HICL Infrastructure

Delivering Real Value

Annual Report & Consolidated Financial Statements

for the year ended 31 March 2016

HICL Infrastructure Company Limited

HICL Infrastructure

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Highlights

for the year ended 31 March 2016

Solid portfolio performance in line with projections

NAV per share as at 31 March 2016 of 142.2p, up 4.0% (5.5p) from 136.7p as at 31 March 2015

Total shareholder return of 9.6% over the year (on a NAV per share basis)

Four quarterly interim dividends declared for the year totalling 7.45p per share

Revised target dividend per share of 7.65p for the year to March 2017 – a year on year increase of 2.7%

New guidance on a target dividend per share of 7.85p for the year to March 2018

Profit before tax of £157.4m (2015: £231.0m which benefited from certain one-off revaluations and a large disposal)

Directors' valuation of the portfolio of £2,030.3m[1], up from £1,732.2m[1] at 31 March 2015, with the weighted average discount rate reduced from 7.9% to 7.5%

Net investment of £231.2m during the year, comprising three new investments, one conditional investment and six incremental acquisitions for £240.1m and two disposals for net consideration of £8.9m

Successful capital raising of £178.2m and a refinancing of the Revolving Credit Facility

1. *Includes £97.4m of future investment obligations (2015: £22.5m)*

Financial Results Summary

for the year to	31 March 2016	31 March 2015
Total Income [1]	£182.9m	£253.6m
Profit before tax [1]	£157.4m	£231.0m
Earnings per share [1]	11.9p	18.6p
Fourth quarterly interim dividend per share	1.87p	1.87p
Total interim dividends declared per share for the year	7.45p	7.30p
Net Asset Value (NAV) per share before deducting the declared fourth quarterly interim dividend	142.2p	136.7p
NAV per share after deducting the declared fourth quarterly interim dividend	140.3p	134.8p

1. *FYE 31 March 2015 benefited from certain one-off revaluations and the material disposal of Colchester Garrison at an 88% premium to its book value as at 31 March 2014.*

Summary Information on HICL

HICL Infrastructure Company Limited ("HICL" or the "Company" or, together with its consolidated subsidiaries, the "Group") was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects. It was launched in March 2006 as HSBC Infrastructure Company Limited, and raised £250m with which it purchased an initial portfolio of interests in 15 public sector infrastructure procurement projects (e.g. public-private partnerships or "PPPs"). The Company changed its name to HICL Infrastructure Company Limited in 2011, following the MBO of the business that is HICL's Investment Adviser – now known as InfraRed Capital Partners – from the HSBC Group.

Since the IPO, the Company has raised a further £1.39bn through additional equity capital raisings which has been deployed in making investments such that, as at 17 May 2016, the portfolio comprised 106 investments (including one conditional investment) in infrastructure projects in the UK, Australia, Canada, France, Ireland and The Netherlands. It is the largest London-listed infrastructure investment company, with a market capitalisation of £2.2 billion and daily liquidity of over 2 million shares.

The Company has a single class of equity, ordinary shares, of which 1,388,426,479 were in issue as at 17 May 2016. The Company has pursued a progressive distribution policy since launch and has delivered year-on-year increases throughout that time. The annual distributions made in each financial year since IPO are listed below.

12 months to to 31 March	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Dividend per share	7.45p	7.30p	7.10p	7.00p	6.85p	6.70p	6.55p	6.40p	6.25p	6.10p

The long-term target Total Shareholder Return is an IRR of approximately 7-8 per cent. (as stated at IPO, by reference to the issue price of 100.0p per share).

The Investment Adviser to the Company is InfraRed Capital Partners Limited ("InfraRed"), which is authorised and regulated by the Financial Conduct Authority. The total headcount of InfraRed, its subsidiaries and parent companies ("InfraRed Group") is over 120. Its infrastructure team comprises 60 professional staff who have, on average, 13 years of relevant industry experience. The InfraRed Group has offices in London, Hong Kong, New York, Paris, Seoul and Sydney and has in excess of US$9bn of equity capital under management.

Section 1: Chairman's Statement

Introduction

It is with great pleasure that I write to you as your new Chairman, following Graham Picken's retirement from the role in March this year. Graham was Chairman of the Company for 10 years from IPO in March 2006, and presided over sustained success for the Company during that period.

The performance of the Company during the year to 31 March 2016 was ahead of plan, with cash flows from the portfolio in line with expectations, despite low historic inflation.

This set of results marks the Company's 10 year anniversary, and the ninth successive year of dividend growth. In view of the Directors' confidence in the Group's prospects, the Board has issued a revised dividend target per share of 7.65p for the year to March 2017 and new guidance of 7.85p per share for the year to March 2018.

Total shareholder return for the year was 9.6% on a net asset value ("NAV") total return basis and 6.8% on a share price total return basis. Since launch, the Company has delivered an annualised return of 9.7% and 10.7% on the same basis as above (respectively), ahead of the IPO long-term target of 7% to 8% per annum.

The Company's Acquisition Strategy, discussed below, was re-confirmed by the Board at an annual review in September. The secondary market for operating PPP investments continues to evolve, with markets outside the UK supplying an increasing volume of deal flow. This has been reflected in the pipeline of opportunities evaluated by the Investment Adviser in the year. The Investment Adviser continues to seek value in our chosen sectors but is taking a cautious approach, focused on finding the right opportunities with appropriate risk-adjusted pricing. In an infrastructure market characterised by increasing competition, the trend of rising valuations has continued, meaning pricing discipline remains vital to avoid a dilution of returns.

Financial Results and Performance

Financial Results

The Company has prepared its consolidated financial statements for the year to 31 March 2016 in accordance with EU IFRS, including IFRS 10 and the Investment Entity amendments, which is consistent with the prior year. These require the Company to prepare IFRS financial statements which do not consolidate the project company subsidiaries.

Profit before tax was £157.4m (2015: £231.0m) and earnings per share were 11.9p (2015: 18.6p). Whilst lower than the prior year (which benefited from certain one-off revaluations and a large disposal), these figures are better than the internal forecast based on an unwinding of the discount rate, reflecting rises in investment valuations and strong portfolio performance.

Cash received from the portfolio by way of distributions, capital repayments, profit on disposals and fees totalled £130.8m (2015: £182.2m). After Group operating and financing costs, net operating cash flow of £107.3m covered the £93.0m distributions paid in the year 1.15 times (2015: 1.59).

The Company's Ongoing Charges Percentage (as defined by the AIC) was 1.12% (2015: 1.14%).

More details of the financial results are set out in Section 2.4 – Operational and Financial Review, under the heading 'Accounting'.

Portfolio Performance

The Group's portfolio continues to perform to plan or better, and, as at 31 March 2016, consisted of 104 social and transportation infrastructure projects including one conditional investment (31 March 2015: 101). The return generated from the portfolio during the year (after rebasing for new investments, the disposals and investment distributions) was 7.9% (2015: 9.6%). This return is in line with the discount rate used to value the portfolio at 31 March 2015, and represents a good return from the portfolio. The return includes the adverse impact of actual inflation running lower than the 2.75% per annum valuation assumption which has been off-set by various cost savings and efficiencies, including one-off insurance savings recognised in the year.

The Group began the financial year with seven projects under construction, comprising 5% of the portfolio by value. Three investments achieved successful construction completion while a further one was acquired during the year. The five projects in construction at the end of the year represented 1% of the portfolio by value as at 31 March 2016. The Board and Investment Adviser expect this percentage will increase again, as a function of the pipeline of opportunities that the Investment Adviser is seeing.

Good progress has been made during the year on projects which have suffered from operational challenges. Of particular note, the Zaanstad Penitentiary project overcame the bankruptcy of one of the joint venture construction partners to reach construction completion in March, in line with its contracted delivery date. Proactive intervention by the Group, with the provision of €20m working capital on commercial terms (now repaid with interest), was a key component of this successful outcome.

As announced in February, the public sector client on one of the Group's smaller school projects by value has informed the project company that it intends to serve a voluntary termination notice on the project. Under the terms of the project agreement, the Group will receive market value compensation in lieu of ongoing investment returns.

Valuation and Net Asset Value

As in previous years, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 31 March 2016.

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 expert advice on the valuation carried out by the Investment Adviser, which concluded that the valuation was appropriate.

The Directors have approved the valuation of £2,030.3m, which includes £97.4m of future investment obligations, for the portfolio of 104 investments, including one conditional investment (the A63 Motorway), as at 31 March 2016. This compares with £1,872.1m as at 30 September 2015 (including £21.8m of subscription obligations), and £1,732.2m as at 31 March 2015 (including £22.5m of subscription obligations). An analysis of the increase in the valuation is detailed in Section 2.5 – Valuation of the Portfolio.

The NAV per share was 142.2p at 31 March 2016 (2015: 136.7p), which was ahead of budget. After taking into account the 1.87p per share fourth quarterly interim distribution (declared on 12 May 2016, and payable on 30 June 2016), the NAV per share at 31 March 2016 was 140.3p; an increase of 5.5p over the comparable figure as at 31 March 2015. This increase is attributable to the continued upwards trend of market pricing of infrastructure investments, the performance of the portfolio and the issuance of shares at a premium to NAV.

Acquisitions and Disposals

The Group made three new investments, one conditional investment and six incremental acquisitions during the year, for a total consideration of £242.1m. Further details are set out in Section 2.4 – Operational and Financial Review and Note 13 to the financial statements.

The Company secured the conditional investment in the A63 Motorway project in the south of France, in February. The Investment Adviser expects the conditions to be fully met early in 2017, at which point the transaction will be completed.

The Investment Adviser acquired 10 investments during the year, despite ongoing competition for infrastructure investments across all sectors and markets. These were sourced principally through a wide network of relationships and in some cases were secured on an exclusive basis. Over the course of the year the Investment Adviser participated in 11 auctions but was outbid in all but one. In unsuccessful auction processes, the winning bids were at prices which would not have been value accretive to the Group. As commented previously, finding value at auction remains difficult due to the levels of competition but participation often provides valuable data and insight into competitor's pricing strategies.

Overall the Company's performance in the year was ahead of plan, with investment cash flows received in line with expectations, despite low inflation during the year. The portfolio's valuation has again benefited from increased market valuations of infrastructure investments.

Since the financial year end, the Group has made two new acquisitions of M1-A1 Link Road (Lofthouse to Bramham) project and Hinchingbrooke Hospital project, with a combined investment value of £17.1m.

At the beginning of the year, the Group disposed of its 50% interest in the Fife Schools project for a net consideration of £7.3m, in line with the Board's valuation as at 31 March 2015. In addition, a partial disposal was made of Ealing Care Homes to promote a strategic alignment of interest with the joint venture partner on the project.

Capital Raising

In the year the Company raised a total of £178.2m (before expenses) through the issue of 117.1m new shares. This was achieved through three value-accretive tap issues in July and December 2015 and in March 2016. Each tap issue was oversubscribed reflecting continued shareholder appetite for the Company's proposition and attractive investment performance.

The Company currently has remaining authority and tap capacity to issue approximately 9.7m shares.

The Investment Adviser refinanced the Group's revolving credit facility in November 2015, increasing it in size to £200m (previously £150m) and on improved terms, further details of which are set out in Section 2.3 – Business Model, Organisational Structure And Processes. The Group has a current net funding surplus of approximately £7m.

Distributions

On 12 May 2016 the Board announced a fourth quarterly interim dividend for the year to 31 March 2016 of 1.87p per share, which will be paid on 30 June 2016. This results in an aggregate dividend for the year of 7.45p per share, in line with the published target.

In light of the Group's overall performance, the Directors have increased the dividend target for the current financial year to March 2017 to 7.65p per share. This represents a 2.7% growth in the aggregate dividend compared to the year ended 31 March 2016. In addition, the Board looks to the future with confidence and has, as a result, also approved guidance of 7.85p per share for the year ending 31 March 2018.

It remains our intention to continue to pay quarterly interim dividends and to continue to offer a scrip dividend alternative. Further details of the scrip dividend alternative will be published in July when the first quarterly interim dividend for the year to 31 March 2017 is declared.

Risks and Uncertainties

The risks to which the Group is exposed and the strategies employed to manage and mitigate those risks have not changed materially since 31 March 2015.

Operational challenges, including those relating to latent construction defects, continue to arise on certain projects from time to time as expected. However, overall portfolio performance continues to be solid and, through its proactive approach to asset management, the Investment Adviser is pre-empting potential challenges, ensuring that best practice is adopted across the portfolio and, when issues do arise, lessons are learnt.

The Investment Adviser has continued to see examples of a strict contractual approach by certain UK public sector clients towards their private sector counterparts. The UK PPP market has seen a small number of public sector clients alleging asset-wide defects and then making material payment deductions, thereby deriving significant savings on their anticipated expenditure. As previously reported, an example has been to challenge the adequacy of fire-retardant barriers in buildings.

Currently, the Group has no contractual situations materially impacting the portfolio cash flows, but we are monitoring the situation closely and using the lessons learned from industry experience to manage and mitigate risks as far as practicable. As has always been the case, the Investment Adviser's approach to asset management is to pro-actively maintain close, open stakeholder relationships, especially in relation to enhancing client satisfaction levels and avoiding contested contractual disputes where possible.

In March 2016, the UK HM Treasury announced its Business Tax Road Map. In part this was a response to the OECD's final reports on its base erosion and profit shifting ('BEPS') initiative. The document sets out certain changes which may impact infrastructure investors. However, we do not expect the implementation of the proposals to be material to the portfolio overall and its valuation. The Board was pleased to see an assurance that the government intends to introduce rules to ensure that any new measures do not impede the provision of legitimate private finance for certain public infrastructure in the UK.

On a cautionary note, we cannot be definitive on the impact of the matters contained in the Road Map until legislation is enacted; the Investment Adviser therefore continues to engage with industry groups, HM Treasury and HMRC in the lead up to the drafting of legislation which is expected in the second half of 2016.

As the UK approaches the forthcoming referendum on its membership of the European Union, we have considered the risks that an exit vote might pose for the Group. Our assessment is that an exit vote would have minimal impact on the Group from an operational standpoint. Clearly it could impact the macroeconomic environment, for example fluctuations of Sterling relative to other currencies and/or UK Gilts yields. However, the Board retains confidence that, compared to the broader capital markets, the Company's investment proposition will remain attractive during any period of uncertainty.

The projects in which the Company invests are reliant on the performance of a number of subcontractors to fulfil the terms of the concession agreements. This performance, and any deficiencies therein, are actively monitored by the Investment Adviser, as is the Group's overall exposure to any single supply chain provider.

Corporate Governance and Regulation

As previously announced, effective from 1 March 2016 I took over the role of Chairman of the Board from Graham Picken, and Frank Nelson became the Senior Independent Director, succeeding John Hallam. Both will retire from the Board on 30 June 2016.

I wish to take the opportunity to thank Graham and John for their long-standing, dedicated service to the Company, leading it through the first 10 years of its life, and to wish them well in their new pursuits. Both played an exemplary role shaping the growth of the Company since IPO and in the success it has enjoyed in that time.

In light of these retirements, we are in the process of seeking up to two additional Directors to complement the skillsets of the five remaining Directors. Further information will be provided in due course.

As in previous years, and consistent with best practice, the remaining five Directors will be offering themselves for re-election at the forthcoming Annual General Meeting ("AGM") on 19 July 2016.

The Board regularly reviews the structure of the Group and its residency mindful of possible changes with respect to legislation, taxation and regulation. We completed a thorough review in September which concluded that the current arrangements remain appropriate and prudent, but we will continue to monitor this going forward.

A new inclusion in this year's Risk and Risk Management review (Section 2.8) is a viability statement. The Directors have determined that five years is an appropriate period over which to assess the viability of the Company for the purposes of the statement.

In March Graham Picken and I held a number of one-on-one meetings with shareholders. This gave me a chance to meet with some of our largest institutional stakeholders and we were able to discuss governance as well as the Company's strategy and performance. As always, good and effective communication with shareholders is enormously important to the Board, which receives regular reports from the Investment Adviser and the Company's broker on the many meetings they hold with existing and prospective investors.

Acquisition Strategy

The Board held its annual review of the Group's overall strategy in September. Discussions were shaped by advice and insights from a number of advisers actively involved in infrastructure investment. The Acquisition Strategy was re-affirmed, incorporating some evolution. The primary focus continues to be on acquiring investments in operational PPP projects, both in the UK and in other regions – specifically certain countries in Europe, North America, Australia and New Zealand. Fundamental to evaluating and pricing projects in these regions is an understanding of the allocation of risk and how (if at all) it differs relative to similar UK projects. In this regard, the Company benefits from the Investment Adviser's longstanding experience of structuring, developing and managing assets in the UK and overseas.

As noted in previous years, the Board anticipates that the portfolio composition will evolve progressively with the inclusion of attractive acquisitions in market segments (other than PPP) that can contribute to building a portfolio positioned at the lower end of the risk spectrum of infrastructure investments. During the year, the Investment Adviser progressed activity across these aspects of the Acquisition Strategy. Investments will only be made in segments of the market which are appropriate in light of the Company's risk appetite. Beyond this, but common to all acquisitions, any new opportunity must meet the Company's risk-adjusted return requirements and value accretion measures. These incorporate an assessment of political, fiscal and currency risks for overseas investments.

With ongoing competition for attractive infrastructure investments, the Investment Adviser remains focused on sourcing opportunities from its network of industry relationships, as opposed to open auctions, and also by acquiring follow-on interests in existing projects. The latter are attractive as such projects, including their financial and operational history in particular, are already well understood.

Market Developments

In almost all markets, the appetite of investors for infrastructure investments has continued unabated. There is an ongoing imbalance between the supply of, and demand for, investments in the Group's target sectors. This has led to increasing asset prices, thus reducing returns, and has contributed to the Company's NAV growth in recent years.

As observed in previous years, the procurement of new projects by the UK public sector has slowed considerably. Exemplifying this, the March 2016 UK National Infrastructure Plan re-affirmed the current Government's commitment to using private capital in infrastructure investment, but contained no tangible pipeline of new PPP opportunities. Instead the trend is towards encouraging private investment in other forms of UK infrastructure (e.g. electricity transmission). The Government is also pursuing large capital projects such as HS2 and Crossrail 2 that have no obvious role for private investment. The slowdown in primary procurement is feeding through to the secondary market where, notwithstanding the Group's own success with acquisitions, activity was more generally muted during the year.

Outside the UK, procurement of new infrastructure assets with investment characteristics suitable for the Group continues in a number of European countries, in Australia, New Zealand and Canada and, to a lesser extent, in the USA. Competition for new procurement opportunities varies by region and so the Group is looking for opportunities to find genuinely differentiated access to a pipeline of investments. A number of regions saw a growth in procurement following the financial crisis and, as these projects now become operational, the Investment Adviser is witnessing an increase in the related secondary market deal flow.

As the infrastructure asset class has matured, investors have developed an increasingly sophisticated understanding of risk. There is now a range of market segments that investors perceive as offering low-risk, yielding assets of which PPP is one example. Other market segments positioned at the lower-end of the risk spectrum include electricity transmission projects (e.g. offshore transmission lines or "OFTOs" in the UK) and also operational regulated assets such as gas transmission assets.

Outlook

As noted above, the supply-demand dynamics of the infrastructure asset class, including investments in operational PPP projects that are the Company's principal focus, continue to drive asset prices higher. This poses a challenge for sourcing attractive new investments. The Investment Adviser's response is to focus on our agreed Acquisition Strategy, including an origination approach that favours situations where the competition is less intense.

In geographic terms the pipeline is, and is expected to remain, balanced between UK and overseas opportunities. This may result in a moderate increase in overseas investment exposure (as a percentage of the portfolio), thereby providing a greater degree of international diversification. The pursuit of opportunities in our principal markets will continue to be the focus of origination activity although we expect progress will also be made in the other market segments that we have identified as part of the Acquisition Strategy.

The Board looks to the future with confidence. The Investment Adviser's depth of expertise and resource supports the continued drive to seek further value for the Company's shareholders. At our Capital Markets Seminar in February 2016, the Investment Adviser's team provided a detailed insight into how this is achieved in practice, through a disciplined approach to: active asset management to preserve the value of our portfolio and deliver 'base case' investment returns; value enhancement to deliver incremental upside through discrete asset-specific or portfolio-wide initiatives; and sourcing new investments that are accretive to the existing portfolio's financial performance. The materials are available to view on the Company's website.

In light of the current portfolio's performance and prospects, the Board is increasing its aggregate dividend target to 7.65p per share for the current financial year to 31 March 2017, with new guidance of 7.85p per share for the year to 31 March 2018.

Ian Russell
Chairman
17 May 2016

Section 2: Strategic Report

Health & Safety Executive (HSE)
Merseyside Headquarters

2.1 APPROACH AND OBJECTIVES

The Company aims to be the preferred listed fund in Europe for investors seeking long term, stable income from infrastructure assets. It seeks to deliver high quality returns and market-leading liquidity by managing and growing a portfolio that is positioned at the lower end of the risk spectrum. HICL is structured as a closed-ended, London Stock Exchange-listed investment company.

Through active management of the Group's existing project investments the Company earns a return that allows it to pay a predictable and sustainable quarterly dividend to shareholders, as well as preserve the capital value of its portfolio. In addition, through value enhancement initiatives focused on the existing portfolio and careful selection and pricing of new investments, there is potential for an element of capital growth over the longer term.

Approach – Sectors, Geographies and Asset Characteristics

The Company is a 'buy-and-hold' equity investor in infrastructure projects at the lower end of the risk spectrum. To date the majority of the Company's investments have been structured under a public sector infrastructure procurement model (e.g. public-private partnerships or "PPPs"). These investments provide serviced assets to public sector or quasi-public sector clients, across a number of sectors including road, rail, education, health, justice and for other general accommodation needs (such as libraries and barracks). The Company also selectively targets investments in projects with 'user-pays' revenues and certain regulated assets.

The majority of the Group's investments are in operational projects which have successfully completed their construction phase. The portfolio as at 17 May 2016 comprises 104 investments (including one conditional commitment) which are in projects located primarily in the UK, but also in Australia, Canada, France, Ireland and The Netherlands.

Further detail is provided in Section 2.3 – Business Model, Organisational Structure and Processes.

Objectives

The corporate objectives have been restated to more concisely reflect the Company's investment proposition. There have been no changes of substance, the intent being to use specific, output-based statements to assist with the measurement of the Company's performance in each reporting period, and therefore enhance shareholder understanding of the value delivered. The objectives of the Company are categorised as follows:

Performance-based Objectives

Dividends

The Company's principal financial return objective is to offer a long term, sustainable income for shareholders. This is delivered through the Company's dividend target – an annual distribution of at least that paid during the prior financial year – with the prospect of increasing the figure provided it is sustainable with regard to the portfolio's forecast operational performance and the prevailing macro-economic outlook.

