the year ended 31 March 2012

### 23. Share capital and reserves *(continued)*

On 28 March 2012, the Company announced the results of its Placing, Open Offer and Offer for Subscription of C Shares. The Company raised £250.0 million (before expenses) through the issue of 250,000,000 C Shares at a price of £1.00 per C Share, of which 82,685,943 C Shares were issued pursuant to the Open Offer, 10,029,500 C Shares were issued pursuant to the Offer for Subscription and 157,284,557 C Shares were issued by way of the Placing. The C Shares were admitted to trading on the London Stock Exchange on 30 March 2012.

#### *For the year ended 31 March 2011*

On 30 June 2010 0.3 million new Ordinary Shares of 0.01 p 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 £110.0 m (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 112.5 p and 115.0 p.

#### **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").

IRCP's appointment as Investment Adviser is governed by an Investment Advisory Agreement which may be terminated 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 per annum (disclosed within investment fees in Note 8) (2011: £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.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**24. Related party transactions (continued)**

In aggregate IRCP and the General Partner are entitled to fees and/or profit share equal to: i) 1.1 per cent per annum 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 per annum for the incremental value in excess of £750 million; ii) 1.5 per cent per annum 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 Consolidated Income Statement was £8.6 million (2011: £6.5 million) of which £4.6 million remained payable at year end (2011: £3.6 million). The total charge for new portfolio investments (disclosed within investment fees in Note 8) was £2.4 million (2011: £1.5 million) of which £1.7 million remained payable at year end (2011: £1.0 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 2012	Year ended 31 March 2011	31 March 2012	31 March 2011
	£million	£million	£million	£million
Loanstock investments	120.5	66.1	285.4	285.2
Loanstock repayments	(5.5)	(2.5)	-	-
Equity investments	100.5	47.0	189.8	152.9
Equity repayments	(2.3)	(4.0)	-	-
Outstanding subscription obligations	-	-	-	-
Loanstock interest	21.2	18.8	19.6	10.8
Dividends received	6.7	5.8	-	-
Fees and other income	1.4	1.5	0.6	-

The Directors of the Company, who are considered to be key management, received fees for their services. Further details are provided in the Report of the Directors.

Total fees for Directors for the year were £161,500 (2011: £155,000). Directors expenses of £7,646 (2011: £10,634) were also paid in the year. One Director also receives fees of £5,000 (2011: £5,000) for serving as director of the two Luxembourg subsidiaries.

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

**25. Guarantees and other commitments**

As at 31 March 2012 the Consolidated Group had £Nil commitments for future project investments (2011: £47.0 million) and £11.8 million in capital commitments (2011: £20.3 million).

**26. Events after balance sheet date**

250,000,000 C Shares were converted to 218,050,000 Ordinary Shares on 27 April 2012 at a conversion rate of 0.8722 Ordinary Shares for each C Share.

On 24 April, the £200 million five year revolving bank facility used by the Investment Group was fully repaid and duly cancelled.

On 4 May 2012 the Company completed an incremental acquisition in RMPA Holdings Limited ("Colchester Garrison") for a consideration of £15.0 million taking its shareholding to 56%.

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

On 18 May 2012 the Company completed an acquisition of 30% in Consort Healthcare (Birmingham) Holdings Limited ("Birmingham Hospital") for a consideration of £34.6 million.

On 21 May 2012 the Company completed an acquisition of 19.5% in Citylink Telecommunications Holdings Limited ("Connect PFI") for a consideration of £39.0 million.

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

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

**27. Disclosure – Service Concession Arrangements**

The group holds investments in 70 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 2012, 69 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.

