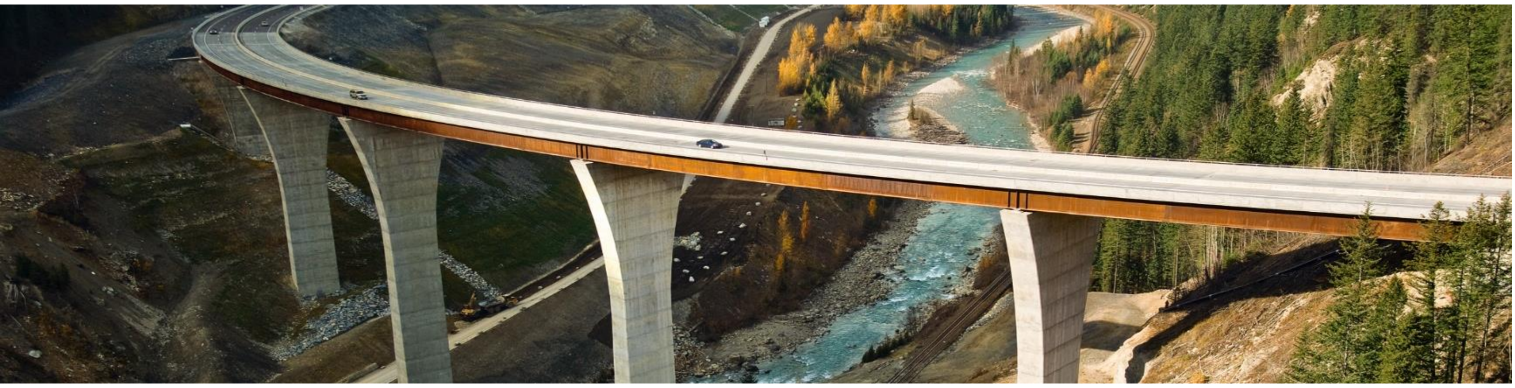
Infrastructure Primer 3 – Making an Investment



How a New Investment is Made

HICL acquires the majority of its investments from vendors wishing to sell their Infrastructure Equity (meaning the subordinated debt (or the entitlement to acquire subordinated debt) and equity of a Project Company) in projects once the assets are operational. In addition, HICL will invest in projects during their construction phase when suitable opportunities arise. Further details of HICL's Strategy and Investment Policy are set out on the website.

'Appropriate due diligence is undertaken to ensure projects are appropriately structured, the adequate pass-down of obligations to subcontractors, and that all material counterparties are creditworthy.'

Under agreed delegations from the Company's board of directors (the 'Board'), InfraRed Capital Partners Limited, acting as HICL's Investment Manager (the 'Investment Manager') identifies potential investments which, if they fall within the Investment Policy and agreed Acquisition Strategy, progress to approval from the Investment Manager's Executive and Investment Committees. Potential acquisitions falling outside these agreed delegations require approval from the Board before proceeding. Similar procedures apply if an acquisition is proposed from a fund managed by the Investment Manager where, in such circumstances, a Buyside Committee is formed, a third party valuation is obtained, the Board approves the transaction and shareholder approval is sought for the related party aspect. Further details are set out in Part II of the Company's March 2019 Prospectus.

As HICL often acquires Investment Equity stakes in the secondary market, the long-term contractual arrangements are already in place with limited scope for amendment during the remaining life of the project. Prior to acquisition, appropriate due diligence is undertaken to ensure the projects are appropriately structured, the pass-down of obligations to subcontractors is adequate, and that all material counterparties are creditworthy.

New investments are typically financed by borrowing under HICL's committed revolving credit facility. This allows new investments to be made in a timely manner and to minimise the cash-drag that would otherwise arise from holding shareholders' fund pending the making of new investments.

Processes by which HICL bids and acquires new investments can vary both in terms of the steps and time taken. The main methods by which HICL interacts with vendors are:

- by way of an auction process, either run by the vendor or using a third party adviser;
- through a one-on-one negotiation with a vendor, usually via a long-standing relationship of the Investment Manager; and
- in the case of acquiring additional stakes in existing investments, by agreement with the co-shareholder.

The typical steps in each of these different processes are set out in the flow chart overleaf.

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Each process involves different steps and varying degrees of due diligence relative to the others. The Investment Manager has been successful in making a number of acquisitions through the Negotiated Acquisition process, thus minimising the transaction risks. Bid costs are incurred in carrying out due diligence, involving third party advisers, and the Investment Manager seeks to focus the cost exposure to the later stages of the acquisition process.

For a typical social infrastructure investment, due diligence will include:

- confirmatory legal due diligence, to check the project is appropriately structured;
- technical due diligence, looking at the adequacy of the lifecycle budgets and plans compared to the current state of the built asset;
- insurance due diligence, looking at the level of insurances and likely future premiums; and
- commercial, valuation, tax and accounting due diligence, normally carried out by the Investment Manager.

Additional specialist advice is taken when considering investments with variable revenue streams: for example a traffic consultant will be retained when evaluating a toll road investment.