Dividends are paid quarterly and have increased year-on-year since launch in 2006, with the Company having met or exceeded its dividend targets to date. For the reported year, the dividend target was 7.45p per share and the final interim dividend will be paid on 30 June 2016. As guidance, the Board has set a revised target distribution for the year to 31 March 2017 of 7.65p per share, and, a new dividend guidance of 7.85p per share for the year to 31 March 2018.

Total Return

The Company's secondary financial return objective is to preserve the capital value of its investment portfolio and deliver an element of capital growth, as reflected in its longer-term IRR return target of 7-8%, set at IPO.

This target has been achieved to date and the Directors believe that it remains achievable looking forward. For the period since 31 March 2015 until 31 March 2016, and from IPO until 31 March 2016, the total shareholder return has been 9.6% p.a. and 9.7% p.a., respectively, as measured by net asset value appreciation and dividends.

Cash Cover and Inflation Correlation

An ability to pay cash-covered dividends and positive inflation correlation are key attributes of the Group's operating cash flow receipts and attractions of the portfolio. The yield profile and degree of inflation correlation offered by new investment opportunities are considered as part of an assessment of whether prospective investments will be value accretive to the portfolio.

Ongoing Charges

Finally, the Board is committed to offering shareholders a competitive investment proposition through management of efficient gross (portfolio level) to net (investor level) returns. This is achieved through low ongoing charges relative to the Company's peer group, with the intention to reduce such charges where possible.

Quality-based Objectives

Important additional objectives to protect shareholders' interests are:

- to maintain a diversified portfolio of investments (e.g. by reference to single asset and/or counterparty concentration) and thereby mitigate concentration risk;
- to make value accretive investments in line with the risk-appetite of the Company and consistent with its Investment Policy;
- to target long-term, predictable cash flow receipts from the portfolio by seeking where possible assets that maintain or extend the weighted average unexpired portfolio concession life;
- to maintain effective treasury management processes, notably with respect to foreign exchange risk and efficient cash management; and
- to manage the Group's exposure to refinancing risk.

2.2 STRATEGY AND INVESTMENT POLICY

The Company's strategy for delivering its target shareholder objectives can be segmented broadly into three areas, as follows:

- **Active Management:** the ongoing active management of the Group's portfolio;
- **Value Enhancement:** the enhancement of returns from the Group's portfolio; and
- **New Investment:** the selection and pricing of suitable new investments.

Each element is described in detail below but, in broad terms, active management and value enhancement initiatives aim to protect and improve the return that the Company seeks to deliver to shareholders (through cash-covered dividends) from the existing portfolio. The appropriate pricing and selection of new investments helps to deliver growth in the portfolio's value, which would otherwise trend down over time given the finite life and limited, if any, residual value of the long term concession contracts (see Section 2.3 – Business Model, Organisational Structure and Processes for details).

Active Management

Active Management embodies the role of value preservation. Its principal goal is to ensure that the day-to-day operations and performance of the investments in the portfolio are delivered in accordance with the contract terms – and, accordingly, the anticipated (or 'base case') investment return envisaged by the Company's forecasts is achieved.

InfraRed, as Investment Adviser, is tasked by the Board with the day-to-day management of the portfolio. This management task is carried out by two functions within the Investment Adviser's team: Portfolio Management and Asset Management.

Portfolio Management is concerned with the financial performance and, working closely with the Asset Managers, it seeks to:

- monitor the financial performance of each investment against Group targets and forecasts;
- consider the portfolio composition and mix with respect to achieving the Group's desired target returns within the agreed risk appetite;
- manage the cash flows from the Group's investments;
- minimise cash drag (having un-invested cash on the balance sheet) and improve cash efficiency generally;
- manage the processes and analysis which underpin the draft semi-annual valuation of the Group's portfolio submitted to the Board;
- ensure good financial management of the Group and each investment, having regard to accounting, tax, and debt covenants; and
- maintain efficient treasury processes (e.g. cash and debt at the Group level, and hedging of non-sterling investments).

Asset Management complements Portfolio Management and is focused on the successful management and operational performance of the Group's investments at project level with a heavy focus on client engagement. Activities include:

- management oversight of each investment through the appointment of at least one director to each project company board to ensure quality service delivery;
- pro-actively building and maintaining closer, open stakeholder relationships at project company level, especially with respect to enhancing client satisfaction levels with overall operations;
- facilitating early resolution of operational issues, including contractual disputes, as they arise;
- where the project involves the construction of new facilities, frequent monitoring of progress to ensure successful build delivery; and
- overseeing environmental, social and enhanced governance initiatives in each project company, where appropriate.

Value Enhancement

The primary focus for the Investment Adviser is to ensure that each project performs to the required contractual standard that the client expects. The secondary focus is to find and evaluate value enhancement opportunities – typically potential savings and efficiency upsides for both the project and its public sector client. This is achieved by the Investment Adviser's Asset Management and Portfolio Management teams based on a review of all the project's costs and by drawing on their experience of implementing a range of similarly focused initiatives across the wider portfolio. In any event, efficiencies and savings will only be implemented where they do not detrimentally impact either the services being provided or the quality of the service-level delivery.

The Portfolio Management team is generally focused on finding savings from efficient treasury management and portfolio operations. These often, though not always, occur as a consequence of the benefit of economies of scale that the Company possesses by owning stakes in over 100 projects (e.g. via savings relating to group insurance premiums and treasury management/financial efficiencies) and/or by increasing its controlling stake in a project through a follow-on investment (e.g. an arms-length re-tendering of the management services agreement upon acquisition of a project's entire equity interest). Alternatively, savings may occur as a one-off event (e.g. a refinancing of a project's debt at lower margins). In that instance, a significant proportion of the benefit will accrue to the client, either through a one-off payment or through a reduction in the project life availability-based payments that are due to be made, whilst potentially providing additional upside to the project company, and therefore the Group.

The Asset Managers also work together with project companies and clients to achieve asset-specific cost savings, efficiencies and contract variations, to extend the scope of the project, or, in other instances, transition to a reduced set of obligations, as the situation requires. As with the Portfolio Management's work, cost savings and efficiencies generally accrue to both the client and the project company. A sample of certain material contract variations overseen by the Asset Management team during the year is provided in Section 2.4 – Operational and Financial Review, under the heading 'Contract Variations'.

New Investment

New investments must align with the Acquisition Strategy which the Company reviews and publishes regularly, as well as the over-arching restrictions and caps imposed by the Investment Policy. Further, all new investments need to support the achievement of the Objectives (see Section 2.1), and balance the risks involved against the projected forecast returns, to enable the Company to achieve its long-term targets without materially changing the risk profile of the Group.

A key aspect of supporting the achievement of the objectives is to acquire new investments which are value accretive to the current portfolio. Accretion can be achieved through i) yield, ii) the potential total return, or iii) the inflation correlation offered by a prospective investment. Part of the attraction of the Company's investment portfolio is its positive correlation to inflation (described in more detail in Section 2.5 – Valuation of the Portfolio) and the Investment Adviser seeks to maintain or, where possible, enhance this. Other important metrics that are considered as part of the evaluation of opportunities are the potential for an investment to i) extend the duration of the portfolio (as measured by the portfolio's weighted average concession life – described in more detail in Section 2.3 – Business Model, Organisational Structure and Processes) and ii) contribute to the overall diversification of the portfolio, for example in relation to key counterparties.

InfraRed's dedicated infrastructure team uses a variety of channels to source investments for the Group. These include acquiring stakes from co-shareholders of existing projects (e.g. an interest held by the contractor on its balance sheet where it wishes to divest), soliciting an off-market transaction through a relationship within its extensive network of investment partners and advisors or, less frequently, through competitive auctions in the wider market.

Acquisition Strategy

The Directors, together with representatives from the Investment Adviser and third parties, held a two-day Board meeting in September 2015 which was dedicated to the annual review of the overall strategy of the Group, including the Acquisition Strategy. The review involved a fundamental analysis of certain infrastructure market segments to assess their potential to deliver investments that are consistent with the existing portfolio's position at the lower end of the risk spectrum. The Acquisition Strategy, which has been consistently applied since May 2009, was re-affirmed while incorporating some evolution to include segments of the infrastructure market which the Board and the Investment Adviser consider offer attractive risk-adjusted returns.

In terms of geographic focus, the principal jurisdictions for investment are the UK, certain countries in Europe, North America, Australia and New Zealand. Countries outside these regions might be considered by the Investment Adviser but only after prior discussion and agreement from the Board. In relation to secondary market investments in operational PPPs the Board and the Investment Adviser favour investing in jurisdictions where contractual structures and risk allocation are broadly consistent with projects in the existing portfolio. A feature of the PPP segment of the infrastructure market is that these features are typically common across geographies, to the extent that commercial agreements in different markets can often appear similar. For investments in North America, Australia and New Zealand, the Company can also rely on the asset management capabilities of the Investment Adviser, which has had offices in New York and Sydney since 2008 and 2009 respectively.

In additional to operational PPP projects other areas of focus within the above target jurisdictions include:

- Investments in PPP or similar assets under construction, or at an earlier bid and development stage;
- Investments in regulated assets, e.g. transmission assets – both electricity (such as offshore transmission lines or "OFTOs") and certain gas transmission pipelines or networks, which in all cases have appropriate payment mechanisms; and
- Investments in demand-based projects, where income (directly or indirectly) is from user-paid revenue streams and can be evaluated against good quality operational data and solid investment metrics, examples being toll roads and certain student accommodation projects.

In addition to diversification of counterparties, both demand-based and regulated assets typically offer good inflation linkage and long-dated concession durations – and therefore have potential to support these key objectives of the Company (see Section 2.1). The Board and the Investment Adviser are proceeding cautiously with initiatives in these markets with the objective of making investments that will deliver real value to shareholders while retaining and reinforcing HICL's position at the lower end of the risk spectrum.

In addition to the annual day dedicated to reviewing the Acquisition Strategy, the Board and its Risk Committee review the overall Group strategy and risk appetite on a quarterly basis to ensure they continue to be appropriate.

Investment Policy

As it relates to new investment, the Company's Investment Policy (as detailed in full in the Company's February 2013 Prospectus and on the Company's website) is set more widely than the current Acquisition Strategy. In particular, within scope is infrastructure equity:

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

Separately to the above, the Group may invest up to 35% of its gross assets (at the time of investment) in:

- projects that have not yet completed construction;
- projects with demand-based concessions where the Investment Adviser considers that demand and stability of revenues are not yet established but that, due to the levels of diligence and analysis undertaken, the revenue risks are acceptable to the Group;
- projects which do not have public sector sponsored/awarded or government-backed concessions; and/or
- to a lesser extent, other funds that make infrastructure investments and/or financial instruments and securities issued by companies that make infrastructure investments, or whose activities are similar or comparable to infrastructure investments.

In terms of geographic focus, the Group may make investments in the UK, other European Union markets, Norway, Switzerland, the Americas and selected territories in Asia and Australasia. The Group may also make investments in other markets should suitable opportunities arise. The Group seeks to mitigate country risk by concentrating on investment opportunities in jurisdictions where it considers that contract structures and legal enforceability are reliable and where public sector obligations carry a satisfactory credit rating.

To achieve a diversified portfolio, the Company will ensure each new investment acquired does not have an acquisition value (or, if it is an additional stake in an existing investment, does not have a combined value of both the existing and additional stake) greater than 20% of the total gross assets of the Company immediately post acquisition. Further, the Company will ensure that the resulting portfolio of investments has a range of public sector clients and supply chain counterparts, in order to avoid over-reliance on either a single client or a single contractor.

It is expected that certain new investments to be sourced by the Investment Adviser will have been originated and developed by, and may be acquired from, a fund managed by the Investment Adviser (or its affiliates). The Group has put in place appropriate procedures to deal with potential conflicts of interest in these scenarios. Further information can be found in the Corporate Governance Report.

2.3 BUSINESS MODEL, ORGANISATIONAL STRUCTURE AND PROCESSES

Business Model

The Company receives equity cash flows from a diversified portfolio of investments in underlying projects. It seeks to distribute these receipts to shareholders while minimising the impact from Group-level costs. The following sections summarise the key characteristics of revenues and costs at project level which generate equity cash flows at the lower end of the risk spectrum. Equity cash flows for the purpose of this section mean risk capital cash flows, which may include shareholder loans as well as conventional equity share interests.

Revenue

The majority of the assets in which the Group has invested to date are structured under a public sector infrastructure procurement model (public-private partnership or "PPP"). This model has been successfully employed by a number of countries over the last 20 years to procure new infrastructure investment. The asset class affords a number of attractive features for the equity investor. The principal feature is the quality and predictability of the underlying revenue stream once construction completion is achieved and the asset is operational, which provides significant protection from economic cycles and competitive pressures. The key characteristics of these infrastructure projects, including this feature of the revenue stream, are as follows:

- provision of 'assets' procured by the public sector to meet essential public service needs;
- service obligations (which include the project's financing, build, operation and maintenance) and the associated standards are stipulated and structured through long-term concession contracts; projects have limited, if any, residual value at the end of the concession life;
- following build completion and asset 'availability', regular, contracted 'availability-based' payments are made by the public sector client to the project company, subject to the pre-determined contractual service standards being met or with incremental deductions for each and any shortfall; and
- availability-based payments benefit from inflation-linkage (partially or fully).

As part of its Acquisition Strategy, the Company may make investments in 'demand-based' projects, where the underlying revenue stream varies according to the volume or usage demands of the end-user, as opposed to its 'availability'. Examples of these are toll roads and certain student accommodation projects. Income streams are inherently less certain due to volatility in, for example, traffic volumes; however rigorous research and modelling together with trading history, where available, should enable the income profile to be forecast with a reasonable degree of accuracy. In addition, these user-pay projects benefit HICL by offering diversification of counterparties.

Currently the portfolio has limited exposure to 'demand risk', principally through the investment in the University of Sheffield Accommodation project where revenues are linked to occupancy levels, albeit with contractual mitigation for low demand scenarios. The Group's conditional investment in the A63 Motorway project in France, which is due to complete in early 2017 but is included in the gross portfolio valuation at 31 March 2016, will be the portfolio's first demand risk investment with revenues derived from tolls. See Section 2.6 – Investment Portfolio for details of the gross portfolio's exposure to availability-based and demand-based projects.

Operating Costs

Certainty of operating and capital costs associated with the project is also important to forecast infrastructure equity returns. In the case of social infrastructure projects, the costs associated with projects have pre-determined long-term contractual profiles, similar to the revenues, resulting in largely predictable investment cash flows for equity.

Typically the delivery of key services specified in the project agreement are sub-contracted to specialist providers. Construction is performed by a construction company (or companies in joint venture, if a large asset) on the terms of a fixed priced, date-certain, 'turnkey' contract. The operational services are sub-contracted to one or more experienced facilities manager(s) specialising in a particular field (e.g. catering; cleaning; security; mechanical and engineering maintenance). The Group's portfolio of investments has a diversified range of facilities management ("FM") companies.

Generally the project company vehicles do not have their own employees. In a few cases day-to-day management is performed by an in-house team (i.e. a small number of staff directly employed or seconded to the project company) but, more typically, it is outsourced on a fixed-price contract. The terms of these 'Management Service Agreement' (MSA) contracts vary, but usually the lengths are between 3 and 5 years.

The service standard levels set out in the concession agreement and their key performance indicators ("KPIs") are closely mirrored in the sub-contracts such that the operating risks are passed down to the individual sub-contractors who are best placed to manage those risks. The term of the operating sub-contracts normally matches the term of the concession agreement and the costs of such services are largely fixed at the outset and subject to increases linked to inflation (as reflected by the inflation-linked availability-based payment).

Key project costs, where the budget and the risk sits with the project company (and therefore the equity investor), are generally the costs payable under the MSA contract, lifecycle costs and insurance premiums. In some cases, the risk sits fully with the project company, whilst in other instances it may be partially or fully sub-contracted to the FM contractor. The portfolio's sensitivity to the largest of these risks, the lifecycle costs, is set out in Section 2.5 – Valuation of the Portfolio, under the heading 'Valuation Sensitivities'.

Project companies are liable to pay corporate tax on their profits in their home jurisdiction.

Project Financing

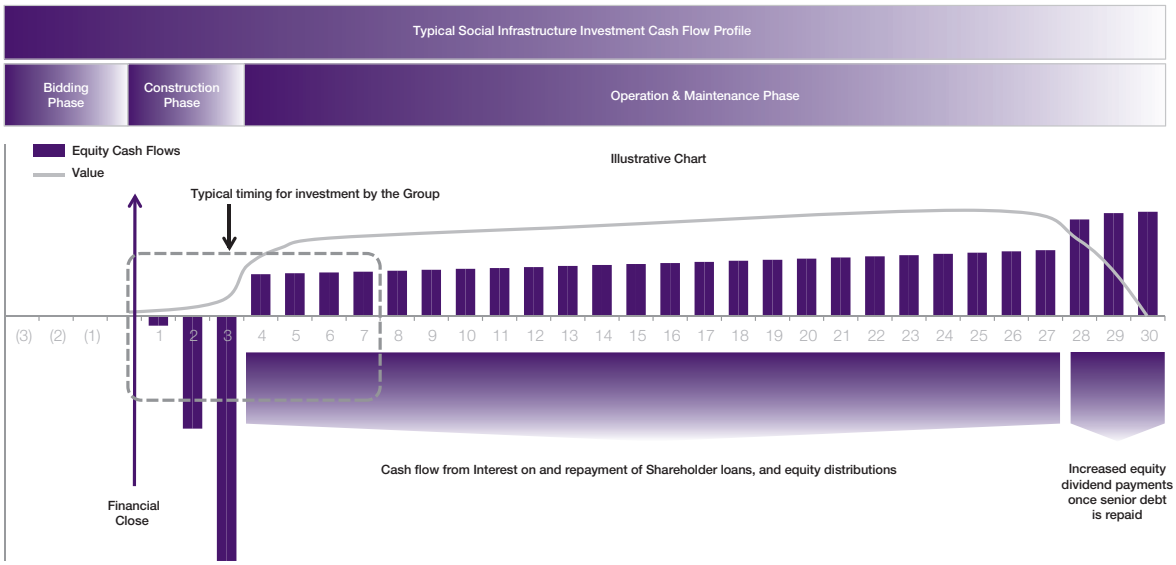
Projects are typically leveraged with amortising debt with a tenor to match the project's concession life. The interest rate on the debt is either fixed rate or inflation-linked, such that changes in interest rates are largely mitigated. The debt raised for a project is secured against that project's cash flows alone, and so is non-recourse to both the Group and its other investments.

Most lenders require projects to withhold some cash in reserve accounts to pay for expected future capital expenditure as well as to potentially service debt if there are operating issues. These cash balances are deposited across a spread of investment grade banks to mitigate default risk and the interest income, which is for the benefit of the project (and hence the Group's investment), varies according to short-term deposit rates.

Equity Cash Flows from Projects

Revenues – whether availability-based payments from the public sector client or usage-based payments on demand-based projects – are used to remunerate the equity investment in the project company once the senior debt service, operating costs and other expenses of the project company have been met.

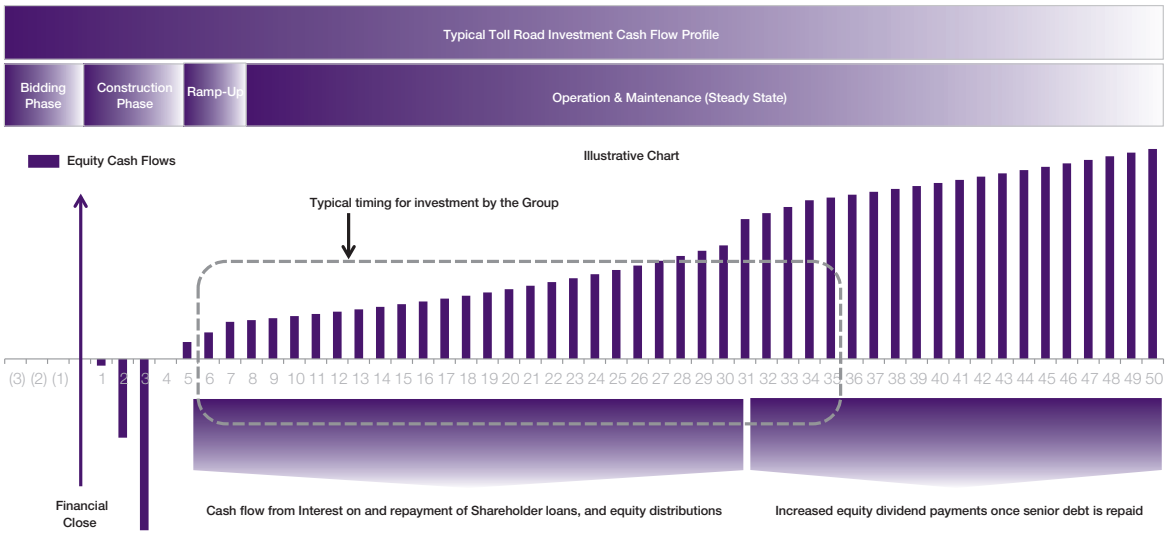
Illustrative investment cash flow characteristics over a project's life (availability-based payment income)



As shown in the above chart capital, in the form of an equity investment, is committed to finance the construction phase of an availability-based project. Typically senior debt is drawn first and the equity subscription amounts are invested towards the end of the construction phase. Positive investment cash flow or "income" from an investment is generally received once the project is operational. Larger payments flow to the equity investor during the last few years of a concession contract once senior debt is fully repaid. This is illustrated in the increase in the cash flows at the end of the concession shown in the figure above. The present value (on a discounted cash flow basis) of these residual cash flows should be significant enough to largely preserve the capital value of the investment until the distribution of these residual cash flows commences. This is illustrated in the increase in future cash flows shown in Section 2.5 – Valuation of the Portfolio, under the heading 'Investment Portfolio: Cash Flow Profile'.

The chart below illustrates the profile of an equity investment in a demand-based investment. In comparison to the availability-based chart above, the concession lives of projects are typically longer. Further, cash flow profiles typically grow over time, principally due to the effect of long-term inflation which directly impacts the usage-based payments that comprise the projects' revenues. Differing from availability-based projects, there is a less marked pick-up in tail end cash flows due to more modest gearing levels and the earlier amortisation of senior debt relative to the overall concession length.

Illustrative investment cash flow characteristics over a project's life (demand-based payment income)



Further details on the capital structuring of a typical infrastructure investment, and the largely predictable nature of both the revenue and costs, are in the Company's February 2013 Prospectus and its Infrastructure Primer Papers, available from the Company's website.

Group Financing, Gearing and Interest Rate Hedging

The Board's policy is that the Company should not hold material amounts of un-invested cash beyond what is necessary to meet outstanding equity commitments for existing investments or to fund potential acquisitions in the near term. New investments are typically funded initially by the Group's revolving credit facility. The Board will consider the appropriate timing and price for the issuance of new shares to repay the debt, in consultation with the Company's broker.