<b>Project</b>	<b>Short description of concession arrangements</b>	<b>Start date</b>	<b>End date</b>	<b>Number of years</b>	<b>Project Capex</b>	<b>Key subcontractors</b>
A249	Design, construct, finance, operate and maintain the section from Lwade Bypass to Queensborough of the A249 road for the Secretary of State for Transport.	2006	2034	28	£79m	Carillion
A92	Design, construct, finance and operate the upgraded A92 shadow toll road between Dundee and Arbroath for Transport for Scotland.	2006	2035	29	£54m	Ringway
Barking & Dagenham Schools	Design, construct, finance, operate and maintain the Eastbury Comprehensive and Jo Richardson Community Schools for London Borough of Barking & Dagenham.	2005	2030	25	£47m	Bouygues
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	Bouygues Siemens Medirest
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

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

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

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	Balfour Siemens
Boldon School	Design, construct, finance, operate and maintain Boldon School for the Borough of South Tyneside.	2006	2031	25	£18m	Mitie
Bradford Schools	Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council.	2009	2036	27	£175m	Amey
Brentwood Community Hospital	Design, construct, finance and maintain a new community hospital for South West Essex Primary Care Trust.	2006	2038	32	£30m	Integral
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	Bouygues
Cleveland and Durham Police Tactical Training Centre	Construction of a state of the art firearms and tactical training centre at Urray Nook in the North of England.	2000	2026	26	£6m	John Laing
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
Conwy Schools	Design, build, operate and maintain three schools for Conwy County Borough Council in North Wales.	2003	2030	27	£40m	Sodexo
Cork School of Music	Design, construct, finance and operate a new school of music in Cork to accommodate 130 academic staff, 400 full time and 2,000 part-time students for the Minister of Education and Science (Republic of Ireland).	2007	2032	25	€43m	Bilfinger Berger

**Notes to the consolidated financial statements** *(continued)*  
for the year ended 31 March 2012

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

Croydon School	Design, construct, finance, operate and maintain a secondary school and community library in Croydon for the London Borough of Croydon.	2006	2035	29	£20M	Vinci
Darlington Schools	Darlington Schools is a four-school education PFI project consisting of an Education Village (which brought together three existing schools) and one primary school.	2004	2031	27	£31m	Mitie
Defence 6 <sup>th</sup> Form College	Design, build, operate, finance and maintain a new residential sixth form college for the Secretary of State for Defence.	2003	2033	30	£40m	Pearson Interserve
Derby Schools	Design, construct, finance, operate and maintain three primary schools and two secondary schools in Derby for Derby City Council.	2006	2031	25	£40m	Vinci
Doncaster Mental Health Hospital	Design, construct, finance, operate and maintain a service accommodation for an elderly mental health unit in Doncaster for the Rotherham Doncaster and South Humber Mental NHS Foundation Trust.	2005	2032	27	£15m	Royal BAM
Doncaster Schools	Design, construct, finance, operate and maintain two new secondary schools in Doncaster for the Doncaster Metropolitan Borough Council.	2008	2033	25	£49m	Vinci
Dorset Fire & Rescue	Design, construct, finance, operate and maintain the fire and police facilities at three sites in Dorset for the Dorset Fire Authority & Dorset Police Authority.	2009	2034	25	£49m	Cofely
Dorset Police	Design, construct, finance, operate and maintain a new divisional headquarters and section stations at Bridport and East Weymouth for the Dorset Police Authority.	2001	2031	30	£16m	Sodexo



**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

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

Dutch High Speed Rail	Design, construct, finance, operate and maintain power, track and signalling for the high speed railway between Schiphol Airport and Belgian border in the Netherlands.	2001	2031	30	£625m	Siemens Royal BAM Fluor
Ealing Care Homes	Design, construct, finance, operate and maintain four care homes for the elderly in the London Borough of Ealing for the London Borough of Ealing.	2009	2036	27	£22m	Viridian
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.	2004	2031	27	£31m	Mitie
Exeter Crown Court	Build and service a new crown and county court building in Exeter.	2002	2034	32	£20m	Sodexo
Fife Schools	The facility involved the construction of 3 new schools and a sports hall.	2001	2028	27	£40m	Sodexo
Glasgow Hospital	Design, construct, finance, operate and maintain two new ambulatory care and diagnostic hospitals in Glasgow for the Greater Glasgow and Clyde Health Board.	2009	2039	30	£178m	Parsons
GMPA Police Stations	Construction of 17 police stations on 16 sites around Greater Manchester.	2002	2030	28	£82m	John Laing
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.	2003	2030	27	£21m	Mitie
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.	2002	2035	30	£62m	Honeywell Reliance