The Group's multi-currency revolving credit facility ('RCF') was refinanced in the year and is now jointly provided by HSBC, Lloyds Bank, National Australia Bank, Sumitomo Mitsui Banking Corporation and The Royal Bank of Scotland. It is a £200m facility with a term that runs until May 2019 and a margin of 1.70% (previously £150m, margin: 2.20%). It is available to be drawn in cash and letters of credit for future investment obligations.

To manage interest rate risk the Group may use interest rate swaps to hedge drawings under the Group's debt facility. During the year the Group did not utilise any interest rate swaps.

Details of the new equity raised in the year to 31 March 2016 from tap issues and scrip dividend alternatives, together with figures for the Group's drawing under the RCF and the Group's gearing levels (as defined by The Association of Investment Companies) are set out in Section 2.4 – Operational and Financial Review.

Group Foreign Exchange Hedging

Foreign exchange risk from non-Sterling assets is managed by hedging investment income from overseas assets through the forward sale of the respective foreign currency (for up to 24 months) combined with balance sheet hedging through the forward sale of Euros and Canadian Dollars and by debt drawings under the Group's credit facility. This has minimised the volatility in the Group's NAV from foreign exchange movements. The hedging policy is designed to provide confidence in the near term yield and to limit NAV per share sensitivity to no more than 1% for a 10% forex movement.

Organisational Structure and Processes

Introduction

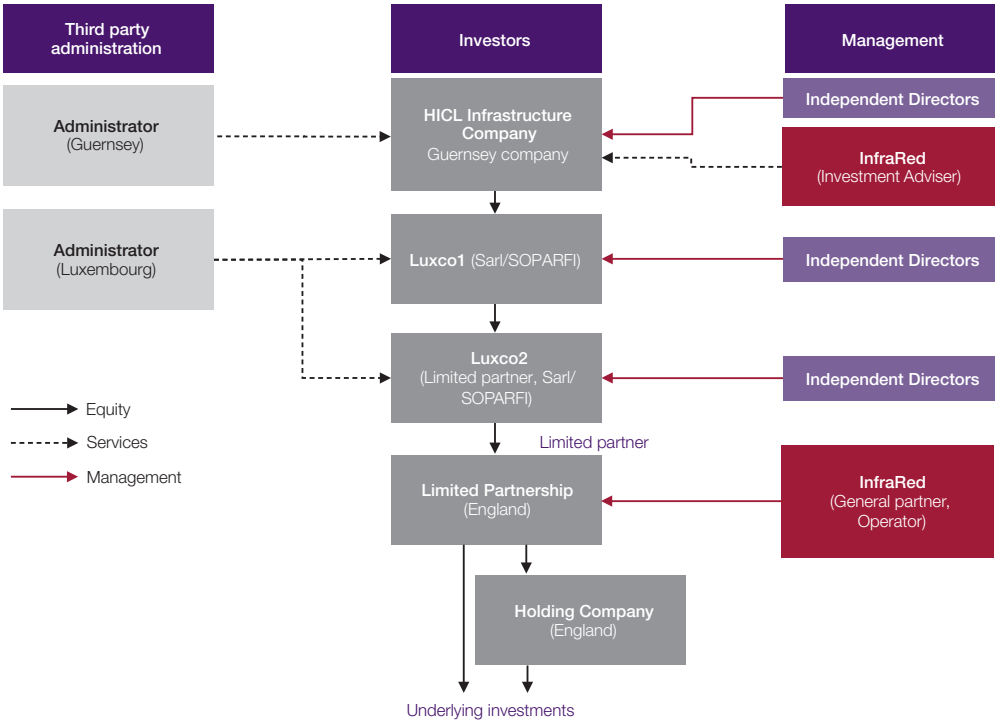
The Company is a Guernsey-registered investment company with an independent Board of Directors. Its shares are listed on the London Stock Exchange. The Company is a self-managed non-EEA Alternative Investment Fund under the Alternative Investment Fund Managers Directive ("AIFMD").

At the year end, the Company owned indirectly a portfolio of 104 infrastructure investments (including one conditional investment). It is seeking to protect and enhance the value of the existing portfolio and to source appropriately-priced (value accretive) new investments using the expertise of its Investment Adviser, InfraRed Capital Partners Limited.

The Company has a 31 March year end and announces its full year results in May and interim results in November. It also publishes two Quarterly Update Statements (formerly Interim Management Statements) each year, normally in February and July.

Group Structure

The Group structure showing the main holding entities of the Group is set out below.



Each of the underlying investments is made by a special purpose vehicle (not shown in the structure above) to ensure no cross-collateralisation of the liabilities (being, principally, the debt repayment obligations).

The two Luxembourg entities (Luxco1 and Luxco2) have independent Boards and take advice on administration matters from RSM FHG Associés. The Investment Adviser owns the general partner of the UK Limited Partnership and manages the partnership through an operator agreement.

The Company's Board and the Committees

The Board of the Company comprises seven independent, non-executive Directors (details on whom can be found in Section 3 – Board of Directors) whose role is to manage the Company in the interests of shareholders and other stakeholders. In particular, the Board approves and monitors adherence to the Investment Policy and Acquisition Strategy, determines risk appetite, sets policies, agrees levels of delegation to key service providers and monitors their activities and performance (including, specifically, that of the Investment Adviser) against agreed objectives. The Board will take advice from the Investment Adviser, where appropriate – such as on matters concerning the market, the portfolio and new acquisition opportunities. See Section 6 – Corporate Governance Statement concerning the forthcoming departures from, and prospective recruits to, the Board.

The Board meets regularly – at least five times a year, each time for two consecutive days – for formal Board and Committee meetings. As referenced in Section 2.2 – Strategy and Investment Policy, one of these Board meetings is devoted to considering the strategy of the Group, both in terms of potential acquisitions and the management of the current portfolio. There are also a number of ad hoc meetings dependent upon business needs. In addition the Board has formed five committees which manage risk and governance of the Company.

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

The Investment Adviser

The Investment Adviser (since launch) is InfraRed Capital Partners Limited, authorised and regulated by the UK's Financial Conduct Authority, and part of the InfraRed Group. Details of the InfraRed Group are set out below.

The Company has an Investment Advisory Agreement with InfraRed which can be terminated with 12 months' notice. InfraRed is also the operator of the Group's Limited Partnership, through which the Group's investments are held. Details of the fees paid to InfraRed in respect of its Investment Adviser services are set out in Section 2.4 – Operational and Financial Review and Note 17 of the consolidated financial statements.

Origination

Potential investment opportunities are carefully screened, including assessments of the counterparties and the jurisdiction, by the Investment Adviser to determine whether they are suitable for the Company.

Any investment proposition needs to be fully assessed and vetted by InfraRed's dedicated HICL Investment Committee, and this committee meets on a number of occasions before an investment is acquired for the Group. Detailed commercial and technical due diligence is undertaken by the team. Third party legal, technical and insurance due diligence is commissioned as appropriate to support any acquisition. Principal investigations ensure that projects are appropriately structured, that the pass-down of obligations to subcontractors is adequate and that all material counterparties are creditworthy.

Asset and Portfolio Management

The Investment Adviser's team includes a dedicated Asset Management function. The team members perform an important role ensuring that new investments are integrated into the governance and reporting processes employed across the portfolio, as well as focusing on implementing asset-level business plans and monitoring project performance for service issues which may indicate financial difficulties or strained relations with the client. These goals are achieved by building and pro-actively maintaining good open relationships with all of the stakeholders who are contractually associated with the Group's projects, especially public sector clients and the facilities management teams performing the day-to-day management under the MSA contracts (see 'Operating Costs' above).

Asset Managers are appointed as directors of the project companies in which the Group invests, and all fees they charge for such service accrue for the benefit of the Group (not the Investment Adviser). As part of their role in actively managing the portfolio they attend project company board meetings and work with management teams to ensure appropriate, good corporate governance and effective, smooth delivery of operations at project level. The Asset Manager will also play a key role negotiating solutions to contractual issues and implementing corrective remedial measures if and when operational issues arise. Material decisions are referred back to the Investment Adviser's Investment Committee for consideration and determination.

Unlike some of its competitors, the Investment Adviser does not use related parties for the provision of the management services to project companies. Therefore the Investment Adviser is not conflicted when it seeks to negotiate the best prices with third party service providers on behalf of the project company and its clients. As a consequence the Investment Adviser is fully aligned with the Company in seeking best possible prices under these contracts for the services rendered. This negotiation will be undertaken by the Asset Managers who will then, as an independent party, monitor the operational performance delivered by the appointed facilities manager to ensure compliance with the contractual standards demanded in the project agreements.

Portfolio Management duties are performed by another designated part of the Investment Adviser's team. The individuals will provide a wide range of tasks for the Group, including treasury and cash management, valuation work and related portfolio value enhancement initiatives. A more detailed description is provided in Section 2.2 – Strategy and Investment Policy, under the heading 'Value Enhancement'.

The InfraRed Group

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

The InfraRed Group has transacted on over 160 secondary infrastructure projects and 70 development (greenfield) opportunities and, as at 17 May 2016, has total equity under management of more than US$9 billion. It has over 120 employees and partners, based mainly in London and with smaller offices in Hong Kong, New York, Paris, Seoul and Sydney.

Since 1998, the InfraRed Group has raised 15 private institutional investment funds investing in infrastructure and property, in addition to the Company and The Renewables Infrastructure Group Limited (which are publicly listed investment companies). The InfraRed Group is wholly owned by its 24 partners through InfraRed Capital Partners (Management) LLP. This ownership structure is the result of the management buyout (from HSBC) of the specialist infrastructure and real estate business which was previously known as HSBC Specialist Investments Limited (HSIL), which completed in 2011.

The infrastructure investment team within the InfraRed Group currently consists of 60 investment professionals. The team currently has an average of 13 years of relevant industry experience, and 6 years on average with the InfraRed Group (including predecessor organisations), and has a broad range of relevant skills including private equity, structured finance, construction and facilities management.

Other Key Service Providers

The Company and Group's key service providers are listed on the inside back cover of this report.

The Board, through the Management Engagement Committee, reviews the performance of all key service providers on an annual basis against agreed objectives.

2.4 OPERATIONAL AND FINANCIAL REVIEW

Key Performance and Quality Indicators

For the current set of results the Board and Investment Adviser have revisited the corporate objectives and restated these to reflect more concisely the Company's investment proposition (see Section 2.1 – Approach and Objectives). The intention is to use specific, output-based statements to assist with the measurement of the Company's performance.

As a result of this exercise, the previous list of operational and financial measures has been re-organised and simplified to create two distinct sets of five metrics – key performance indicators ('KPIs') and key quality indicators ('KQIs') – which, respectively, report on key financial aspects of the Company's operations and qualitative attributes aiming to safeguard shareholders' interests. The Board's aim is to link objectives more closely with deliverables to facilitate shareholders' understanding of the Company's results in the context of its investment mandate.

The results for the year ended 31 March 2016 are set out opposite. The Board is pleased that, overall, all KPIs and KQIs metrics have achieved or exceeded their related corporate objectives which is a testament to the sound set of results and the solid overall performance in the year.

Key Performance Indicators

KPI	Measure	31 March 2016	31 March 2015
Dividends	Aggregate interim dividends declared per share in the year	**7.45p**	**7.30p**
		Objective: An annual distribution of at least that achieved in the prior year Commentary: Achieved	
Total Return	NAV growth and dividends declared per share since IPO	**9.7% p.a.**	**9.7% p.a.**
		Objective: A long-term IRR target of 7% to 8% as set out at IPO [1] Commentary: Exceeded	
Cash-covered Dividends	Operational cash flow / dividends paid to shareholders which are attributable to operational assets [2]	**1.19x**	**1.34x** [3]
		Objective: Cash covered dividends Commentary: Achieved	
Inflation Correlation	Changes in the expected portfolio return for 1% p.a. inflation change	**0.6%**	**0.6%**
		Objective: Maintain positive correlation Commentary: Achieved	
Competitive Cost Proposition	Annualised ongoing charges / average undiluted NAV [4]	**1.12%**	**1.14%**
		Objective: Efficient gross (portfolio level) to net (investor level) returns, with the intention to reduce on-going charges where possible Commentary: Achieved. Further economies of scale have resulted in a lower year-on-year ongoing charges ratio	

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

2 Dividend cash cover compares operational cash flow of £107.3m to dividends attributable to operational assets. The proportion of the total dividends attributable to operational assets (96.9%) and construction assets (3.1%) is based on their respective share of the portfolio valuation during the year.

3. FYE 2015 excludes disposal profit and is on a prorata basis as the Company moved to quarterly dividends in the year.

4. Calculated in accordance with AIC guidelines. Ongoing charges excluding non-recurring items such as acquisition costs.

Key Quality Indicators

KQI	Measure	31 March 2016	31 March 2015
Investment Concentration Risk	Percentage of the portfolio represented by the ten largest investments [1]	**39%**	**40%**
	Percentage of the portfolio represented by the single largest investment [1]	**6%**	**6%**
		Objective: Maintain a diversified portfolio of investments (thereby mitigating concentration risk) and, at all times, remain compliant with the Company's Investment Policy Commentary: Achieved. Marginal reduction in the single largest investment concentration year-on-year	
Risk/Reward Characteristics	Percentage of the portfolio represented by the aggregate value of projects with construction and/or demand-based risk [2]	**6%**	**6%**
		Objective: Compliance with the Company's Investment Policy Commentary: Achieved. Substantially lower than the aggregate limit of 35% for such investments	
Unexpired Concession Length	Portfolio's weighted average unexpired concession length	**21.5 years**	**21.4 years**
		Objective: Seek where possible investments that maintain or extend the portfolio concession life Commentary: Achieved. Marginal increase year-on-year due to the acquisition of two sizeable projects with long concession lengths (Southmead Hospital and A63 Motorway)	
Treasury Management	FX gain (loss) [3] as a percentage of the portfolio NAV	**0.3%**	**(0.4)%**
	Cash less current liabilities as a percentage of the portfolio NAV	**2.0%**	**1.2%**
		Objective: Maintain effective treasury management processes, notably: – Appropriate FX management (confidence in near term yield and managing NAV volatility from FX) – Efficient cash management (low net cash position) Commentary: Achieved	
Refinancing Risk	Investments with refinancing risk [4] as a percentage of the portfolio	**3%**	**4%**
		Objective: Manage exposure to refinancing risk Commentary: Achieved. Aquasure, the only project with refinancing risk, was refinanced in the year	

1. *The Company's Investment Policy stipulates that any single investment (being, for this purpose, the sum of all incremental interests acquired by the Group in the same project) must be less than 20% (by value) of the gross assets of the Company, such assessment to be made immediately post acquisition of any interest in a project.*
2. *'More diverse infrastructure investments' which are made with the intention 'to enhance returns for shareholders', as permitted under the terms of the Company's Investment Policy – namely pre-operational projects, demand-based project and/or other vehicles making infrastructure investments. Further details are set out in the Investment Policy, available from the Company's website. In the year ended 31 March 2015, 5% of projects were in construction and 1% were in demand-based (6% total); in the year ended 31 March 2016, 5% of projects were demand-based and 1% were in construction (6% total).*
3. *Foreign exchange gain (loss) is the net position, taking account of any hedging gain or loss.*
4. *There is one project with refinancing risk – Aquasure in Melbourne, Australia – and its future refinancing requirements are reflective of the fact that the Australian debt market does not offer long-tenor debt.*

Active Management and Value Enhancement

Portfolio Update

During the year the number of investments increased from 101 to 104 (including the conditional acquisition due to complete in early 2017), with the 10 largest holdings representing 39% of the Directors' valuation as at 31 March 2016 (2015: 40%). Since the year end, there have been two new acquisitions (as highlighted below), resulting in 106 investments (including one conditional investment) in the portfolio as at 17 May 2016.

Of the 104 investments as at 31 March 2016, five are in construction (representing 1% of the portfolio, based on the Directors' valuation). This reconciles to the seven projects (5% of the portfolio) at the start of the year, following construction completion of Allenby & Connaught MoD Accommodation, the University of Bourgogne and Zaanstad Penitentiary, as well as the acquisition of an early stage construction project in Northern Europe, in the year. It is likely that this percentage will rise again towards the portfolio's historic levels in the medium-term, as a function of the Acquisition Strategy being pursued by the Investment Adviser.

The latest addition to Birmingham & Solihull LIFT, a company partially owned by the Group, is the new Birmingham Dental Hospital. This facility formed part of a programme to deliver regional health and social care infrastructure under the Department of Health's national Local Improvement Finance Trust ("LIFT") initiative. The centre reached practical completion in February 2016, the client commenced its move into the new facility shortly thereafter and the hospital is now open for use.

During the year, Aquasure Desalination Plant was refinanced as part of its ongoing refinancing programme with a new 7 year AUD900m bank facility. This is the only project in the portfolio with refinancing risk, reflective of the fact that the Australian debt market does not offer long-tenor debt. In addition, the Investment Adviser replaced the long-term debt financing on Staffordshire LIFT project, due to the favourable terms that could be secured in the market compared with those that could be achieved when it was originally financed.

A contractual requirement of PPP projects is to insure the assets. During the year the Investment Adviser re-tendered the insurance portfolio which comprises 57 of the Group's investments. As a result an approximate 20% saving was made relative to the 2015 portfolio renewal. The saving benefit is shared between the public sector clients and the Company.

As announced in the February Quarterly Update, the public sector client on one of the Group's smaller (by value) school projects informed the project company that it intends to serve a voluntary termination notice on the project. Under the terms of the project agreement the Group will receive 'market value' compensation in lieu of ongoing investment returns. Pending termination the Company remains focused on ensuring the project continues to provide services in accordance with the contractual requirements.

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 formally reviewed. InfraRed's risk and control function monitors financial creditworthiness between the formal reviews, while the Asset Management team actively monitors project performance for service issues which may be showing signs of being in financial difficulties. The review processes have not identified any new counterparty concerns for any of the portfolio's construction or facilities management contractors. As a means of satisfying the Company's objective of protecting shareholder value (see Section 2.1 – Approach and Objectives), the Directors ensure that the portfolio is diversified by counterparty to mitigate concentration risk. An analysis of the diversification by exposure to counterparties can be seen in Section 2.6 – Investment Portfolio.

Each of the projects has a client, generally a public sector counterpart such as a NHS healthcare trust or a local government education department, and users such as doctors, nurses and patients, or teaching staff and pupils. The Investment Adviser seeks to engage with both the clients and key stakeholders as experience shows this engagement is important in helping to achieve the best outcomes for all parties. Specific examples from the year, and the general approach followed by the Investment Adviser, are set out in Section 2.9 – Corporate Social Responsibility.

Contract Variations

Project or contract variations are a way of enhancing value across the portfolio both for the Company and other stakeholders. Clients typically make variation requests to amend the scope of services delivered, be it a capital project or an additional or amended service, for which the project earns incremental revenue and the client effects a change of business use. Variations vary considerably in size and during the year InfraRed processed or commenced discussion on a number of these, including:

- Kicking Horse Canyon road project in Canada: the project company signed a contract to assume management and maintenance responsibility for an additional 17.6km of carriageway known as Phase 3 East.
- Pinderfields & Pontefract Hospital: the project company is carrying out a major variation at Pinderfields Hospital, converting existing offices to clinical space, creating an additional 108 beds for the hospital, a new matron-led maternity unit and additional facilities for the A&E department. The work is being carried out in six phases. The first three phases were successfully handed over to the Trust on time and on budget during the year. The final three phases are due to complete in the summer of 2016. The works are being carried out within the operating hospital and require careful co-ordination with the Trust to ensure that patient care is not compromised during the works.
- Bishop Auckland: a variation is underway to upgrade two theatres to Ultra Clean Ventilation standards which will allow the client to expand the level and type of elective surgery performed. At the same time, the opportunity has been taken to carry out some lifecycle works as part of the overall upgrade programme, minimising future disruption to clinical services and patient care. Finally plans are underway to convert an in-patient ward to an out-patient clinic, bringing an existing service onto the main site from a remote satellite building, as part of the client's broader estates strategy.

- West Middlesex Hospital: the project company successfully delivered a large variation which included the re-configuration of internal spaces with some change between clinical and nonclinical usage. Overall there was an increase of five examination/treatment bays in A&E and an additional six beds in the Paediatric Department. The work, which was undertaken in five phases, was successfully completed on time and on budget in September 2015.

Portfolio Challenges

By their nature as physical assets, infrastructure projects demand high standards of construction and then ongoing management once operational. It is expected that, from time to time, issues will arise – either latent construction defects or relationship issues amongst stakeholders regarding the provision of services or the apportionment of liability for force majeure events. In such instances a proactive and targeted plan is required to preserve good relations with the client and prevent or mitigate a loss of value to equity.

In general terms operational performance in the year was to plan and delivered investment cash flows that were in line with the Board's expectations, allowing the Board to declare the final quarterly dividend with suitable cash cover. Solid progress has been made on projects which have suffered from operational challenges and none of the existing issues are considered material to the performance of the portfolio overall. Further, the benefits from cost savings and other incremental revenue-generating initiatives, such as insurance re-tendering, significantly outweigh any deductions.

The following paragraphs provide a summary of the specific issues faced by the Group in the year.

The Zaanstad Penitentiary project, acquired mid-construction at the end of the prior year, suffered from the bankruptcy of one of the joint venture construction partners in the first half of the year (as announced at the time of the interim results). Despite the challenges this posed the Group provided €20.0m of senior debt funding (on commercial terms) to facilitate the continuation of works which were completed in March, in line with its contracted delivery date. The €20.0m loan has been repaid to the Group, with applicable interest, leaving the Group's equity interest intact.

Remedial works are nearing completion at two grouped schools projects in the North of England that had suffered various construction defects, including damp and leaking roof issues within the buildings and drainage and defective landscaping on the grounds.

As reported on a number of occasions previously, a road project has suffered from a number of ongoing operational and construction defect issues. The Asset Management team continue to work through these challenges and, in relation to the road surface, a construction defect was alleged by the project company and a claim lodged with the contractor. Expert witnesses have generated specialist reports and the matter is expected to result in either a negotiated settlement or court proceedings in the fullness of time.

A settlement agreement was signed and £2.0m of working capital invested in the first half of the year by way of loans into a health project in respect of an earlier dispute with the client concerning allegations of building defects. Surveys to establish the allocation of contractual responsibilities for rectification works with the supply chain have now been completed and assignment has been made to the relevant parties. Once the issues are corrected the Group's investment may be revalued upwards.

Significant progress has been made in the year in respect of a second hospital which was previously reported to be having commissioning issues with biomass boilers installed during its construction, together with various other building defects. The relationship with the client remains positive and, in recent months, a settlement agreement has been signed which establishes a clear path forward.

More generally in the UK certain public sector clients are applying a stringent interpretation of contract terms relating to building regulations, leading to availability-based payment deductions on projects. These are then disputed and time and cost is required to resolve the matters, a process which can ultimately impact the value of an investment. During the year the Group has encountered a handful of such situations in the portfolio, of which none has materially impaired asset valuations. The Investment Adviser does not currently believe this to be a systemic risk and continues to manage such situations proactively alongside project company management teams. The Group's investment assumption remains that all contracts are enforced in a fair and balanced manner and, on that basis, the Board remains confident that the Group can achieve its investment objectives.

New Investment

Investment origination activity during the year was undertaken across key areas of the Company's Acquisition Strategy (as described in more detail in Section 2.2 – Strategy and Investment Policy), as follows:

- Secondary PPP market: Despite overall UK market activity being muted, the Group was successful with a number of acquisitions in operational projects. In addition, progress was made adding suitable investments in markets outside the UK where the Investment Adviser is satisfied that contractual structures are consistent with PPP principles and risk-reward characteristics are in line with the existing portfolio.
- Primary markets: The Investment Adviser continued to actively pursue opportunities that are pre-construction, with some success. As with secondary infrastructure markets, competition in this segment is intense. In response to these conditions, the Board and Investment Adviser are exploring options for establishing origination channels to secure preferential access to assets developed by key relationships or, potentially, the Investment Adviser.
- Demand risk: Activity in this segment of the market was principally focused on toll roads, where the Investment Adviser pursued opportunities in North America and France (being successful with the latter); and in student accommodation, where opportunities were pursued in the UK (ongoing) and Australia (unsuccessful).

- Regulated assets: During the year, the Investment Adviser participated unsuccessfully in the auction of a regulated electricity transmission asset in North America that connected two networks and featured regulated revenues. Progress was made to position the Group for Rounds 4 and 5 of the UK's offshore transmission owner ("OFTO") programme.

Acquisitions

During the year the Group made three new investments, one conditional investment (which is due to complete in early 2017) and six incremental acquisitions, for an aggregate consideration of £240.1m [1]. A summary is set out in the table below and further detail can be found in Note 12 to the consolidated financial statements.

Date	Amount	Type	Stage	Project	Sector	Stake Acquired	Overall Stake
Apr 15	£16.0m [2]	Follow-on	Operational	Salford & Wigan BSF Schools (Phase 1)	Education	40.0%	80.0%
		Follow-on	Operational	Salford & Wigan BSF Schools (Phase 2)	Education	40.0%	80.0%
Jul 15	£87.8m	New	Operational	Southmead Hospital	Health	50.0%	50.0%
Sep 15	£26.9m	New	Operational	Royal Canadian Mounted Police 'E' Division Headquarters	Fire, Law & Order	100.0%	100.0%
Nov 15	£0.7m	Follow-on	Operational	Cleveland & Durham Police Tactial Training Centre	Fire, Law & Order	27.1%	100.0%
Jan 16	£25.3m	Follow-on	Operational	Southmead Hospital	Health	12.5%	62.5%
Jan 16	£4.1m	Follow-on	Operational	Sheffield Schools	Education	37.5%	75.0%
Feb 16	£2.8m	Follow-on	Operational	Aquasure Desalination Plant, Australia	Accommodation	0.4%	9.7%
Feb 16	£69.0m	New / Conditional	Operational	A63 Motorway, France	Transport	13.8%	13.8%
–	£7.5m	New	Construction	Northern European project	Fire, Law & Order	85.0%	85.0%
	£240.1m [1]						

1. Reconciles to £242.1m of 'Investments' in the 'Valuation movements during the year to 31 March 2016 (£m)' table in Section 2.5 – Valuation of the Portfolio due to £2.0m loan advanced to a Health project to facilitate resolution of legacy construction defects.

2. Aggregate value of consideration paid for multiple acquisitions announced on the same day.

Since the financial year end, the Group has made two new investments in the M1-A1 Link Road (Lofthouse to Bramham) project and Hinchingbrooke Hospital project, with a combined investment value of £17.1m.

Disposals

In April 2015 the Company sold its interest in the Fife Schools project for proceeds of £7.3m, in line with the Board's valuation as at 31 March 2015. In addition the Group made a partial disposal of the Ealing Care Homes project to a joint venture partner generating £1.6 million of proceeds, in line with the Board's valuation of the investment as at 31 March 2015. The net effect of the partial realisation was that the Group's direct 84% stake in the project became an indirect 63% interest. The former transaction was undertaken as the Board believed that the tendered offer represented compelling value for the Group, whilst the latter was a strategic sale to promote alignment of interest with the relevant service provider.

Accounting

The Company's accounts for the year to 31 March 2016 are summarised below. These are prepared on the basis set out in Note 2 to the consolidated financial statements.

Income and Costs

Summary Income Statement

	Year to 31 March 2016 *£million*	Year to 31 March 2015 *£million*
Total income	182.9	253.6
Fund expenses & finance costs	(25.5)	(22.6)
Profit before tax	**157.4**	**231.0**
Tax	(0.2)	(0.2)
Earnings	**157.2**	**230.8**
Earnings per share	**11.9p**	**18.6p**

Total income of £182.9m (2015: £253.6m) represents the return from the portfolio recognised in the income statement from dividends, sub-debt interest and valuation movements. Total income has decreased 28% (£70.7m) as the prior year benefited by £72.2m from certain one-off revaluations of investments, including Colchester Garrison which the Group had contracted to sell. Another contributory factor was actual UK inflation running at a rate below the assumption of 2.75%. Further detail on the valuation movements is given in Section 2.5 – Valuation of the Portfolio.

Foreign exchange movements have made a net positive contribution of £5.2m, comprising a £13.9m foreign exchange gain (2015: £17.7m loss) on revaluing the non-UK assets in the portfolio using year end exchange rates partly offset by £8.7m of foreign exchange hedging losses (2015: £10.5m gain).

Earnings were £157.2m, a decrease of £73.6m against the prior year. This reflects the factors stated above whilst fund expenses and finance costs were higher at £25.5m compared with £22.6m in the prior year, reflecting acquisition activity and the growth in the portfolio. Earnings per share were 11.9p (2015: 18.6p); though reduced from the prior year, earnings per share were 3.8p above projections as can be seen in the analysis of the NAV per share further opposite.

Cost Analysis

	Year to 31 March 2016 *£million*	Year to 31 March 2015 *£million*
Interest expense	2.2	2.2
Investment Adviser fees	20.4	18.1
Auditor – KPMG – for the Group	0.3	0.3
Directors fees & expenses	0.3	0.3
Investment bid costs	0.8	0.5
Professional fees	1.3	1.1
Other expenses	0.2	0.1
Expenses & finance costs	**25.5**	**22.6**

Total fees accruing to InfraRed as the Investment Adviser were £20.4m (2015: £18.1m) for the year, increasing in line with growth in the portfolio value. These fees comprise the tapered management fee (1.1% for assets up to £750m, 1.0% for assets above £750m, 0.9% for assets above £1.5bn and 0.8% for assets above £2.25bn), a 1.0% fee on acquisitions made from third parties, and the £0.1m per annum advisory fee. All fees charged by InfraRed's Asset Managers (in their capacity as directors of the boards) to the project companies accrue for the benefit of the Group.

In the year the Group incurred £0.8m of third party investment bid costs (2015: £0.5m) on unsuccessful bids or bids in progress (mainly legal, technical and tax due diligence). The Investment Adviser earned £1.5m in acquisition fees (2015: £1.1m) for its work on financial, commercial and structuring due diligence on successful acquisitions.

Neither the Investment Adviser nor any of its affiliates receives other fees from the Group or the Group's portfolio of investments.

Ongoing Charges

	Year to 31 March 2016 *£million*	Year to 31 March 2015 *£million*
Investment Adviser [1]	18.9	17.0
Auditor – KPMG, for the Group	0.3	0.3
Directors' fees and expenses	0.3	0.3
Other ongoing expenses	1.3	1.1
Total expenses	20.8	18.7
Average NAV	1,852.1	1,637.9
Ongoing Charges	1.12%	1.14%

1. Excludes acquisition fees of £1.5m (2015: £1.1m), in line with AIC calculation methodology

Ongoing Charges is defined, in accordance with AIC calculation methodology, as annualised ongoing charges (i.e. excluding acquisition costs and other non-recurring items) divided by the average published undiluted net asset value in the year. On this basis, the Ongoing Charges Percentage is 1.12% (2015: 1.14%). There are no performance fees paid to any service provider.

Balance Sheet

Summary Balance Sheet

	Year to 31 March 2016 *£million*	Year to 31 March 2015 *£million*
Investments at fair value	**1,932.9**	**1,709.7**
Working capital	(11.7)	(10.3)
Net cash	52.7	33.5
Net assets attributable to Ordinary Shares	**1,973.9**	**1,732.9**
NAV per Ordinary Share (before distribution)	142.2p	136.7p
NAV per Ordinary Share (post distribution)	140.3p	134.8p

Investments at fair value were £1,932.9m (2015: £1,709.7m) net of £97.4m (2015: £22.5m) of future investment obligations on various projects in construction as well as one conditional commitment to acquire an operational asset in the future. This is an increase from 31 March 2015 of £223.2m or 13%. Further detail on the movement in Investments at fair value is given in Section 2.5 – Valuation of the Portfolio.

The Group had net cash at 31 March 2016 of £52.7m (2015: net cash of £33.5m) which includes funds for the 1.87p fourth quarterly interim dividend of £26.0m due for payment in June 2016. An analysis of the movements in net cash is shown in the cash flow analysis below.

NAV per share was 142.2p before the fourth quarterly interim distribution of 1.87p (31 March 2015: 136.7p before the fourth quarterly interim distribution of 1.87p). NAV per share has increased by 1.0p more than retained earnings per share over the year as a result of the tap issues of 117.1m shares in July 2015, December 2015 and March 2016 at a premium to the prevailing NAV per share.

Analysis of the Growth in NAV per Share

Pence per share			
NAV per share at 31 March 2015 [1]			134.8
Valuation movements			
Reduction in discount rates of 0.4%	4.6		
Change in economic assumptions	(1.4)		
Forex movement (net)	0.4		
		3.6	
Portfolio Performance			
Project outperformance	0.2		
Expected NAV growth [2]	0.7		
		0.9	
Accretive Tap Issuance of Ordinary Shares		1.0	
Total		5.5	
NAV per share at 31 March 2016 [1]			**140.3**

1. Post fourth quarterly interim dividends declared; 1.87p for 31 March 2016 and 1.87p for 31 March 2015

2. Expected NAV growth is the Company's budget for the forecast growth in NAV in the financial year to 31 March 2016 adopted in February 2015

Further details on valuation movements, especially those attributable to the negative change in economic assumptions, are given in Section 2.5 – Valuation of the Portfolio.

Cash Flow Analysis

Summary Cash Flow

	Year to 31 March 2016 £million		Year to 31 March 2015 £million	
Net cash at start of year		33.5		42.7
Cash from investments [1]	130.8		182.2	
Operating and finance costs outflow	(23.5)		(19.6)	
Net cash inflow before capital movements		**107.3**		**162.6**
Disposal of investments [2]		7.2		50.3
Cost of new investments		(172.9)		(204.1)
Share capital raised net of costs		176.8		75.1
Forex movement on borrowings/hedging [3]		(6.2)		9.4
Distributions paid:				
Relating to operational investments	(90.1)		(97.4)	
Relating to investments in construction	(2.9)		(5.1)	
Distributions paid		(93.0)		(102.5)
Net cash at end of year		**52.7**		**33.5**

1. The year to 31 March 2016 includes £1.7m profit on disposal (2015: £58.0m) based on historic cost.

2. Historic cost of £7.2m and profit on disposal of £1.7m equals the proceeds from disposal of investments of £8.9m (2015: £50.3m and profit on disposal of £58.0m equals the proceeds from disposal of investments of £108.3m).

3. Includes capitalisation of debt issue costs of £1.3m (2015: £nil).

Cash inflows from the portfolio were £130.8m (2015: £182.2m or £124.2m excluding the profit on the sale of Colchester Garrison). Growth in underlying cash generation (excluding profits on disposal) was driven by contributions from acquisitions combined with active cash management across the portfolio.

Cost of investments (excluding the one conditional acquisition) of £172.9m (2015: £204.1m) represents the cash cost of the three new investments and the six incremental acquisitions, net of deferred consideration and acquisition costs of £3.1m (2015: £1.7m).

The £6.2m cash outflow (2015: £9.4m cash inflow) in foreign exchange rate hedging and borrowings arises from the strengthening of the Euro, Australian Dollar and Canadian Dollar against Sterling in the year, as well as including £1.3m in debt issue costs. The Group enters forward sales to hedge forex exposure in line with the Company's hedging policy set out in Section 2.3 – Business Model, Organisational Structure and Processes. Overall foreign exchange movements made a net positive contribution of £5.2m to the Company's total income in the year, as set out in detail under the Income and Costs table above.

The placing of 117.1m shares via tap issues in July 2015, December 2015 and March 2016 at a premium to the prevailing NAV per share provided net cash receipts in the year of £176.8m (2015: £75.1m).

Dividends paid decreased £9.5m to £93.0m (2015: £102.5m) for the year resulting from the Company moving to quarterly dividends in the year ended March 2015 which as a consequence resulted in the payment of 15 months of dividends in the comparative year.

Dividend cash cover, which compares operational cash flow of £107.3m (2015: £104.6m, excluding profits on disposal) to dividends attributable to operational assets, was 1.19 times (2015: 1.34 times on a pro-forma basis due to moving from semi-annual to quarterly dividends). The proportion of the total dividends attributable to operational assets (96.9%) and construction assets (3.1%) is based on their respective share of the portfolio valuation during the year.

The scrip dividend alternatives for the fourth quarterly interim dividend in respect of the year ended 31 March 2015, and for the first three quarterly interim dividends for the reported financial year, resulted in an aggregate of 3.6m (2015: 6.3m) new shares being issued in June 2015, September 2015, December 2015 and March 2016.

It remains the Board's intention to continue both the payment of dividends on a quarterly basis and to offer a scrip alternative. Further details of the scrip alternative will be provided in July when the first quarterly interim dividend is declared.

Group Drawings and Gearing Levels

As at 31 March 2016, the Group's drawings under its multi-currency revolving credit facility ("RCF") were nil by way of cash and £36.6m by way of letters of credit and guarantees.

The Association of Investment Companies ("AIC") has published guidance in relation to gearing disclosures which is defined for a company with net cash as the net exposure to cash and cash equivalents, expressed as a percentage of shareholders' funds after any offset against its gearing. It is calculated by dividing total assets (less cash/cash equivalents) by shareholders funds. On this basis, the Group had a net cash position of 2.0% at 31 March 2016 (2015: 1.2% net cash). This analysis excludes any debt in the Group's investments, which are typically leveraged (see Section 2.3 – Business Model, Organisational Structure and Processes for details).

In view of the current term of the RCF, the Company is able to confirm that sufficient working capital is available for the financial year ending 31 March 2017, without needing to refinance. The Investment Adviser will, however, consider refinancing options periodically aligned to the pipeline of potential transactions.

Further details of the Group's Revolving Credit Facility are set out in Section 2.3.

2.5 VALUATION OF THE PORTFOLIO

Valuation Methodology and Approach Overview

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

As the Group's investments are in non-market traded investments, with underlying projects providing long-term contractual income and costs (see Section 2.3 – Business Model, Organisational Structure and Processes for details), investments are valued using a discounted cash flow analysis of the forecast investment cash flows from each project. The discounted cash flow methodology is adjusted in accordance with the European Venture Capital Associations' valuation guidelines where appropriate to comply with IAS 39 and IFRS 13, given the special nature of infrastructure investments.

The key external (macroeconomic and fiscal) factors affecting the forecast of each project's cash flows are the inflation rate, the deposit interest rate, and the local corporation tax rate. The Investment Adviser makes forecast assumptions for each of these external metrics, based on market data and economic forecasts. The Investment Adviser exercises its judgment in assessing the expected future cash flows from each investment based on the detailed concession life financial models produced by each project company and adjusting where necessary to reflect the Group's economic assumptions as well as any specific operating assumptions. The fair value for each investment is then derived from the application of an appropriate market discount rate (which varies on a project-by-project basis, depending on the specific risk profile of each project) to the investment's future cash flows to derive the present value of those cash flows.

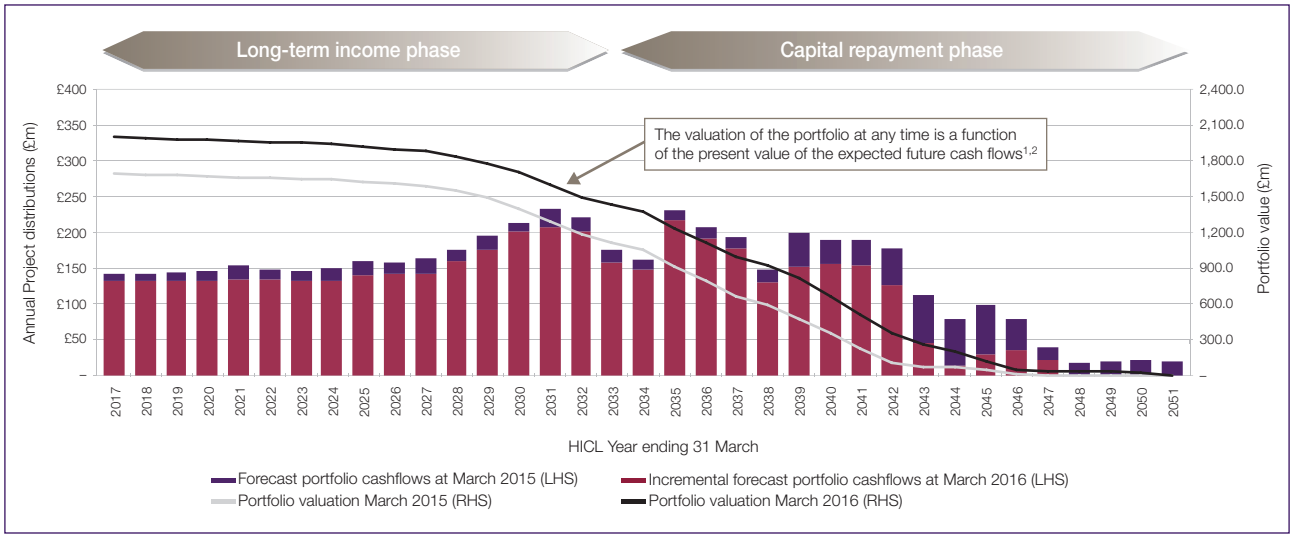
The Directors' valuation is the key component in determining the Company's NAV and so the Directors seek, from a third party valuation expert, an independent report and opinion on the valuation provided by the Investment Adviser.

This valuation methodology is the same as that used at the time of the Company's launch and in each subsequent six month reporting period (further details can be found in the Company's February 2013 Prospectus, available from the Company's website).

Investment Portfolio: Cash Flow Profile

The chart below shows the expected future cash flows to be received by the Group from the portfolio as at 31 March 2016 and how the portfolio valuation is expected to evolve over time using current forecasts and assumptions.

Illustration of expected future cash flows to be received by the Group from the current portfolio



1. *The chart represents a target only and is not a profit forecast. There can be no assurance that this target will be met.*
2. *Portfolio valuation assumes a Euro to Sterling exchange rate of 0.79, a Canadian Dollar to Sterling Exchange rate of 0.54, an Australian Dollar to Sterling Exchange rate of 0.53 and a weighted average discount rate of 7.5% per annum. These assumptions and the valuation of the current portfolio may vary over time.*
3. *The cash flows and the valuation are from the portfolio of 104 investments as at 31 March 2016 and does not include other assets or liabilities of the Group, and assumes that during the period illustrated above, (i) no new investments are purchased, (ii) no existing investments are sold and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains.*

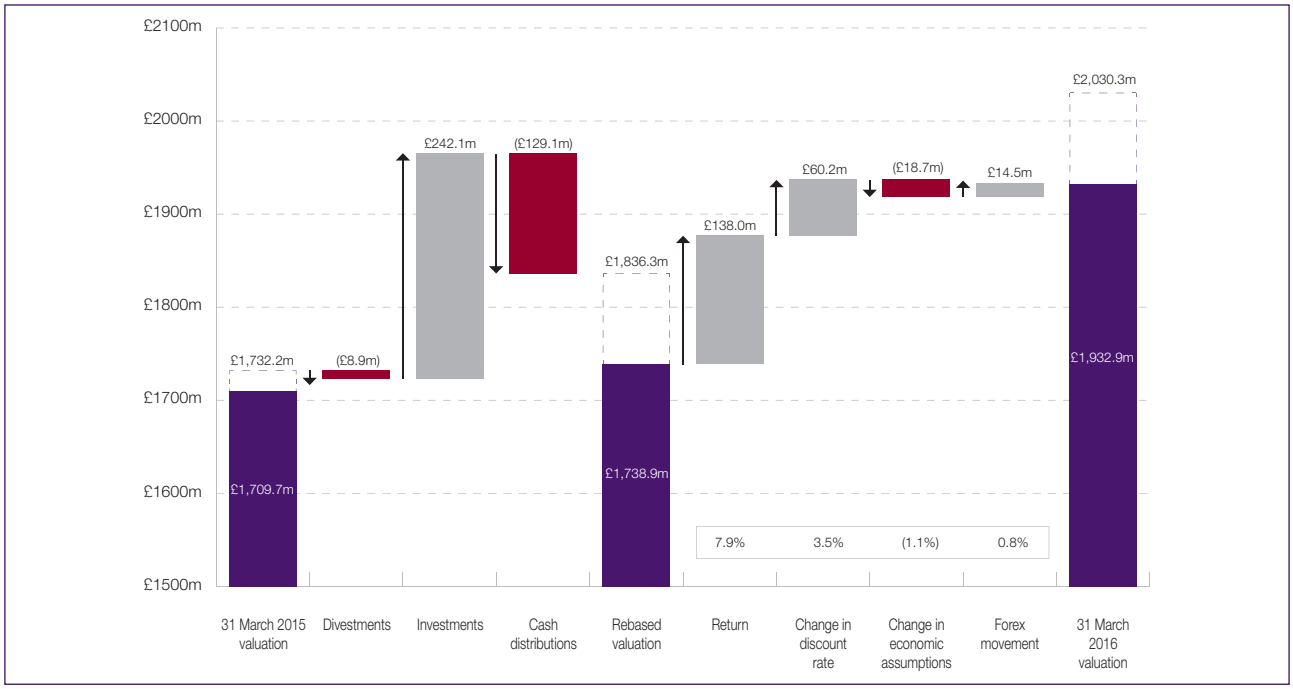
The chart shows the steady long-term nature of the cash flows from the portfolio, coupled with a stable portfolio valuation to 2031. The benefit of the new investments made in the year, increasing forecast cash flows and the valuation over time is also shown. From 2032, based on current forecasts, the portfolio will move into a repayment phase when cash receipts from the portfolio will be paid to the Company's shareholders as capital and the portfolio valuation reduces as projects reach the end of their concession term, assuming that the proceeds are not invested in new investments, until 2051 when the last concession ends.