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

Health & Safety Laboratory	Building of new workshops and offices in Buxton and the disposal of old facilities at Sheffield.	2002	2035	33	£60m	Interserve
Helicopter Training Facility	Design, construction, management, operation and financing of STET simulators based training facility for RAF helicopter pilots.	1997	2037	40 (with break clause by Grantor at Year 20)	£100m	Serco Vega Rockwell Collins
Highland Schools	Design, construction and operate eleven urban and rural schools.	2006	2037	30	£143m	Morrison
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	Bouygues
Irish Grouped Schools	Design, construct, finance, operate and maintain five secondary schools in the Republic of Ireland for the Department of Education and Skills.	2002	2027	25	€34m	Bilfinger Berger
Kicking Horse Canyon	Upgrade, operate and maintain a section of highway in British Columbia.	2008	2030	22	CAD\$ 127m	HMC Services
Kent Schools	Design, build, funding and partial operation of six schools in Kent under the UK Government's PFI programme.	2007	2035	26	£95m	Mitie
Lewisham Hospital	Design, construct, finance, operate and maintain a new wing in Lewisham Hospital for the Department of Health.	2006	2036	30	£58m	Carillion
M80 Motorway	Design, build, finance and operate a section of the M80 motorway in Scotland.	2011	2041	30	£275m	Bear Bilfinger Berger
Manchester School	Design, construct, finance, operate and maintain the Wright Robinson College in Manchester for Manchester City Council.	2007	2032	25	£29m	Hochtief

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

Medway Police	Design, construct, finance, operate and maintain a divisional police headquarters for Kent Police Authority.	2006	2034	28	£21m	Vinci
MPA Specialist Training Centre	Construction of a firearms and public order training facility in Gravesend, Kent for the Metropolitan Police Authority.	2001	2028	27	£40m	John Laing
MPA SEL Police Stations	Construction of 4 police stations in South East London for the Metropolitan Police Authority.	2001	2029	28	£80m	John Laing
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.	2007	2034	27	£30m	Integral
Newport Schools	Design, construct, finance, operate and maintain a nursery, infant and junior school for Newport City Council.	2009	2034	25	£16m	Vinci
Newton Abbot Hospital	Design, construct, finance, operate and maintain a community hospital for Teignbridge Primary Care Trust.	2008	2038	30	£20m	Rydon
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.	2002	2034	32	£30m	Mitie
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.	2011	2041	30	CAD\$ 995m	Carmacks
Norwich Schools	Design, construct, finance and operate five primary schools and one secondary school; all new build with the exception of a small element of retained estate at the secondary school for the Norwich City Council.	2006	2032	26	£43m	Kier

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

Oldham Library	Design, construct, finance, operate and maintain the Oldham Library and Lifelong Learning Centre for Oldham Metropolitan Borough Council.	2006	2031	25	£15m	Kier
Oldham Schools	Design, construct, finance and operate two secondary schools for Oldham Metropolitan Borough Council.	2006	2033	27	£54m	Kier
Oxford Churchill Oncology	Design, construct, finance, operate and maintain a 100 bed oncology unit, including provision of medical equipment for Oxford Radcliffe Hospitals NHS Trust.	2009	2038	29	£124m	G4S
Oxford John Radcliffe Hospital	Design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary.	2003	2036	33	£161m	Carillion
Oxford Nuffield Hospital	Design, construct, finance, operate and maintain a new orthopaedic hospital for the Secretary of State for Health.	2008	2036	28	£42m	G4S
Pontefract & Pinderfields Hospitals	Design, construction, management, financing and operate a new 708 bed acute hospital in Pinderfield, West Yorks and a new diagnostic and treatment hospital in Pontefract, West Yorks for the Mid Yorkshire NHS Trust.	2007	2042	35	£311m	Balfour Beatty
Portsmouth Hospital	Design and construction of a new hospital and retained estates work in Portsmouth.	2005	2040	35	£255m	Carillion
Renfrewshire Schools	Design, construction, management, financing, operation and maintenance of six primary and four secondary schools in Renfrewshire, Scotland.	2005	2037	32	£100m	Amey
Rhondda Schools	Design, construction, management, financing and operate a primary school, secondary school, a day nursery and an adult learning centre in South Wales for Rhondda Cynon Taf Authority.	2006	2030	24	£30m	Vinci