It is these forecast cash flows from the Group's current portfolio of investments that give the Board the comfort that there should be sufficient cash cover for the revised target dividend of 7.65p per share for the year to 31 March 2017 and the new dividend guidance of 7.85p per share for the year to 31 March 2018.

Directors' Valuation at 31 March 2016

The Directors' Valuation of the portfolio at 31 March 2016 was £2,030.3m. This valuation compares to £1,732.2m at 31 March 2015 (up 17.2%). A reconciliation between the Directors' valuation at 31 March 2016 and that shown in the financial statements is given in Note 12 to the financial statements, the principal difference being that the Directors' Valuation includes the £97.4m outstanding equity commitments in respect of the A63 Motorway, Centrale Supelec, N17/N18 Gort to Tuam Road, PSBP North East, RD 901 Road, Willesden Hospital, Zaanstad Penitentiary and the Northern European Fire, Law & Order project.

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



Valuation blocks (purple) have been split into investments at fair value and future commitments. The percentage movements have been calculated on investments at fair value as this reflects the returns on the capital employed in the year.

Valuation Movements during the year to 31 March 2016			£'m	Percentage change
Valuation at 31 March 2015			**1,732.2**	
Divestments	(8.9)			
Investments	242.1			
Cash receipts from investments	(129.1)			
		104.1		
Less future commitments			(97.4)	
Rebased valuation of the portfolio			**1,738.9**	
Return from the portfolio	138.0			7.9%
Change in discount rate	60.2			3.5%
Economic assumptions	(18.7)			(1.1%)
Forex movement on non-UK investments	14.5			0.8%
		194.0		11.2%
Future commitments			97.4	
Valuation at 31 March 2016			**2,030.3**	

Allowing for the investments during the year of £242.1m, the divestments of £8.9m (Fife Schools and partial disposal of Ealing Care Homes) and investment receipts of £129.1m, the rebased valuation was £1,738.9m. The growth in the valuation of the portfolio at 31 March 2016 over the rebased value was 11.2%.

The increase arises from a £138.0m return from the portfolio, a £60.2m uplift from a 0.4% decrease in the weighted average discount rate used to value the portfolio as well as a £4.2m net negative valuation movement from changes to certain economic assumptions (-£18.7m) and foreign exchange rates (+£14.5m). The negative movement in economic assumptions included lower forecast deposit rates and European inflation figures, combined with more prudent tax assumptions (in light of anticipated changes to tax legislation) offset by lower UK tax rates.

Return from the Portfolio

The return from the portfolio of £138.0m (2015: £142.6m) represents a 7.9% (2015: 9.6%) increase in the rebased value of the portfolio. As expected, the majority of this 'return' (7.7%, being the average) was generated by the unwinding of the weighted average discount rate used to value the portfolio in the year.

Incremental value was generated from operational outperformance, including savings from portfolio insurance, though this was negated by the adverse impact of actual UK inflation running lower than the 2.75% p.a. forecast assumption.

Discount rates

The main method for determining the appropriate discount rate used for valuing each investment is based on the Investment Adviser's knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers knowledgeable of these markets and publicly available information on relevant transactions.

When there are limited transactions or information available, and as a second method and sense check, a "bottom up" approach is taken based on the appropriate long-term Government Bond yield and an appropriate 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.

In the current portfolio there are only five projects in construction at 31 March 2016. An investment in a project under construction can offer a higher overall return (i.e. require a higher discount rate) compared to buying an investment in an operational project, but it does not usually yield during the construction period and there is the risk that delays in construction affect the investment value. The discount rates used for investments under construction are higher than the prior year as Allenby & Connaught MoD Accommodation project, a late stage construction project in March 2015, completed construction in the year.

An analysis of the weighted average discount rates for the investments in the portfolio analysed by territory, and showing movement in the year, is shown below:

Country	31 March 2016			31 March 2015 Discount rate	Movement
	Long-term government bond yield	Risk premium	Discount rate		
UK	2.2%	5.3%	7.5%	7.8%	(0.3%)
Australia & NZ	2.6%	5.3%	7.9%	8.2%	(0.3%)
Eurozone	1.0%[1]	6.8%	7.8%	8.2%	(0.4%)
North America	2.0%	5.1%	7.1%	7.4%	(0.3%)
Portfolio	**2.1%**	**5.4%**	**7.5%**	**7.9%**	**(0.4%)**

1. The long-term government bond yield for the Eurozone is the weighted average for all of the countries in which the portfolio is invested (namely France, the Netherlands and Ireland).

In the UK, there is sufficient market data on discount rates and hence the risk premium is derived from this market discount rate for operational social and transportation infrastructure investments less the appropriate long-term Government Bond yield. For Australia, Canada and the Eurozone, where there is less market data, more emphasis is placed on the "bottom up" approach to determine discount rates. The Board discusses the proposed valuation with the third-party valuation expert to ensure that the valuation of the Group's portfolio is appropriate.

As long-term Government Bond yields in the UK, Australia, Canada and the Eurozone are currently low, this has resulted in higher country risk premiums (as discount rates have not fallen as far as bond yields). The Investment Adviser's view is that discount rates used to value projects don't follow bond yields, although naturally there is some correlation over the longer term. The implication from this is that an increase from these historically low bond yields could happen without necessarily adversely impacting discount rates.

The 0.4% reduction in the weighted average discount rate in the year is attributable to a more competitive environment for infrastructure assets. While there is a slow supply of new investment opportunities, new market entrants, attracted by the favourable risk-adjusted returns, have driven prices upwards, and hence caused discount rates to fall further during the year. This is a trend the Investment Adviser is still experiencing currently based on recent market transactions.

Valuation Assumptions

Apart from the discount rates, the other key economic assumptions used in determining the Directors' valuation of the portfolio are as follows:

		31 March 2016	31 March 2015
Inflation Rates	UK (RPI and RPIx) [1]	2.75% p.a.	2.75% p.a.
	Eurozone (CPI)	1% p.a. until 2018, 2.0% p.a. thereafter	0% p.a. until 2017, 2.0% p.a. thereafter
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	Australia (CPI)	2.5% p.a.	2.5% p.a.
Deposit Rates	UK	1.0% p.a. to March 2020, 2.5% p.a. thereafter	1.0% p.a. to March 2019, 3.0% p.a. thereafter
	Eurozone	1.0% p.a. to March 2020, 2.5% p.a. thereafter	1.0% p.a. to March 2019, 3.0% p.a. thereafter
	Canada	1.0% p.a. to March 2020, 2.5% p.a. thereafter	1.0% p.a. to March 2019, 2.5% p.a. thereafter
	Australia	2.6% p.a. with a gradual increase to 3.0% long-term	2.6% p.a. with a gradual increase to 5.0% long-term
Foreign Exchange Rates	CAD/GBP	0.54	0.53
	EUR/GBP	0.79	0.72
	AUD/GBP	0.53	0.51
Tax Rates	UK	20% to March 2017, 19% to March 2020, 18% thereafter	20%
	Eurozone	Various (no change)	Various
	Canada	26% and 27%	25% and 26% (territory dependant)
	Australia	30%	30%

1. Retail Price Index and Retail Price Index excluding mortgage interest payments

Valuation Sensitivities

The portfolio's valuation is sensitive to each of the macro-economic assumptions listed above. An explanation of the reason for the sensitivity and an analysis of how each variable in isolation (i.e. while keeping the other assumptions constant) impacts the valuation follows below. The sensitivities are also contained in Note 4 to the consolidated financial statements.

Discount Rate Sensitivity

Whilst not a macro-economic assumption, the weighted average discount rate that is applied to each project's forecast cash flows, for the purposes of valuing the portfolio, is arguably the single most important variable. The impact of a 0.5% change in the discount rate on the Directors' valuation and the NAV per share is shown below:

Discount rate	-0.5% change	Base Case 7.5%	+0.5% change
Directors' valuation	+£101.5m	£2,030.3m	-£93.7m
NAV per share [1]	+7.3p/share	142.2p/share	-6.7p/share

1. NAV per share based on 1,388m Ordinary Shares as at 31 March 2016

Inflation Rate Sensitivity

The projects in the portfolio have contractual income streams derived from 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.

In the UK RPI and RPIx were 1.6% for the year ended 31 March 2016. 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 2016 forecasts for RPI out to December 2017 range from 2.2% to 3.6% from 17 independent forecasters as compiled by HM Treasury, with an average forecast of 3.0%.

The impact of a 0.5% movement in the inflation rate on the Directors' valuation and the NAV per share is shown below:

Inflation rate (UK)	-0.5% p.a. change [1]	Base Case 2.75% p.a.	+0.5% p.a. change [1]
Directors' valuation	-£65.3m	-£2,030.3m	+£72.0m
NAV per share [2]	-4.7p/share	142.2p/share	+5.2p/share

1. Analysis based on the 20 largest investments, extrapolated for the whole portfolio

2. NAV per share based on 1,388m Ordinary Shares as at 31 March 2016

Deposit Rate Sensitivity

Each project's interest costs are at fixed rates, either through fixed rate bonds or bank debt which is hedged with an interest rate swap, or linked to inflation through index-linked bonds. 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 six months of debt service payments are held.

As at 31 March 2016, cash deposits for the portfolio were earning interest at a rate of 0.4% 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 2017 of 1.3% p.a.

The portfolio valuation assumes UK deposit interest rates are 1.0% p.a. to March 2020 and 2.5% p.a. thereafter. Once again this extends the period of 1.0% deposit interest rates and applies a lower long-term rate compared to that applied in the March 2015 valuation, which assumed 1.0% deposit interest rates to March 2019 and 3.0% thereafter. These changes have reduced the portfolio valuation and are included within the £18.7m aggregate decrease in portfolio value attributable to changes in Economic Assumptions.

The impact of a 0.5% change in the deposit rate on the Directors' valuation and the NAV per share is shown below:

Deposit rate	-0.5% p.a. change [1]	Base 1.00% p.a., then 2.50% p.a.	+0.5% p.a. change [1]
Directors' valuation	-£24.5m	£2,030.3m	+£23.2m
NAV per share [2]	-1.8p/share	142.2p/share	+1.7p/share

1. Analysis based on the 20 largest investments, extrapolated for the whole portfolio

2. NAV per share based on 1,388m Ordinary Shares as at 31 March 2016

Lifecycle Expenditure Sensitivity

Lifecycle (also called asset renewal or major maintenance) concerns the replacement of material parts of the asset to maintain it over the concession life. It involves larger items that are not covered by routine maintenance and for a building will include items like the replacement of boilers, chillers, carpets and doors when they reach the end of their useful economic lives.

The lifecycle obligation, together with the budget and the risk, is usually either taken by the project company (and hence the investor) or is subcontracted and taken by the FM contractor. Of the 20 largest investments, 12 have lifecycle as a project company risk (i.e. not subcontracted to the supply-chain). This is broadly typical of the portfolio as a whole.

The impact of a 10% change to the projected budget for lifecycle, where the risk is taken by the project company, on the Directors' valuation and the NAV per share is shown below:

Lifecycle expenditure	-10% p.a. change [1]	Base	+10% p.a. change [1]
Directors' valuation	+£48.7m	£2,030.3m	-£52.8m
NAV per share [2]	+3.5p/share	142.2p/share	-3.8p/share

1. Analysis based on the 12 investments within the 20 largest investments where the project company retains the lifecycle obligation, extrapolated for the whole portfolio (assuming that the sensitivity analysis on those 12 of the top 20 is representative of the entire portfolio).

2. NAV per share based on 1,388m Ordinary Shares as at 31 March 2016

Corporation Tax Rate Sensitivity

The profits of each UK project company are subject to UK corporation tax. The UK corporation tax assumption for the portfolio valuation is 20% until March 2017, 19% to March 2020 and 18% thereafter, which is a reduction from the flat rate of 20% assumed at March 2015, to reflect the legal enactment of the prospective changes to the rate of UK corporation tax. These rate changes, partially offset by more conservative assumptions in light of potential changes to tax rules, have resulted in a slight increase to the portfolio valuation, which is netted off within the £18.7m aggregate reduction in portfolio value attributable to changes in Economic Assumptions.

The tax sensitivity looks at the effect on the Directors' valuation and the NAV per share of changing the tax rates by +/- 5% each year and is provided to show that tax can be a material variable in the valuation of investments. The analysis to prepare this sensitivity was carried out on the 20 largest investments as at 31 March 2016.

Tax rate	-5% p.a. change [1]	Base	+5% p.a. change [1]
Directors' valuation	+£67.4m	£2,030.3m	-£66.9m
NAV per share [2]	+4.9p/share	142.2p/share	-4.8p/share

1. Analysis based on the 20 largest investments, extrapolated for the whole portfolio

2. NAV per share based on 1,388m Ordinary Shares as at 31 March 2016

2.6 INVESTMENT PORTFOLIO

An aspect of the Company's investment criteria is to provide investors with a diversified portfolio, containing a number of similarly sized investments and no dominance of any single investment, to mitigate risk. At 31 March 2016, the largest investment (the Southmead Hospital project) accounted for 6% (2015: the Pinderfields and Pontefract Hospitals project, 6%) of the portfolio by value. The table below shows the key features of the Group's 10 largest investments:

Name	Location	Sector	Status as at 31 Mar 2016	Holding as at 31 Mar 2016	Value as a % of Portfolio as at 31 Mar 2016	Value as a % of Portfolio as at 31 Mar 2015
Southmead Hospital	England	Healthcare	Operational	62.5%	6%	n/a
Home Office	England	Accommodation	Operational	100.0%	5%	6%
Pinderfields & Pontefract Hospitals	England	Healthcare	Operational	100.0%	5%	6%
Dutch High Speed Rail Link	Netherlands	Transport	Operational	43.0%	4%	4%
Queen Alexandra Hospital	England	Healthcare	Operational	100.0%	4%	4%
A63 Motorway	France	Transport	Operational	13.8% (conditional)	3%	n/a
Aquasure Desalination Plant	Australia	Accommodation	Operational	9.7%	3%	4%
Allenby & Connaught MoD Accommodation	England	Accommodation	Operational	12.5%	3%	4%
Connect	England	Transport	Operational	33.5%	3%	4%
Birmingham Hospitals	England	Healthcare	Operational	30.0%	2%	3%

The Directors view diversification in many dimensions, including by asset, sector, location (geography), client and supply chain (construction, facilities management and project company manager) counterparties. The pie charts on page 34 show the make-up of the portfolio across these diversification metrics, as well as other key project characteristics, including revenue type, stage of construction/operation, concession length remaining and ownership percentage. Where appropriate inner and outer rings have been used to provide investors with an overview of how the key portfolio attributes have evolved since 31 March 2015.

The Group's Investment Portfolio

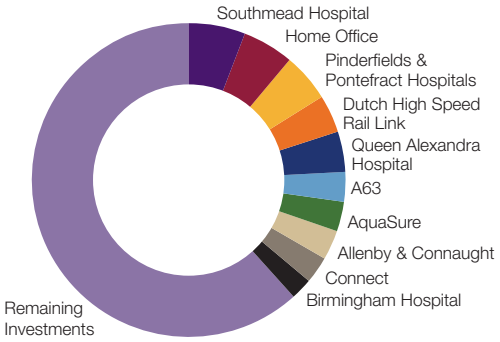
as at 31 March 2016

Education	Barking & Dagenham Schools	Ecole Centrale Supelec	Manchester School	Salford & Wigan BSF Phase 2
	Boldon School	Edinburgh Schools	Newham BSF Schools	Sheffield Schools
	Bradford Schools 1	Falkirk Schools NPD	Newport Schools	Sheffield BSF Schools
	Bradford Schools 2	Fife Schools	North Tyneside Schools	South Ayrshire Schools
	Conwy Schools	Fife Schools 2	Norwich Schools	University of Bourgogne
	Cork School of Music	Haverstock School	Oldham Schools	West Lothian Schools
	Croydon School	Health & Safety Labs	Perth & Kinross Schools	Wooldale Centre for Learning
	Darlington Schools	Helicopter Training Facility	PSBP NE Batch	
	Defence Sixth Form College	Highland Schools PPP	Renfrewshire Schools	
	Derby Schools	Irish Grouped Schools	Rhondda Schools	
	Ealing Schools	Kent Schools	Salford & Wigan BSF Phase 1	
Health	Barnet Hospital	Central Middlesex Hospital	Oxford Churchill Oncology	Southmead Hospital
	Birmingham Hospitals	Doncaster Mental Health Hospital	Oxford John Radcliffe Hospital	South West Hospital Enniskillen
	Birmingham & Solihull LIFT	Ealing Care Homes	Pinderfields & Pontefract Hospitals	Staffordshire LIFT
	Bishop Auckland Hospital	Glasgow Hospital	Queen Alexandra Hospital	Stoke Mandeville Hospital
	Blackburn Hospital	Lewisham Hospital	Redbridge & Waltham Forest LIFT	Tameside General Hospital
	Blackpool Primary Care Facility	Medway LIFT	Romford Hospital	West Middlesex Hospital
	Brentwood Community Hospital	Newton Abbot Hospital	Salford Hospital	Willesden Hospital
	Brighton Hospital	Nuffield Hospital	Sheffield Hospital	
Fire, Law & Order	Addiewell Prison	Gloucester Fire & Rescue	Northern European Project (details subject to NDA)	Tyne & Wear Fire Stations
	Dorset Fire & Rescue	Greater Manchester Police Stations	Royal Canadian Mounted Police HQ	Zaanstad Prison
	D & C Firearms Training Centre	Medway Police	South East London Police Stations	
	Exeter Crown and County Court	Metropolitan Police Training Centre	Sussex Custodial Centre	
Transport	A249 Road	Connect PFI	M80 Motorway DBFO	RD901
	A63 Motorway	Dutch High Speed Rail Link	N17/N18 Road	
	A92 Road	Kicking Horse Canyon P3	NW Anthony Henday P3	
Accommodation	Allenby & Connaught MoD Accommodation	Home Office	Northwood MoD HQ	University of Sheffield Accommodation
	Aquasure Desalination Plant	Miles Platting Social Housing	Oldham Library	
	Health & Safety Headquarters	Newcastle Libraries	Royal School of Military Engineering	

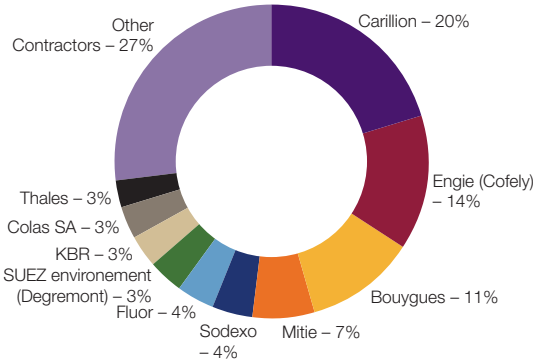
KEY:

Portfolio as at 31 March 2015	Partial disposal since 31 March 2015	Incremental stake acquired since 31 March 2015	Sold (entire interest) since 31 March 2015	New investment since 31 March 2015

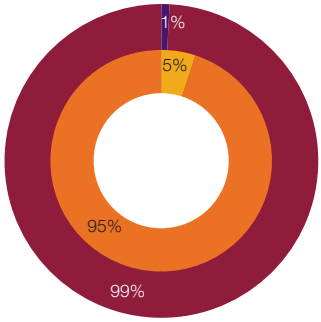
Ten Largest Investments



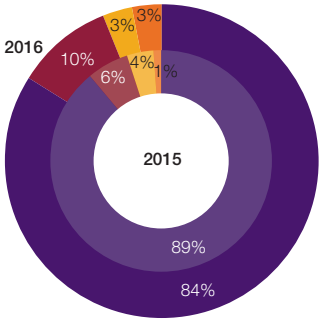
FM Counterparty



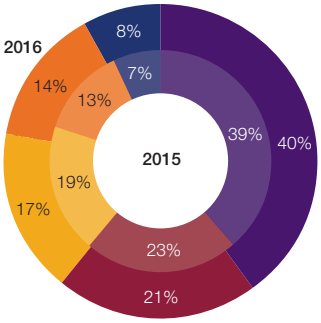
Investment Status



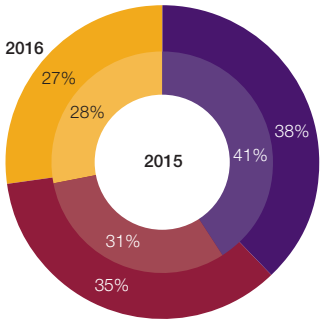
Geographic Location



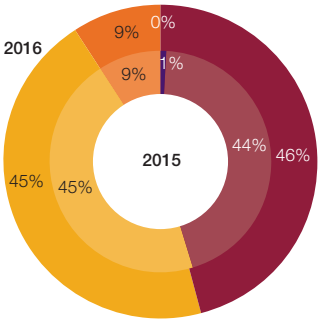
Sector



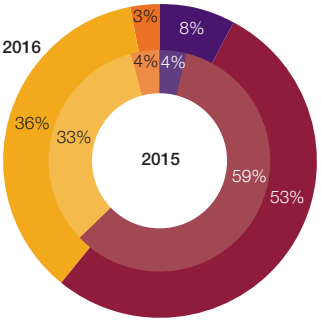
Ownership Stake



Debt Tenor



Concession Length Remaining



Figures in charts may not sum to 100% due to rounding

2.7 MARKET TRENDS AND OUTLOOK

Infrastructure Market Developments

United Kingdom

The UK has a long history of seeking the participation of private capital in public sector procurement and, as a consequence, has the largest number of PPP projects underway of any global economy. A considerable majority of these projects were procured during the period 1995 – 2008, meaning that the market has matured and most projects are in their operational phases. Equity used to finance construction risk has largely been recycled to long-term, buy-and-hold secondary market investors, including the Company. As a result secondary market deal flow has slowed markedly in recent years – a trend that continued during the year.

In parallel to the maturing secondary market, procurement in the UK of new social and transportation infrastructure projects that require private investment (which are attractive opportunities for the Group) remains subdued with limited near-term potential. There are exceptions to the general picture but it was notable that the "National Infrastructure Delivery Plan 2016 – 2021", published by the Infrastructure & Projects Authority ('I&PA') in March 2016, made limited reference to PF2 as a procurement option for new investment. Although there was an indication that the Government is considering suitable PF2 projects, the "National Infrastructure Pipeline Spring 2016" published contemporaneously by the I&PA, contained no indication of timing or quantum beyond a small number of waste management PPPs.

The focus of the current Government, as reflected by the I&PA pipeline, is towards the energy sector and regulated utilities. As set out in the Acquisition Strategy (Section 2.2 – Strategy and Investment Policy), the Investment Adviser sees potential opportunities for the Company in this market trend, for example in relation to energy infrastructure (e.g. transmission) and is following developments closely. Alongside this there have been examples of secondary market activity in operational regulated assets, including UK water companies and OFTOs.

Historically the public sector in the UK has procured very few toll roads. As a consequence, in the demand risk market segment, activity is focused around a small number of PPPs with an element of usage risk in their revenues (of which there are comparatively few) and university-sponsored student accommodation projects, where there has been some evidence of a pick-up in procurement activity over the last year.

Europe

European markets contributed to the recovery of global PPP investment immediately following the financial crisis. Projects procured during the period since 2010 are now moving into their operational phases and, correspondingly, the Investment Adviser is witnessing an increase in secondary market deal flow across several countries. Examples include Ireland, the Netherlands, France, Portugal and Spain. As a result, market activity in Europe picked up during the year across a broad front.

Primary procurement is currently restricted to Germany (roads) and the Netherlands (roads and social infrastructure) with some activity in France (e.g. in the university sector) and the prospect of a limited pipeline in Ireland (social infrastructure) and Norway (roads). Taken as a whole activity is at a reasonable level but it is notable that none of the individual markets is producing strong deal flow (measured by diversity and number of procurements). As a result the European market is fragmented which presents a challenge for origination work and also contributes to a tendency for local markets to be overheated.

During the year Europe witnessed significant secondary deal flow in infrastructure market segments outside PPP, notably in demand risk projects (including toll roads) and in certain operational regulated assets (principally utility companies and some specific gas transmission assets).

North America

The Canadian market has been one of the strongest sources of PPP deal flow in the period since 2008, with procurement activity undertaken by several provinces and the Federal government. The maturity of the market is evidenced by the steady flow of secondary opportunities, including portfolios of assets, across sectors and from a wide variety of sponsors. Projects are typically structured on the basis of standardised contracts (published by government agencies) that take an approach to key commercial terms that is materially similar to the UK.

Primary procurement continued to perform strongly during the year although the focus has shifted from social infrastructure to large transportation projects. The election of the Liberal Party, with a manifesto that explicitly supported investment in infrastructure, augurs well for continued opportunities for private investment.

The PPP market in the USA is uniquely complex. Projects can be sponsored by a wide range of states and municipalities – and even quasi-government agencies, which are often constituted independently of governmental bodies. However, despite the country's size and wide range of potential public sector clients, the market has perennially under-performed. There are a variety of reasons for this such as political expediency and competition from alternative sources of finance available in the municipal bond market. The net result is that the procurement model, although now widely adopted in legislation at state level, has to date struggled to gain sustained momentum.

There are some notable exceptions to this general statement, where several projects have been procured over a number of years by state agencies with strong mandates for infrastructure delivery, examples being Florida (availability-based roads), Texas (toll roads) and Virginia (toll roads). Other states have also seen projects procured, although a track record of investment over an extended timeframe is yet to emerge: California (transportation and social infrastructure); Colorado (road and rail); Maryland (rail); Indiana, Ohio and Pennsylvania (availability-based roads).

In summary the overall size of the market for PPP investment in the USA, as measured by deals completed, is limited. The Investment Adviser expects to see some secondary market deal flow over the medium term and a gradual pick-up in primary activity is hoped for as success stories from early projects filter through to procurement agencies around the country.

Aside from the PPP market, during the year there was some significant secondary market activity in the toll road sector in the USA; and in energy networks in both Canada and the USA.

Australia & New Zealand

Infrastructure Australia published the "Australian Infrastructure Plan" in February 2016. The plan affirmed the Australian Government's commitment to use private investment, both to realise the value of existing publicly-owned infrastructure assets and to finance new projects. Sectors highlighted for new investment include water infrastructure and various transportation needs (road and rail). Electricity infrastructure, including networks, was identified as a prime candidate for privatisation. It should be noted that while the Australian economy is well developed and political risk is low, the Investment Adviser is conscious that long-term foreign exchange and inflation rate risks relative to Sterling are less predictable.

As with the Canadian market, Australia has provided a significant flow of PPP projects for a number of years and activity has been relatively strong in the period since 2008 across health, education, road and rail sectors. As a result the secondary market also provides a consistent source of deal flow. In New Zealand, the Investment Adviser continues to see a small, but steady, flow of new projects across social and transportation sectors. This is expected to continue and will translate into limited secondary market deal flow in the short-to-medium term.

Competition

As noted in previous years, with ever more widespread understanding of the attributes of infrastructure investment, greater numbers of investors have been seeking assets across a broad range of market segments. Market participants include managers of listed and unlisted infrastructure funds together with institutional investors making direct investments.

During the year the secondary market for operational infrastructure projects remained highly competitive. The Group participated in 11 auction processes and was outbid on all but one, losing either through the bidding process or, on a small number of occasions, through pre-emption by another shareholder. Generally this has been because the winning bidder has bid a higher price based on a more optimistic view of various cost and economic assumptions, an approach that the Group is not prepared to take. Members of the Investment Adviser's team discussed this subject in more detail at a Capital Markets Seminar on 4 February 2016 and the materials from this event are available on the Company's website.

It is worth noting that the remaining nine investments that were made during the year were secured via the Investment Adviser's relationships and direct negotiations with vendors, i.e. in situations with limited or no competition. Six of these were incremental investments in existing projects. These transactions can proceed quickly, as only limited due diligence is necessary given the Investment Adviser's knowledge of the projects.

While the Company has observed the competitive trend in the secondary market for a number of years, it is also evident in primary procurements run by the public sector. In most key PPP markets, domestic and international construction companies and investors compete at every stage of the procurement process: forming consortia, pre-qualification and at shortlist. It is not unusual on some transactions (for example in North America) for five or more highly experienced teams to respond to qualification requests – with only three invited to submit proposals. The challenge therefore for all participants in the primary market is to be consistently successful. In line with the Acquisition Strategy, the Investment Adviser continues to seek opportunities to participate in primary infrastructure procurement where a particular team has a clear competitive advantage or where competition is less intense.

Asset Pricing

As expected in the competitive environment noted above, asset prices have continued to rise during the year in most geographies and market segments in which the Group is active. There is a positive impact for shareholders through the reduction in discount rates used to value the portfolio but, conversely, the task of finding new opportunities that are value accretive is more challenging. Maintaining a disciplined approach to acquisition pricing is vital, and this is reviewed by the Board on a regular basis.

The Investment Adviser is particularly mindful of relative value (between geographies) and the potential implications of foreign exchange volatility for shareholder returns. In relation to the former, there are some secondary markets (for example Australia and Canada) where the challenge of finding accretive new investments is compounded by taxation policies that put overseas investors at a marginal disadvantage. In the case of foreign exchange risk, assets priced in currencies other than Sterling are structured to take into account a variety of macro-economic indicators on a comparative basis to reference UK valuation metrics. Opportunities are only considered where they meet the Company's investment criteria and objectives, on a risk-adjusted basis.

In the current asset pricing environment, the Directors will also consider opportunistic disposals – especially where the Investment Adviser believes the proceeds of any sale can be re-invested in new investments that will be value accretive to the portfolio.

Outlook and Pipeline

Even in the current competitive environment, the Company remains cautiously confident of sourcing new investments with similar risk-reward dynamics to the existing portfolio. This confidence stems from the Company's clear strategy for evaluating and securing value in its chosen market segments, together with the dedicated team, knowledge and depth of relationships held by the Investment Adviser.

The Investment Adviser is progressing activity across key elements of the Acquisition Strategy. In particular, InfraRed's focus on building and retaining long-term relationships helps to create opportunities, sometimes through opening direct negotiations with potential vendors. Together with buying incremental stakes in existing projects, the Company has been able to make value-accretive acquisitions without compromising on returns or by making unrealistic assumptions on future forecast cash flows.

The UK remains the natural destination for shareholders' capital and the Investment Adviser looks to this market as the preferred source of opportunities within all market segments covered by the Acquisition Strategy. During the coming year the Investment Adviser expects to evaluate opportunities in the following UK market segments:

- Secondary PPPs: investment in operational projects
- Demand risk: currently actively exploring initiatives in the student accommodation sector
- Regulated assets: optimistic of progressing opportunities in the OFTOs subsector

At the same time, the Board and the Investment Adviser are aware that the objectives of the Company (set out in Section 2.1 – Approach and Objectives) are unlikely to be met through investment in the UK alone, in particular the aim of providing shareholders with stable income beyond the current portfolio's weighted average concession length. Further investment activity is therefore expected in overseas markets, reflecting the diversification of secondary market deal flow that is described above and was also discussed at the Company's Capital Markets Seminar on 4 February 2016. The Investment Adviser expects to evaluate opportunities in the following:

- Primary/Secondary PPPs: projects in selected European countries and, more opportunistically, in Australia and New Zealand, and in North America
- Demand risk: toll roads in North America and selected European countries; student accommodation in Australia
- Regulated assets: operational transmission projects in selected European markets and North America

InfraRed has been present in New York and Sydney since 2008 and 2009 respectively and has steadily acquired origination expertise and asset management capabilities for projects in these regions. The Group continues to benefit from this experience. Investment activity is only undertaken in geographies and market segments that have been approved by the Board.

As already noted, markets outside the UK are not uniformly attractive. Because of issues around taxation, the Investment Adviser is of the view that deployment of shareholder capital in the Australian and Canadian secondary markets is particularly challenging. The Group will retain an opportunistic approach to acquisitions in both countries but the Investment Adviser sees greater potential in primary markets (including certain demand risk projects), where the impact of tax on pricing is less pronounced.

The Investment Adviser continues to seek appropriate investment opportunities in projects prior to their construction phase (or through participation in bid processes). As already noted, primary markets are competitive so the focus is on securing relationships that can provide privileged access to deal flow – potential options for this include the acquisition of investments from a pipeline being developed by the Investment Adviser and/or by third parties.

Although there is no exclusive right-of-first-refusal in respect of investments being sold by other infrastructure funds managed by the Investment Adviser, the Company may benefit from these opportunities. The Board continues to ensure shareholders' interests are protected in such scenarios, through the establishment of a buy-side engagement committee upon which the Board is represented, and the commissioning of an independent third-party valuation.

Any new investments, irrespective of location or market segment, must be value accretive and: i) fit the Company's Investment Policy; ii) offer appropriate risk-reward for shareholders; and iii) contribute to building a portfolio that is positioned at the lower end of the risk spectrum. The Board and the Investment Adviser will remain vigilant in applying these principles in the coming year.

2.8 RISKS AND RISK MANAGEMENT

Overview

The Company has put a risk management framework in place covering all aspects of the Group's business, including the formation of a Risk Committee.

The Risk Committee, which reports its findings to the Board, is tasked with the identification, assessment and management of risk for the Group.

The Risk Committee reviews the key risks affecting the Company at each regular quarterly meeting, by reference to a risk analysis matrix developed and monitored in conjunction with the Investment Adviser. This review includes consideration of any new circumstances which could arise creating additional risks for the Group. For each identified risk, a mitigation strategy is, where appropriate, developed and implemented, together with appropriate monitoring by the Investment Adviser and other key service providers (as appropriate).

The Company outsources key services to the Investment Adviser and other service providers. It therefore places reliance on these service providers' own systems and controls, details of which the Board has received and reviews annually.

The Board's Management Engagement Committee reviews the performance of the Investment Adviser (as well as all key service providers) at least annually and this review includes a consideration of the Investment Adviser's internal controls and their effectiveness. The Investment Adviser's risk and compliance team has developed a detailed self-assessment internal control report, and this is reviewed and debated on a quarterly basis by the Board.

The Directors set out the principal risks relating to the Group's portfolio and to shareholdings in the Company in the Company's February 2013 Prospectus, which is available from the Company's website. The principal risks, which remain substantially unchanged, and their possible mitigants are summarised below under three key risk areas – Business & Operational Model; Market and Political; and Macro-Economic and Financial.

Business & Operational Model Risks		
Principal Risk	**Description**	**Mitigant**
Asset Performance	**Operational Issues** Poor operational performance, the failure to meet the prescribed contractual service standards, or the appearance of latent construction defects, will reduce the availability-based payments made by the public sector client to the project company. In addition to the financial cost of these reductions, there is the potential for an adverse reputational impact to the private sector consortium (including the Company) from any material operational issues.	Operational issues can be caused by a number of factors, the most likely of which is the underperformance of a service delivery partner. The Investment Adviser, through its Asset Management team, plays a pro-active oversight role, to ensure any trends in performance are picked up early and, if necessary, corrected accordingly. When problems do arise, the relevant Asset Manager will closely oversee the corrective steps and relevant stakeholder's actions in order to preserve good working relations with the client and thereby minimise any potential reputational damage. Any availability-based payment deductions for periods of unavailability or poor service delivery are typically contractually passed-down to the sub-contractor who is at fault. In a severe case, the project company can terminate a sub-contractor who fails to perform and either self-manage the services or tender for a new service provider. The cost of this action would, where possible, also be recovered from the previous supplier.

Business & Operational Model Risks *(continued)*		
Principal Risk	**Description**	**Mitigant**
Asset Performance *(continued)*	**Stringent Contractual Interpretation** In the UK PPP health sector, certain public sector clients are applying some stringent interpretation of contract terms, leading to material availability-based payment deductions for the related projects. These deductions are often disputed, requiring time and money to achieve a resolution through processes which can leave the value of the investment impaired.	The Investment Adviser does not currently believe this risk to be widespread. The Group's investment assumption remains that contracts are both fair and balanced in protecting the interests of the respective parties. Furthermore, a continuation of the policy is unlikely as it would adversely affect investors' appetite to make future commitments to infrastructure assets, thereby impacting the public sector's ability to raise private financing for necessary new projects.
	Termination The public sector client is entitled to terminate the contract voluntarily or for default (typically due to serious operational performance issues or a serious breach of contract), sometimes without compensation. Where compensation is payable, it may be lower than the market (carrying) value of the Group's equity interest of the investment	This risk is not considered to be high due, in part, to the requirement for the public sector client to fund these termination costs, which include the cost of repaying the debt secured to finance the project. In the case of performance, the Investment Adviser and Operator is actively monitoring performance and dealing pro-actively with issues before they become major concerns. Clearly voluntary termination will be driven by clients, their available capital and their operational requirements. For the large majority of the Group's investments it would be entitled to be compensated at market value if a project is terminated voluntarily, thus mitigating the potential financial impact of this risk.
Counterparty Risk	**Supply Chain** The project companies in which the Group invests sub-contract the provision of the services to specialist providers (construction and facilities management companies). The failure of a supply chain provider would negatively impact the project company's ability to fulfil its contractual obligations with the client. Availability-based payment deductions would then be made by the client as a result which would impact the Company's cash flow and therefore the valuation of the Group's portfolio.	As one of its key objectives the Company provides investors with access to a balanced, diversified portfolio of investments (in terms of clients, funders and supply-chain contractors), thereby mitigating concentration risk and the impact of the default/non-performance by any single counterparty. In addition, counterparty credit risk is considered at regular intervals by the Investment Adviser's internal credit risk team.
	Clients If a project company's client has financial difficulties and is unable to meet its obligations to pay the availability-based payment under a concession agreement, this could have a material impact on that project's cash flows.	The impact of any single client default to the overall Group is considered small, as the Group has low concentration risk associated with any individual client. In the specific case of the Group's UK health projects and their NHS Trust clients, each project company also benefits from a 'Deed of Safeguard' or similar with the UK Government, whereby the project Company is not left unpaid if an NHS Trust fails to perform its obligations under the contract (for example if the Trust became insolvent).

Business & Operational Model Risks *(continued)*		
Principal Risk	**Description**	**Mitigant**
Operational Costs	The budget, and therefore the risk, of certain key operational costs associated with a project lies with the project company. Generally these relate to the MSA contract, the lifecycle costs and the insurance premium. In certain cases, the risk sits fully with the project company, whilst in other instances it may be partially or fully sub-contracted to a service provider. There is a risk that the budget could prove to be insufficient.	As part of the due diligence process at the time of acquisition, all operating budgets are reviewed to determine if they are adequate. In the case of insurance, there is often some protection through contractual premium risk-sharing agreements with the project company's client such that, when an agreed cap is met, the client mostly, or wholly, assumes the increased premium. The Investment Adviser regularly assesses the adequacy of lifecycle budgets where the risk sits with the project companies. The portfolio's sensitivity to the largest of these risks, the lifecycle costs, is set out in Section 2.5 – Valuation of the Portfolio, under the heading 'Valuation Sensitivities'.
Asset and Portfolio Management and Transaction Execution	The Company is heavily reliant upon the Investment Adviser to implement the strategies (see Section 2.2 – Strategy and Investment Policy) and, as a result, deliver its objectives. Broadly speaking, the different functions within the investment Adviser's team – Asset Management, Portfolio Management and Origination – are responsible for each of the asset management, value enhancement and investment selection and pricing disciplines, respectively, discussed in Section 2.2 – Strategy and Investment Policy. A performance deterioration of any of these functions would have a material impact on the Company's performance.	The Investment Adviser has a track record of investing and managing infrastructure investments over a period of more than 20 years. It has developed a depth of resource and knowledge in the asset class, as well as appropriate and detailed sets of policies, procedures, compliance systems, and risk controls. Each functional area of the Investment Adviser's team benefits from a group of individuals possessing relevant qualifications, relationships and experience for their roles (e.g. members of the Asset management team will typically have a background in PPP construction or facilities management). The Board is satisfied that there is sufficient depth of expertise within the Investment Adviser's team for the Group not to be reliant on any single 'key man'. The Investment Adviser is supported by specialist advisers (e.g. lawyers, technical consultants, and tax advisers) who are retained to carry out specific due diligence on potential acquisitions to minimise transaction risk, or provide advice on ad hoc issues for projects under management.
Cyber-Attack	A cyber attack could affect the IT systems of the Group, the Investment Adviser or a project company, causing theft or loss of data, or damage to a building's control systems and equipment. This would have negative legal, operational and reputational repercussions.	The Group has no dedicated IT systems as it relies on those of its services providers. The Investment Adviser has IT systems designed to withstand a cyber-attack and these systems have been subject to successful annual tests by a specialist third party. Project companies tend not to have their own IT systems and rely on their subcontractors and management companies. Data is normally backed up and the risk, should data be corrupted or stolen, is considered low. The Group is currently assessing the risk of a cyber-attack on the building management systems within the buildings managed by the Group's project companies. Early indications are that this risk is low, but sample testing is currently underway.

Market and Political Risks		
Principal Risk	**Description**	**Mitigant**
Acquisition Pipeline	Investor appetite for infrastructure assets remains at an all-time high. As a consequence, the sourcing of new investments for the Group is increasingly difficult given the levels of competitive demand.	The Board is confident that the Investment Adviser, via its network of established relationships, is able to continue enjoying access to opportunities both in UK and abroad. In any event, a failure to make further investments would not impact the performance and returns from the existing portfolio.
Political and Regulatory	**Change in Policy** A change in policy or sentiment toward private financing is likely to affect the levels of procurement of new privately-financed infrastructure projects. This would in due course impact the availability of new transactions in the secondary market in which the Company is most active. More unlikely, but not impossible, would be a public sector client reneging on the terms of the project agreement and failing – partly or in whole – to make the contracted availability-based payments. Although the Company would mount a legal challenge if such an aggressive change in policy were attempted, the legal processes and means for redress would involve expending time and money. This would undoubtedly impact the value of the Group's investment portfolio and affect the Company's ability to meet its target distributions.	Studies show that the need for new infrastructure and the repair of existing is a huge spend requirement globally, requiring sums of money that governments will find it difficult to raise. It is therefore likely that private sector capital will continue to be used to fund infrastructure investment and that there will continue to be suitable projects from the Group to invest in. Each of the Group's projects is structured with a legally binding concession contract. Most social and transportation infrastructure concessions provide some or total protection, through their contractual structures, in relation to changes in legislation which affect either the project asset or the way the services are provided. Finally, such a development would have wide ranging, adverse implications for all private sector investors and supply chain stakeholders, and therefore acts as a natural deterrent against such an approach.
	Indirect Legal/Regulatory changes Various indirect, ancillary or wide-reaching legal and regulatory changes may adversely impact the Group and the project companies in which the Group invests. This could take the form of legislation impacting the supply chain or contractual costs or obligations to which project companies (and therefore the equity investor) are exposed. In addition, legal and regulatory changes in the jurisdictions in which the Group has an interest, are likely to have a direct impact on the Company.	The Company, the Investment Adviser and their advisers continually monitor any potential or actual changes to regulations to ensure both the Group and its service providers remain compliant. Where appropriate, the Investment Adviser will participate in consultation processes, to ensure that the legislature hears the concerns and views of the Company, in its capacity as a private sector investor.

Macro-Economic & Financial		
Principal Risk	**Description**	**Mitigant**
Inflation	Revenues received by project companies typically have partial or full inflation-linkage. Similarly, the project outflows such as the operating, lifecycle and debt-capital costs are generally inflation-linked or fixed throughout the life of the project. The consequence is that the investment returns from a project company normally have positive inflation correlation. However, if countries in which the Group holds investments were to enter an environment of falling inflation, such that RPI/CPI was below the current applicable Group assumptions on average for the remainder of the current projects' lives, or there were periods of deflation, the valuation of the portfolio would be adversely impacted, and in a period of sustained deflation, projects could suffer defaults under their loan arrangements.	Whilst inflation indices are currently low in countries in which the Group has investments, the Board and Investment Adviser believe the Group's long term assumptions for inflation remain reasonable. The Company publishes an analysis of the portfolio's sensitivity to inflation in Section 2.5 – Valuation of the Portfolio, under the heading 'Valuation Sensitivities'.
Interest Rates	**Discount Rates** A discounted cash flow methodology is used to value the Group's investments. The appropriateness of the selected discount rate for each project (and therefore the weighted average discount rate for all projects) is key to deriving a fair and reasonable valuation for the portfolio. The rate is established by reference to knowledge of transactions involving similar investments in the market and this is corroborated by considering the yield on long-dated government bonds (a proxy for the 'risk-free' rate) plus an adequate risk-premium (to reflect the additional risk associated with owning an equity interest in a 'real' asset). All else being equal, an increase in the yield on long-dated government bonds would imply an increase to the discount rate (because of its reference back to the risk-free rate, as described above). The mathematical impact of applying a higher discount rate to the future cash flows of the projects would be a reduction in the net present value of the portfolio.	The key mitigant to an increase in the appropriate discount rate (implied by an increase in interest rates) is that it is unlikely the two variables will move independently of each other. Interest rates and inflation are also correlated over the long-term, and they exhibit a positive relationship. Therefore, an increase in interest rates over the long term is likely to result in both a higher discount rate and a higher inflation rate – factors which materially offset one another in the context of a portfolio valuation exercise. Further, an interest rate increase would have a positive impact on deposits held on account, thereby mitigating the impact of a discount rate hike on the portfolio value. Section 2.5 – Valuation of the Portfolio, under the heading 'Valuation Sensitivities' provides some analysis of the impact of the portfolio's sensitivity to these variables. Finally, aside from the general correlation of the variables discussed above, in the present environment the rate on long-dated Government bonds is at historically low levels. However, the level of the discount rate applied by market participants for valuing secondary, infrastructure investments (such as those held in the portfolio) has remained remarkably robust in recent years. The implication is that the risk premium for the asset class is relatively high. It may therefore support a downward trend to its long-term mean should the long-dated Government bonds rise, without impacting the overall discount rate.