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

Romford Hospital	Design, construction, management, financing, operation and maintenance of a new hospital in Romford.	2004	2040	36	£211m	Sodexo Bovis Lend Lease Siemens
Sheffield Hospital	Design, construction, financing and management of a new 168 bed wing at the Sheffield Northern General Hospital for the Sheffield Teaching Hospitals NHS Foundation Trust.	2004	2036	32	£26m	Dalkia
Sheffield Schools	Design, construct, finance and operate two primary schools and two secondary schools for Sheffield City Council.	2005	2031	26	£53m	Kier
South Ayrshire Schools	Design, construct, finance and operate of three primary schools, two secondary academy schools and a new performing arts annex at an existing academy for South Ayrshire Schools.	2006	2039	33	£76m	Mitie
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
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
Swindon Police	Design, construction, management, financing and operate a new divisional headquarters for the Wiltshire Police Authority.	2005	2035	30	£20m	Vinci
Tyne & Wear Fire Stations	Design, construct, manage, finance and operate seven fire station facilities and a headquarters building in Tyne and Wear for the Tyne and Wear Fire and Civil Defence Authority.	2006	2029	23	£30m	John Laing
West Middlesex	Design, construct, finance, operate and maintain a new	2001	2036	35	£60m	Bouygues

**Notes to the consolidated financial statements** *(continued)*  
**for the year ended 31 March 2012**

Hospital	228 bed hospital for West Middlesex University Hospital NHS Trust.					
Willesden Hospital	Design, construct, manage and finance a community hospital in north London for NHS Brent.	2005	2035	30	£24m	Accuro
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.	2003	2029	26	£24m	Mitie

## 28. Principal subsidiaries

Name	Country	Ownership interest
HICL Infrastructure 1 SARL	Luxembourg	100.0%
HICL Infrastructure 2 SARL	Luxembourg	100.0%
Infrastructure Investments Limited Partnership	United Kingdom	100.0%
Infrastructure Investments Holdings Limited	United Kingdom	100.0%
2003 Schools Services Limited	United Kingdom	100.0%
Ashburton Services Limited	United Kingdom	100.0%
AGP (2) Limited*	United Kingdom	100.0%
Annes Gate Property PLC*	United Kingdom	100.0%
Boldon School Limited**	United Kingdom	100.0%
ByCentral Limited*	United Kingdom	100.0%
ByWest Limited*	United Kingdom	100.0%
Consort Healthcare (Blackburn) Funding Plc*	United Kingdom	100.0%
Consort Healthcare (Blackburn) Limited*	United Kingdom	100.0%
CVS Leasing Limited	United Kingdom	87.6%
Education 4 Ayrshire Limited*	United Kingdom	100.0%
Enterprise Civic Buildings Limited*	United Kingdom	90.0%
Enterprise Education Conwy Limited*	United Kingdom	90.0%
Enterprise Healthcare Limited*	United Kingdom	90.0%
Metier Healthcare Limited	United Kingdom	100.0%
Ravensbourne Health Services Limited*	United Kingdom	100.0%
Services Support (Cleveland) Limited*	United Kingdom	72.9%
Services Support (Gravesend) Limited*	United Kingdom	72.9%
Services Support (Manchester) Limited*	United Kingdom	72.9%
THC (OJR) Limited*	United Kingdom	100.0%
THC (QAH) Limited*	United Kingdom	100.0%
TW Accommodation Services Limited*	United Kingdom	100.0%

\* = Reporting date 31 December

\*\* = Reporting date 30 September

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