Macro-Economic & Financial *(continued)*		
Principal Risk	**Description**	**Mitigant**
Interest Rates *(continued)*	**Revolving Credit Facility** The Company benefits from the use of a revolving credit facility (RCF), so as to avoid holding materials amounts of uninvested cash in excess of that required to meet outstanding equity commitments for existing investments or to fund potential acquisitions in the near term. New equity issuances programmes are used from time to time to raise capital which can be used to pay down the facility. The Company is therefore subject to interest rate risk in respect of the RCF commitments.	To manage interest rate risk, the Group may use interest rate swaps to hedge drawings under the Group's debt facility, depending on the how long the debt is likely to be drawn. The Group renewed the RCF facility in November 2015 with an expiry date of May 2019. The current facility is provided by five lenders to minimise the Company's exposure to, and reliance upon, any single bank.
	Project Financing and Cash Deposits Each project is typically financed with amortising long term debt. A requirement of this debt funding is that sufficient cash deposits are maintained to support the repayments to the senior lenders. In addition, cash reserves are held in segregated bank accounts to meet contingent liabilities and the anticipated expenditure that falls to the project company (e.g. life cycle costs). The deposits are generally held in short term interest-bearing accounts. A fall in interest rates below the level assumed in the portfolio valuation model would reduce the anticipated cash flow to the Company and therefore its net asset value.	Adverse interest rate movements cannot be prevented or fully mitigated. The Company aims to be realistic in its interest rate assumptions, thereby ensuring that cash deposits are appropriately accounted for in the portfolio valuation exercise. Investors are provided with an illustration of the portfolio's sensitivity to interest rate movements in Section 2.5 – Valuation of the Portfolio, under the heading 'Valuation Sensitivities'. Debt financing for projects have fixed-rate or inflation-linked interest rate hedges in place on their borrowings for the full-term to minimise interest volatility.
Taxation	**Corporate Tax Rates** Recent reductions in the UK corporation tax rate has positively impacted the portfolio's valuation, however, there is no assurance that the lower rates will remain in place in the future. Subsequent Governments or a change in policy might lead to an increase in the corporate tax rate and a corresponding reduction in the portfolio's value. Equivalent risks arise in respect of the Group's overseas projects.	Changes in UK (or overseas) corporation tax rates cannot be prevented or mitigated. The Company aims to be realistic in its tax rate assumptions. Investors are provided with an illustration of the portfolio's sensitivity to changes in tax rates in Section 2.5 – Valuation of the Portfolio, under the heading 'Valuation Sensitivities'.

Macro-Economic & Financial *(continued)*		
Principal Risk	**Description**	**Mitigant**
Taxation *(continued)*	**Base Erosion and Profit Shifting ('BEPS')** The OECD has published its final reports concerning its initiative to address base erosion and profit shifting ('BEPS'), a key tax priority of governments around the globe. The reports provide countries with a wide choice of which recommendations to apply and how they might be implemented, albeit the options are complex and difficult to interpret. These changes could have a material impact on tax liabilities, in particular the deductibility of interest costs of debt used to finance projects. This action would undermine the structuring typically used for private finance investments, such as those held by the Group (and other infrastructure investors), leading to a material impact on the Group's future cash flows and therefore the portfolio's valuation.	The Board and the Investment Adviser are monitoring developments in jurisdictions who are signatories to the OECD and where the Group holds investments. Currently it is too early to assess how or if the implementation of changes from this initiative will affect the Group or its investments. However, the overriding public need (both in the UK and abroad) to utilise private financing as a procurement model for new infrastructure projects is expected to be a strong deterrent to introducing new tax standards that would have a penal impact on infrastructure investments presently held by investors.
Cross-border Tax Treatment	The tax treatment of income received by the Group may be adversely impacted from a change in cross-border tax rules, including as a result of aspects of the BEPS initiative.	Relevant tax rules are closely monitored by the Investment Adviser, the Company and their advisers for any potentially adverse changes to the Group. Ultimately, the Company could chose to move its domicile to the UK, should this be a sensible course of action in light of the rules being implemented in the UK in response to the BEPS initiative.
Foreign Exchange	As the Company owns a number of investments in jurisdictions outside the UK, where the income generated from the project is denominated in a foreign currency, the investment return is received in a currency other than Sterling.	To mitigate the foreign exchange risk, the Group has used a combination of balance sheet hedging, and hedging prospective income on a short-term basis through outright forward currency sales. Project revenues, costs and debt financing are normally denominated in the same local currency, and so typically there is no foreign exchange risk within projects.
Valuation Sensitivities and Financial Modelling	The sensitivity analysis does not show a comprehensive picture of all potential scenarios. Further, variables do not tend to move in isolation, nor in a uniform or consistent manner, and the analysis does not show the potentially infinite number of permutations, and resultant impacts, that might arise in reality as a consequence. Financial models, either for the Group or the underlying project companies, may contain errors of a numerical, formulaic or logical nature, or incorrect inputs, resulting in inaccurate outputs. These could adversely impact the assessment of the Company's financial position.	Sensitivity analysis is a tool with limitations; it seeks to illustrate to investors the impact that certain key variables have on the portfolio's valuation. It cannot provide a comprehensive assessment of all of the risks and should be treated accordingly. Financial models are managed by an experienced team who are adept at managing them in a manner that seeks to minimise the introduction of errors. A substantive deviation of a project's investment performance from its associated financial model would indicate a requirement to re-examine the model for inaccuracies and/or errors. Such instances are rare and therefore provide the Investment Adviser and the Board with comfort as to the accuracy of the model.

Viability Statement

The AIC Code of Corporate Governance requires the Directors to make a statement in the Annual Report with regard to the viability of the Company, including explaining how they have assessed the prospects of the Company, the period of time for which they have made the assessment and why they consider that period to be appropriate.

The Directors have assessed the viability of the Company over a five-year period to March 2021. In making this statement the Directors have considered the resilience of the Company, taking account of its current position, the principal risks facing the business, in severe but plausible downside scenarios, and the effectiveness of any mitigating actions.

The Directors have determined that the five-year period to March 2021 is an appropriate period over which to assess the viability of the Company for the purposes of this statement as this period accords with the Company's business planning exercises, is appropriate for the investments owned by the Group and is consistent with the long term objective of the Company.

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

The Investment Adviser prepares, and the Directors review, summary five year cash flow projections each year as part of business planning and dividend approval processes. The projections consider cash balances, key covenants and limits, dividend cover, investment policy compliance and other key financial indicators over the period. Sensitivity analysis considers the potential impact of the Group's principal risks (summarised above) actually occurring (individually, and together). These projections are based on the Investment Adviser's expectations of future asset performance, income and costs and are consistent with the methodology applied to provide the valuation of the investments.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to March 2021, on the assumption that there is sufficient liquidity in the debt market to allow the Company to refinance or repay obligations becoming due under the Group's revolving debt facility and that its investments are not materially affected by retrospective changes to government policy, laws or regulations.

2.9 CORPORATE SOCIAL RESPONSIBILITY

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

Principles of Responsible Investment

The Investment Adviser recognises that Environmental, Social and Governance ("ESG") is fundamental to sustainable, responsible business operations and to that end it has chosen to be a signatory to the Principles for Responsible Investment (the "Principles" or "PRI"), formerly known as the United Nations Principles for Responsible Investment. The PRI are widely recognised and regarded around the world and can be summarised as follows:

- To incorporate ESG checks into investment analysis and decision-making;
- To be active owners and incorporate ESG controls into ownership policies and practices;
- To seek appropriate disclosures on ESG issues by the entities in which the investments are made;
- To promote acceptance and implementation of the Principles within the investment industry; and
- To report on activities and progress towards implementing the Principles.

The Investment Adviser has incorporated the Principles within its business where relevant. As part of this, it has also been using the Group's role as a shareholder in each project to request that each project company report against the Group's approved ESG policies. ESG is discussed at each Board meeting and the Group is monitored against is ESG policies.

Environmental, Social and Governance Policies

The Group's investments are in project companies which provide services to their clients and which sub-contract the provision of these services to specialist facilities management companies. The Group is entitled to appoint at least one director to the board of each project company and these positions have all been filled by a person nominated by the Group. Board meetings are not quorate without the Group's nominated director being present and this self-imposed stipulation is reflective of the Group's active oversight of the underlying investments.

The governance structures also provide for matters which are reserved for shareholders to determine, those items which directors determine and the routine day-to-day matters that are delegated to the project's general manager and his or her team. In circumstances where it is not possible to achieve board representation on the underlying investment company with appropriate voting rights and reserved matters to properly manage the investment and achieve the projected returns, it is unlikely that the investment will be approved.

Importantly, for alignment of interests and transparency, all directors' fees paid by the projects are for the benefit of the Group, and not the Investment Adviser.

On a routine basis, the Investment Adviser undertakes a review to ensure that each key contractor (or their group) has appropriate ESG policies in place, that these are being adhered to in the delivery of the services to the project and that there have been no material breaches. To achieve this end, the Investment Adviser has developed a proprietary system, including bespoke questionnaires, for monitoring compliance which are filled in by each project company from its perspective on an annual basis. The results of the 2015-16 audit indicated that a small number of specific items require an action plan and focus, but no material issues of concern were identified.

In parallel with the questionnaires the Investment Adviser developed a set of 20 KPIs for monitoring project companies' ESG credentials which was rolled out in 2014. The results of each metric are appropriately weighted to derive a single grade for the project from a four-point scoring system. There was a 100% response rate for 2014 and, whilst the process is still ongoing for 2015, there has been a 94% rate thus far. Three-quarters of the project companies have been awarded one of the top two categorisations of 'leader' or 'performer', compared with two-thirds in the previous year.

During the year the Investment Adviser issued a new draft ESG policy and guidelines for consideration, and adoption where appropriate, by all projects. The intention of the initiative is to promote enhanced ESG performance and monitoring on project-level activities. This will be rolled-out via a workshop programme, with specific teach-in guidance relevant to the needs of the project companies. To further this aim, the Investment Adviser has also set up a steering committee to promote ESG activities at the Investment Adviser level, but with the intention of ensuring best practice is widely adopted by the projects.

As part of the detailed due diligence carried out by the Investment Adviser, a potential investment will be assessed to ensure compliance with the Group's ESG policies and that there have been no materials breaches in respect of the project. Where there have been significant failings and it is not possible to get comfortable with either a key contractor's ESG record or the project's ESG performance to date, the investment will not be made.

Health and Safety performance of each investment is monitored and each year a number of Health and Safety audits are carried out by Health and Safety consultants to ensure appropriate procedures and policies are in place and being adhered to. Information on Health and Safety is reported to the Board (via the Risk Committee) on a quarterly basis. On a typical routine reporting basis, this takes the form of an eponymous 'RIDDOR' report, which relates to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations and the duties it imposes.

The Company's ESG policies and procedures have been implemented across the whole portfolio. This includes standing agenda items such as:

- Directors' conflicts of interest, which are discussed and recorded in the company register at each project company board meeting. If any exist, these are discussed and a solution agreed;
- Health and Safety compliance;
- Cost saving and/or efficiency programme initiatives; and
- Risk controls and mitigants.

With the enactment of the UK Bribery Act 2010 and the Modern Slavery Act, the Investment Adviser has developed appropriate polices and ensures that these are adopted by all project companies in which the Group has invested.

The Board has reviewed its performance and the performance of its service providers over the last 12 months and can confirm compliance with the Company's ESG policies. On the basis of the Investment Adviser's recommendations, the Directors have considered the existing ESG policies relative to good industry practice as applicable to an infrastructure Investment Company and believe that they are current and appropriate and conform to current good practice in relation to corporate responsibility.

Specific ESG Initiatives in the Year

Each individual project is responsible for developing environmental and social projects that match with the community needs of the client, the users and wider community that benefits from the project's facilities. As a result the range and variation of initiatives across the portfolio is very wide. The activities are promoted within a project by the Group's nominated director (typically a member of the Investment Adviser's Asset Management team) and the initiatives include not only activities delivered or sponsored directly by the project company, but also by the whole supply chain linked with the relevant project, and are often carried out in conjunction with the client. For the purposes of describing specific activities below, the term 'project' or 'project company' will be used to reference this wider group. Set out below are selected activities that illustrate this range and have been supported across the Group's portfolio during the year including, where relevant, those carried over from prior years.

Social

The requirements relating to a school are different from those of a hospital and therefore the type of initiatives carried out across the portfolio can vary considerably. In a hospital project a common initiative is to provide sponsorship of awards organised by the Trust to reward excellence and dedication on the part of their staff. Measures such as these improve the performance, standards and reputation of the client, and help to reflect well on the project overall. Staff awards were sponsored by the project companies at Tameside General Hospital NHS Foundation Trust (Tameside General Hospital), Salford Royal NHS Foundation Trust (Salford Royal Hospital), Birmingham & Solihull Mental Health Foundation Trust (Birmingham New Hospitals), Mid Yorkshire NHS Trust (Pinderfields & Pontefract Hospitals) as well as East Lancashire Hospitals NHS Trust (Blackburn Hospital).

At Oxford John Radcliffe Hospital the project company continues to support a wider Trust initiative with the Princes Trust (a youth charity which organises programmes to offer engagement, confidence, life skills and personal development for those who are unemployed, struggling at school and/or at risk of exclusion) to generate work experience and training opportunities for mentees of the charity. In a similar way, at Birmingham Hospitals, support is provided to the Teenage Cancer Trust and supply chain staff are encouraged to get involved in fundraising activities throughout the year. Some of the money raised goes directly towards supporting the Teenage Cancer Trust Young Person's Unit at the Queen Elizabeth Hospital.

For a second year running, the project company at Bradford Schools provided support to a Careers Fair organised with 'Make the Grade' (a partnership between business and education to equip young people with the skills they need to prepare for their working lives) for students at the schools. The Investment Adviser is working to assist Make the Grade with funding to roll-out further relevant initiatives with other schools.

At the Miles Platting Housing project in Manchester, a "back to work" club for the residents of the project's housing is just one of many initiatives organised for the benefit of the local community. Since inception, 180 tenants have benefited from the service and 45 have found work as a result. In addition, the service provider employs five apprentices to help it perform its obligations in respect of the project.

During the last financial year, the service provider at Edinburgh Schools recruited a sixth-form leaver as a trainee facilities manager. This individual has now been in the role for approximately 18 months and he has been progressing well. He has undertaken his first year diploma in facilities management and there is scope to continue towards obtaining a degree.

At Highlands Schools, funding was provided to support extracurricular activities, including providing sound and lighting equipment for a community show, to allow pupils to take part in offsite music events, and storage for gymnastic equipment for a new local community gymnastic club.

At the University of Sheffield, the project continues to support the 'Catalyst Scholarship' initiative. The programme offers free accommodation for the year to a student who has suffered a difficult home life situation. In addition to the Catalyst Scholarship the project continues to sponsor the University of Sheffield's 'Elite Sports Performance Scheme' by providing an accommodation bursary for a student selected by the University for their 'gold level' award. To be eligible for selection, the student must be at a level where he/she represents the country in one of Sport England's recognised sports – the recipient at the end of Company's financial year is an International canoeist. Sport is particularly important to the University of Sheffield and the project supports a number of initiatives run by Sport Sheffield, the University's sports department, which enable students to engage with, and contribute to, the wider community through sport. In addition efforts are being made to broaden the benefit of these programmes to promote sports with pupils at local schools through interaction with the recipient of the bursary.

Extra-curricular activities, predominantly motivational and physical enhancement programmes, form an important part of the education for the students at the Defence Sixth Form College, who are on sponsorship programmes with one of the three Armed Services (or Defence-related Government Departments). The project company uses funds generated from the sale of the old laptops previously issued to former students to support worthy pupils who would not otherwise be able to partake in such activities, and to improve their opportunities and the environment. In the year to 31 March 2016 funds were also used to provide more bike shelters and to refurbish and improve student facilities to improve their recreational leisure time in the college.

At Oldham Library, the project company contributed funding alongside the Arts Council to a performance space.

At Northwood MOD Headquarters, the project company hosts a local food bank as part of a wider 'Business in the Community Programme' run in collaboration with the client.

Environment

At two school projects, various environmental initiatives has been launched, including the provision of support and sponsorship for an 'eco-classroom', and prize money for an environmental-themed competition.

At Southmead Hospital the project company is working in support of the client's initiative with Avon Wildlife Trust to create a "My Wild Hospital", which is designed to encourage wildlife and the use of open spaces across the Southmead hospital site.

At Stoke Mandeville Hospital plans are being developed in conjunction with the client to designate one of the wards as a "Green Ward". The project will involve the implementation of energy saving initiatives and the impact that these actually achieve in overall energy consumption will be measured through localised metering. If this pilot proves successful the plans will be rolled out across the hospital.

Energy consumption levels associated with projects are often significant and schemes to improve energy efficiency/reduce the carbon footprint and thereby reduce cost are frequently carried out. Recent examples include the installation of low energy LED lighting at Dorset Fire and Rescue and Glasgow Hospital, as well as the use of standby generators to contribute electricity to the grid supporting the National grid in times of peak demand.

Similar to the above, as part of a second phase of an energy saving initiative at West Middlesex Hospital, the project company is exploring the possibility of installing a combined heat and power plant (CHP), which is a more efficient means of generating both power and heat than the equivalent conventional boiler and electrical supply systems. At the Irish Grouped Schools, the CO2 output of the schools has been successfully lowered through the introduction of LPG, to replace fuel oil, as the heating fuel.

At Northwood MOD Headquarters, ongoing waste and recycling presentations are seeking to promote behavioural change and energy saving lamps are being installed on 'street furniture', thereby reducing not just the project's carbon footprint, but also utility bills. In addition a warm air 'curtain' has been introduced in the main Headquarters building to prevent heat loss and solar reflective film has been fitted to the medical centre windows to reduce solar gain, reducing energy wastage and cost.

The Allenby and Connaught Ministry of Defence Accommodation project has a charity support culture that focuses on military charities. It encompasses direct contributions from the project as well as direct contributions from supply chain partners. There is extensive voluntary support by the local project management team including local community activity across schools, scout groups and a bird sanctuary. As part of the estate re-development programme, micro combined heat and power units and solar thermal systems have been included in the latest phases delivering combined savings of approximately 1,300 tonnes of carbon dioxide per annum. As a result of this activity the project company was selected as the winner of the 2015 MOD Sanctuary Sustainability Project Award, and the Sustainable Business Award (for achieving zero waste to landfill).

Section 3: Board of Directors

University of Bourgogne, France

Section 3: Board of Directors

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

Mr Ian Russell (63) – Chairman of the Board and Chair of Nomination Committee

Appointed to the Board on 1 May 2013 and as Chairman from 1 March 2016.

Ian Russell CBE (British), is resident in the UK and is a qualified accountant. He worked for Scottish Power plc between 1994 and 2006, initially as Finance Director and from 2001 as its CEO. Prior to this, he spent eight years as Finance Director at HSBC Asset Management in Hong Kong and London.

Other public company directorships (listed in London unless noted otherwise)*:

Johnston Press plc
British Polythene Industries plc
The Mercantile Investment Trust plc
BlackRock Income Strategies Trust plc
(formerly British Assets Trust plc)

Mrs Sarah Evans (60) – Chair of Audit Committee

Appointed to the Board 9 June 2008.

Sarah Evans (British), resident in Guernsey, is a Chartered Accountant and a non-executive director of several other listed investment funds. She is a director of the UK Investment Companies' trade body, the AIC. She spent over six years with the Barclays Bank plc group from 1994 to 2001. During that time she was a treasury director and, from 1996 to 1998, she was Finance Director of Barclays Mercantile, where she was responsible for all aspects of financial control and operational risk management. Previously, Sarah ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 she was with Kleinwort Benson, latterly as head of group finance.

Other public company directorships (listed in London)*:

Crystal Amber Fund Limited (listed on AIM)
Harbourvest Senior Loans Europe Limited
JPMorgan Senior Secured Loan Fund Limited
NB Distressed Debt Investment Fund Limited (listed on SFS London)

Mrs Sally-Ann Farnon (56) – Chair of Risk Committee

Appointed to the Board on 1 May 2013.

Sally-Ann Farnon (known as Susie) (British), resident in Guernsey, is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified as an accountant in 1983. She is a non-executive director of a number of property and investment companies.

Susie was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001 and Head of Audit KPMG Channel Islands from 1999. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of The States of Guernsey Audit Commission and Vice-Chairman of the GFSC.

Other public company directorships (listed in London unless noted otherwise)*:

Apax Global Alpha Limited
Breedon Aggregates Limited (listed on AIM)
Ravenscroft Limited (listed on CISE)
Standard Life Investments Property and Income Trust Limited
Threadneedle UK Select Trust Limited

Mr John Hallam (67)

Appointed to the Board 12 January 2006.

John Hallam (British), resident in Guernsey, is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PWC having retired in 1999 after 27 years with the firm both in Guernsey and in other countries. He is a director of a number of other financial services companies, some of which are listed on the London Stock Exchange. He served for many years as a member of The Guernsey Financial Services Commission from which he retired in 2006, having been its Chairman for the previous three years.

Following ten years of service, John is due to retire as a Director of the Company on 30 June 2016.

Other public company directorships (listed in London unless noted otherwise)*:

BH Global Limited (listed in London, Bermuda and Dubai)
NB Distressed Debt Investment Fund Ltd (listed on SFS London)
Partners Group Global Opportunities Limited (listed in Ireland)
Real Estate Credit Investments PCC Limited

Mr Frank Nelson (64) – Senior Independent Director and Chair of Management Engagement Committee

Appointed to the Board 1 June 2014.

Frank Nelson (British), resident in the UK, is a qualified accountant. He has over 25 years of experience in the construction, housebuilding and energy sectors. He was previously Finance Director of construction and housebuilding group Galliford Try Plc from 2000 until 2012 and, prior to that, was Finance Director of Try Group plc from 1987, leading the company through its IPO in 1989 and the subsequent merger with Galliford.

Following his retirement from Galliford Try, he took the role of interim CFO of Lamprell plc, an oil services business based in the UAE, where he helped to complete a complex restructure and turnaround, before leaving in October 2013. Following his return from the Middle East, he joined McCarthy and Stone as a non-executive director and, in 2014 and early 2015, he joined the boards of Telford Homes and Eurocell. He is the Senior Independent Director for both McCarthy and Stone and Eurocell.

Other public company directorships (listed in London unless noted otherwise)*:

McCarthy and Stone
Eurocell plc
Telford Homes

Mr Graham Picken (67)

Appointed to the Board 12 January 2006.

Graham Picken (British), resident in the UK, is an experienced banker and financial practitioner. He successfully led the Company as its Chairman from its launch in 2006, until March 2016. Graham is also chairman of Hampshire Trust Bank and a non-executive director of Skipton Building Society and of Connells Ltd, the estate agency group.

Until 2003, Graham's career spanned over thirty years with Midland and HSBC Banks where, before he retired, he was General Manager of HSBC Bank plc responsible for commercial and corporate banking (including specialised and equity finance). Before that Graham was Chief Executive of Forward Trust Group, an authorised bank, and Chairman of First Direct, a division of HSBC Bank plc.

Following ten years of service, Graham is due to retire as a Director of the Company on 30 June 2016.

Graham has no other listed company directorships.

Mr Chris Russell (67) – Chair of Remuneration Committee

Appointed to the Board on 1 June 2010.

Chris Russell (British), is a Guernsey resident non-executive director of investment and financial companies in the UK, Hong Kong and Guernsey. He is Chairman of F&C Commercial Property Trust Ltd.

Chris was formerly a director of Gartmore Investment Management plc, where he was Head of Gartmore's businesses in the US and Japan. Before that he was a holding board director of the Jardine Fleming Group in Asia. He is a Fellow of the UK Society of Investment Professionals and a Fellow of the Institute of Chartered Accountants in England and Wales.

Other public company directorships (listed in London unless noted otherwise)*:

JP Morgan Japan Smaller Companies Investment Trust plc
Macau Property Opportunities Fund Limited

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

Justitie

Section 4: Statement of Directors' Responsibilities

Zaanstad Penitentiary,
The Netherlands

Section 4: 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 the reported financial year.

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 which 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 that:

- 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;
- the management report (comprising the Chairman's Statement, the Strategic Report and Report of the Directors) includes 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; and
- the annual report and consolidated financial statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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 or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board
Authorised signatory
Fidante Partners (Guernsey) Ltd
Company Secretary
17 May 2016

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

Section 5: Report of the Directors

Washwood Health & Wellbeing Centre, (Birmingham & Solihull LIFT), UK

Section 5: Report of the Directors

The Directors present their Annual Report and consolidated financial statements of the Group for the year to 31 March 2016.

Principal Activity

The Company is an Authorised Closed-Ended investment company incorporated in Guernsey. It is subject to certain ongoing obligations to the Guernsey Financial Services Commission as a result of its regulatory status as an Authorised Closed-Ended Investment Scheme. Its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange.

Results

The results for the year are summarised in Section 2.4 – Operational and Financial Review and are set out in detail in the consolidated financial statements.

Distributions and Share Capital

The Company declared four quarterly interim dividends, totalling 7.45p per share, for the year ended 31 March 2016 as follows:

Amount	Declared	Record date	Paid/to be paid
1.86p	22 July 2015	27 August 2015	30 September 2015
1.86p	12 November 2015	26 November 2015	31 December 2015
1.86p	16 February 2016	25 February 2016	31 March 2016
1.87p	12 May 2016	26 May 2016	30 June 2016

The Company has one class of share capital, ordinary shares (referred to as simply 'shares' throughout this report), of which there were 1,267,744,626 in issue as at 31 March 2015. This number increased to 1,388,426,479 as at 31 March 2016 as a result of tap issuance and scrip dividends during the year, as follows:

Date	Issue Price/ Scrip share reference price	Number of shares issued	
30 June 2015	152.66p	748,231	Scrip dividend in lieu of 1.87p interim dividend declared on 14 May 2015
31 July 2015	152.0p	60,000,000	Tap Issuance
30 September 2015	151.5p	1,287,722	Scrip dividend in lieu of 1.86p interim dividend declared on 22 July 2015
11 December 2015	150.0p	34,024,766	Tap Issuance
31 December 2015	152.34p	509,552	Scrip dividend in lieu of 1.86p interim dividend declared on 12 November 2015
24 March 2016	156.0p	23,053,565	Tap Issuance
31 March 2016	155.66p	1,058,017	Scrip dividend in lieu of 1.86p interim dividend declared on 16 February 2016
	TOTAL	**120,681,853**	

A scrip dividend alternative is available in respect of the fourth quarterly interim dividend for the year ended 31 March 2016 declared on 12 May 2016. The Board is proposing to seek shareholder approval for renewal of the scrip authority at the AGM on 19 July 2016.

As at 17 May 2016, there were 1,388,426,479 shares in issue.

Directors

The Directors who held office during the year to 31 March 2016 (and up to the date of this Annual Report), were:

Director	Date of Appointment	Years of Service
Mr I Russell	1 May 2013	2 years 11 months
Mrs S Evans	9 June 2008	7 years 10 months
Mrs S Farnon	1 May 2013	2 years 11 months
Mr J Hallam	12 January 2006	10 years 2 months
Mr F Nelson	1 June 2014	1 year 10 months
Mr G Picken	12 January 2006	10 years 2 months
Mr C Russell	1 June 2010	5 years 10 months

Biographical details of each of the Directors are shown in Section 3 – Board of Directors.

Corporate Governance

Section 6 – Corporate Governance Statement sets out in detail the code of corporate governance against which the Company reports and its compliance, or otherwise with the individual principles. It includes detail on the various committees of the Board, their composition and their terms of reference.

Investment Adviser and Operator

InfraRed Capital Partners Limited (the "Investment Adviser" or "InfraRed") acts as Investment Adviser to the Company and acts as Operator of the limited partnership which holds and manages the Group's investments. A summary of the contract between the Company, its subsidiaries and InfraRed in respect of services provided is set out in Note 17 to the consolidated financial statements.

Further details on InfraRed and the InfraRed Group are available in Section 2.3 – Business Model, Organisational Structure and Processes.

The Management Engagement Committee met in February 2016 to consider the performance of, and services provided by, InfraRed. As with previous years, this took the form of a written paper in which the Investment Adviser explained its activities in the year and summarised its performance against the agreed targets set by the Group as part of its annual budget and strategy approval process. The Committee discussed the paper with the Investment Adviser, noted the internal assurance work it performs, and received feedback from other service providers, shareholders and advisers.

The fee arrangements between the Group and InfraRed are set out in the cost analysis in the section 'Accounting' of Section 2.4 – Operational and Financial Review. The Investment Advisory Agreement can be terminated with 12 months' notice.

After careful consideration of InfraRed's performance, primarily in terms of advice, managing the portfolio, securing additional investments, and communicating effectively with all stakeholders, the Committee recommended to the Board that it would be in the best interests of the Company that IRCP continue on the same agreed contractual terms. This was approved by the Board.

Broker, Administrator and Company Secretary

The Company's sole broker during the year was Canaccord Genuity Limited and the Administrator and Company Secretary was Fidante Partners (Guernsey) Limited (formerly Dexion Capital (Guernsey) Limited).

Substantial Interests in Share Capital

As at 17 May 2016, the Company has received notification in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5 of the following interests in 5% or more of the Company's shares to which voting rights are attached (at the date of notification):

	Number of Shares Held	Percentage Held
Newton Investment Management Limited	136,317,056	9.82%
Schroder Investment Management Limited	120,381,959	8.67%
Investec Wealth and Investment Limited	73,488,215	5.29%

Donations

The Company made no political donations during the year.

Payment of suppliers

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in Section 2 – Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Section 2.4 – Operational and Financial Review of the Strategic Report. In addition, Notes 1 to 4 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 given the current economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Share repurchases

No shares have been bought back in the year. The latest authority to purchase shares for cancellation was granted to the Directors on 21 July 2015 and expires on the date of the next AGM. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming AGM on 19 July 2016.

Treasury shares

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

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

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

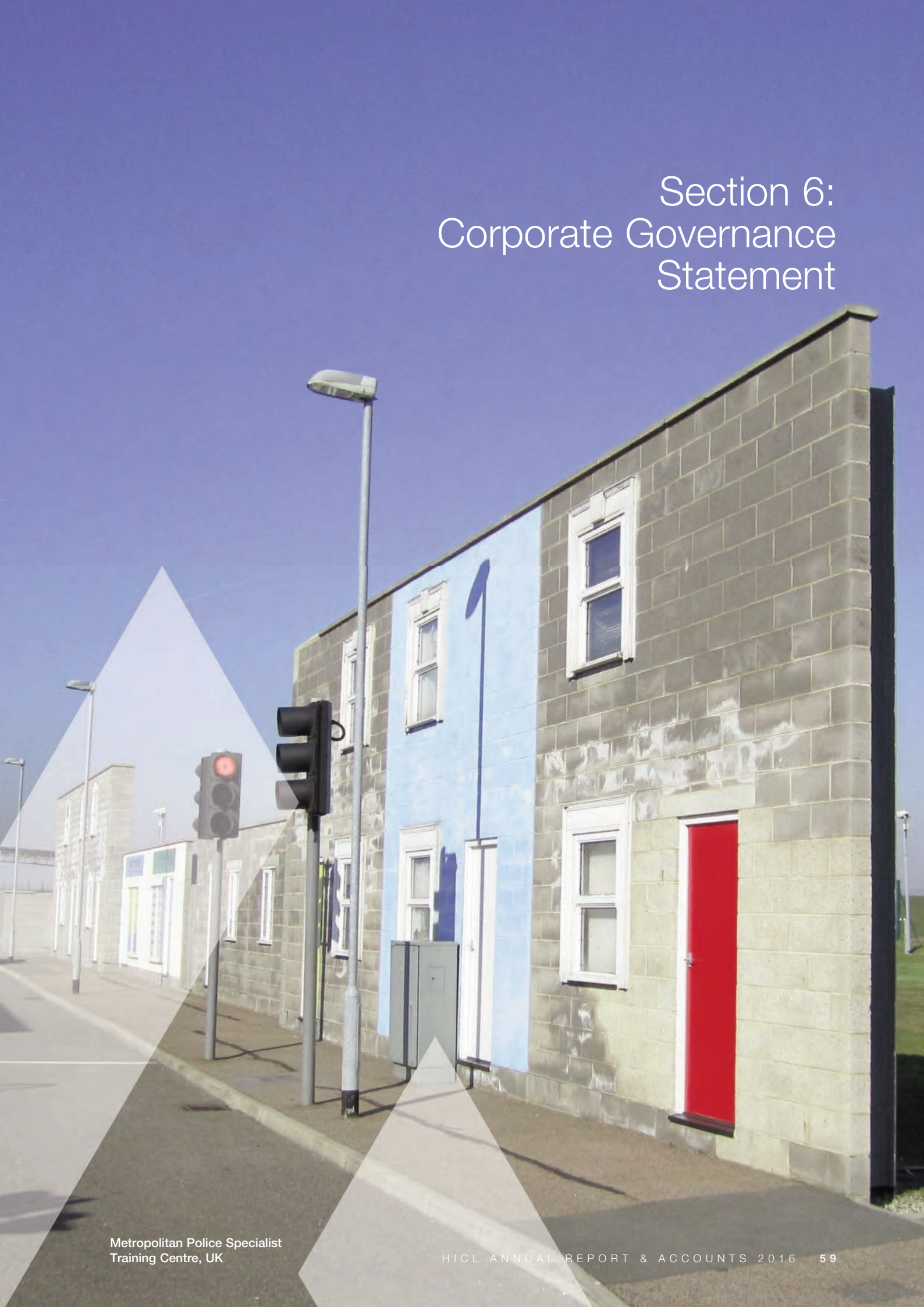
Website

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

Auditor

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

Section 6: Corporate Governance Statement



Metropolitan Police Specialist Training Centre, UK

Section 6: Corporate Governance Statement

Introduction

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

Guernsey Regulatory Environment

The Commission has issued the GFSC Finance Sector Code of Corporate Governance ("Guernsey Code"). The Guernsey 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.

The Commission recognises that the different nature, scale and complexity of specific businesses will lead to differing approaches to meeting the Guernsey Code. Companies which report against the UK Corporate Governance Code or the AIC Code of Corporate Governance (the "AIC Code") are also deemed to meet this code. The Directors have determined that the Company will continue as an Authorised Closed-Ended Investment Scheme.

AIFM Directive

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

Non-Mainstream Pooled Investments

On 1 January 2014, certain changes to the FCA rules relating to restrictions on the retail distribution of unregulated collective investment schemes and close substitutes came into effect.

As previously announced, the Board confirms that it conducts the Company's affairs such that the Company would qualify for approval as an investment trust if it were resident in the United Kingdom. It is the Board's intention that the Company will continue to conduct its affairs in such a manner and that Independent Financial Advisers should therefore be able to recommend its Ordinary Shares to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products.

The AIC Code of Corporate Governance

As a member of the AIC, the Company has been reporting against the principles and recommendations of the AIC Code and the accompanying AIC Corporate Governance Guide for Investment Companies (the "AIC Guide").

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive directors' remuneration, and the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally-managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The remainder of this Corporate Governance Statement addresses each of the 21 principles of the AIC Code in turn under the three main areas of The Board; Board Meetings and Relationship with the Manager; and Shareholder Communications.

The Board

Principle 1. The Chairman should be independent.

The Chairman as from 1 March 2016 was Mr I Russell, who met the independence criteria upon appointment and has continued to meet this condition throughout his term of service. As per the AIC's recommendations the chairman has no relationships that may create a conflict of interest with shareholders.

Although not a requirement of the AIC Code, in accordance with guidance in Principle 1, the Board has a Senior Independent Director ("SID"), Mr F Nelson, who was appointed as SID on 1 March 2016. In his role as the SID, Mr F Nelson takes the lead in the annual evaluation of the Chairman at which the Chairman's performance and continuing independence is discussed.

Principle 2. A majority of the board should be independent of the manager.
The Board consists of seven non-executive Directors, all of whom are independent of the Investment Adviser. None of the Directors sit on Boards of other entities managed by the Investment Adviser.

The independence of each of the Directors is considered during the annual self-evaluation of the Board. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to any Board discussion. Finally, the most recent tri-annual external evaluation of the Board's performance, which was conducted by an independent consultant, Trust Associates, in February 2015 (the 'Trust Associates Board Evaluation Report'), confirmed having observed strong challenges and independence on the part of the Board, but also a strong sense of collegiality and mutual trust.

Principle 3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.
The Directors are not subject to automatic re-appointment. As a general policy, all Directors retire, and, if appropriate and willing to act, subject him/herself for re-election by shareholders at each AGM.

At the AGM of 21 July 2015, all seven of the serving Directors were re-elected with at least 98% of the votes cast in every case approving the re-election.

As previously notified, Mr G Picken and Mr J Hallam intend to retire from the Board on 30 June 2016. The remaining five Directors will retire and offer themselves for re-election at the forthcoming AGM on 19 July 2016. The Board is supportive of the re-election of each of the Directors for the new financial year.

Principle 4. The board should have a policy on tenure, which is disclosed in the annual report.
As the Company was formed in 2006, two Directors, Mr G Picken and Mr J Hallam, have now served in office for more than ten years, and are therefore retiring on 30 June 2016.

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

The Board is currently seeking to recruit up to two further independent Directors and will announce further details when appointments are made.

Principle 5. There should be full disclosure of information about the board.
The biographies of the Directors, including length of service, are set out in Section 3 – Board of Directors and Section 5 – Report of the Directors, together with a list of other public company directorships for each Director. No Director has a shareholding in any company in which the Company also has an investment.

The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company that should be brought to the attention of the Directors. The Directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The Board meets at least five times a year (including for the annual strategy review referred to below). During the year, a further 12 ad hoc Board/Committee meetings were held to deal with other matters, principally of an administrative nature, and these were attended by those Directors available. Between meetings there is regular contact with the Investment Adviser, the Secretary and the Company's Broker, as necessary.

The primary focus at Board meetings is a review of investment performance and associated matters such as marketing/investor relations, risk management, gearing, general administration and compliance, peer group information and industry issues. The Acquisition Strategy and the Investment Policy, which are set out in the Section 2.2 – Strategy and Investment Policy, are also reviewed regularly with the Investment Adviser giving regard to market conditions and feedback from shareholders and, additionally, a minimum of a full day is dedicated to this review annually.

As well as regular Board meetings, the following committees also met during the course of the year (as set out in the table below): Audit, Management Engagement, Nomination, Remuneration and Risk. Terms of reference for each Committee have been approved by the Board and are on the Company's website.

The Chairman and members of each committee as at 31 March 2016 are as follows:

	Audit Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee	Risk Committee
Chairman	Mrs S Evans	Mr F Nelson	Mr I Russell	Mr C Russell	Mrs S Farnon
Members	Mrs S Farnon	Mrs S Evans	Mrs S Evans	Mrs S Evans	Mrs S Evans
	Mr F Nelson	Mrs S Farnon	Mrs S Farnon	Mrs S Farnon	Mr J Hallam
	Mr C Russell	Mr J Hallam	Mr J Hallam	Mr J Hallam	Mr F Nelson
		Mr G Picken	Mr F Nelson	Mr F Nelson	Mr G Picken
		Mr C Russell	Mr G Picken	Mr G Picken	Mr C Russell
		Mr I Russell	Mr C Russell	Mr I Russell	Mr I Russell

The attendance record of Directors for the year to 31 March 2016 is set out below:

	Formal Board Meetings	Audit Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee	Risk Committee
Number of meetings	5	4	1	3	2	4
Mr I Russell	4	3	1	3	2	3
Mr F Nelson	5	4	1	3	2	4
Mrs S Evans	5	4	1	3	2	4
Mrs S Farnon	5	4	1	3	2	4
Mr J Hallam	4	2*	1	2	1	3
Mr G Picken	5	0	1	3	2	4
Mr C Russell	5	4	1	3	2	4

** Mr J Hallam was present for the first two audit committee meetings, before Mrs S Evans replaced him as Chairman of the Audit Committee. Mr Hallam is no longer a member of the Audit Committee.*

The Board considers agenda items laid out in the notice and agenda of meeting which are formally circulated to the Board in advance of the meeting as part of the Board papers. Directors may request any agenda items to be added that they consider appropriate for Board discussion.

The respective reports of the Remuneration Committee, the Risk Committee and the Audit Committee are set out in Sections 7, 8 and 9, respectively, of this Annual Report.

The Nomination Committee and the Management Engagement Committee are discussed in Principle 9 and Principle 15, respectively.

The formal terms of reference for each of the committees of the Board are available to view in the Investor Relations section of the Company's website.

A statement of the Directors' responsibilities is set out in Section 4.

Principle 6. The board should aim to have a balance of skills, experience, length of service and knowledge of the company.
The Board believes that its composition with respect to the balance of skills, gender, experience and knowledge, coupled with the mixed length of service, provides for a sound base from which the interests of investors will be served to a high standard. During the year succession plans were implemented in anticipation of the planned retirement of the Mr G Picken and Mr J Hallam. As noted above, the Board is currently engaged in a process to recruit up to two further Directors to balance and strengthen the existing skills and knowledge.

As a general remark the Board has chosen not to adopt a definitive policy with quantitative targets for board diversity. However, gender, knowledge, skills, experience, residency and governance credentials are all considered by the Nominations Committee when recommending appointments to the Board and in formulating succession plans.

Principle 7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
The Board believes that the composition of the Board and its Committees reflects a suitable mix of skills and experience and that the Board, as a whole, and its Committees functioned effectively during the last 12 months.

During the last financial year, an external review was commissioned. The Trust Associate Board Evaluation Report remarked that the Board, as a whole, and its Committees, are functioning effectively, that discussions are well informed and give valuable challenge to the investment Adviser.

In the period between external performance evaluations (i.e. for the financial year reported) the Board conducts its own internal evaluation, considering the performance, tenure and independence of each Director. The annual self-evaluation is completed by the Chairman and takes the form of one-to-one interviews with each Director holding office in the year. The Chairman then presents a summary of the conclusions to the Board. Comments on the Chairman are collated by the Senior Independent Director who then provides feedback to the Chairman.

Principle 8. Director remuneration should reflect their duties, responsibilities and the value of their time spent.
The remuneration of the Directors and the Directors' remuneration policy are set out in the Directors' Remuneration Report in Section 7.

Principle 9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.
The Board has a Nomination Committee, the terms of reference of which are available to view in the Investor Relations section of the Company's website.

It is composed of all seven Board Directors and at 31 March 2016 it was chaired by Mr I Russell who is also the Board Chairman. All seven members are independent.

The Nomination Committee had three meetings in the year to 31 March 2016. The first recommended the start of a recruitment process to identify suitable additional independent non-executive directors in recognition of Mr G Picken and Mr J Hallam's forthcoming retirement from the Board. The second concerned the initial stages of succession planning in relation to an orderly handover of Mr G Picken's position as Chairman and Mr J Hallam's position as SID and chair of the Audit Committee, and as Directors of the Company. The third meeting, in February 2016, reviewed a list of potential candidates and commissioned Trust Associates, an independent consultant, to conduct the recruitment process. Since the year end, interviews with candidates have commenced.

Principle 10. Directors should be offered relevant training and induction.
Regular anti-bribery and anti-money laundering training is undertaken. The Investment Adviser also arranged for Directors to visit a number of the Company's investments during the year. This programme of visits is ongoing.

During these site visits with the Investment Adviser's asset management team, Directors had the opportunity to tour the asset and meet various stakeholders including the client, the users, the management team and the various facilities management subcontractors. Some visits included attending the project company board meeting to observe governance of the investment.

These visits allow Directors to gain a deeper understanding of the actual operation of the investments concerned and the role of the various parties, including the Investment Adviser's asset management team who are appointed directors to the investments' project company boards.

Principle 11. The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.
As the Company was listed in March 2006 the Board do not believe it is necessary to comment on this principle.

Board Meetings and the Relationship with the Manager

Principle 12. Boards and managers should operate in a supportive, co-operative and open environment.
The Board has delegated the following areas of responsibility, within clearly defined frameworks.

- The day-to-day administration of the Company has been delegated to Fidante Partners (Guernsey) Limited (formerly Dexion Capital (Guernsey) Limited) in its capacity as Company Secretary and Administrator.
- The Investment Adviser has two roles – Adviser to the Company and Operator of the Group's limited partnership which owns the Group's underlying investments.

The role of Adviser includes reporting on the performance of the investment portfolio, preparing the semi-annual valuations, the statutory accounts, the management accounts, business plans, presenting results and information to shareholders, co-ordinating all service providers to the Group and giving the Board general advice and feedback.

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

Representatives of the Investment Adviser, the Company Secretary and Administrator attend all Board meetings and, when requested by the respective Chairman, meetings of the Audit, Management Engagement, Nomination, Remuneration and Risk committees.

Principle 13. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.
In addition to the statutory matters discussed at each quarterly Board meeting the principal focus is on the reports provided by the Investment Adviser, as well as those put forward by the Company's Broker and Financial PR Agent. These are all standing agenda items.

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

- A review of the infrastructure market detailing key developments
- Investment activity in the period and the pipeline of potential new investment opportunities
- A review of portfolio performance in the period with material issues identified and discussed
- A review of any Health and Safety matters in the period
- A detailed financial review, including detailed management accounts, valuation, and treasury matters
- Reports from the Broker and from the Financial PR company

Matters relating to Company's risk management and internal control systems (including associated stress tests), are considered by the Risk Committee (which, in turn, reports any significant matters/findings to the Board) and are covered in Principle 16 below and are set out in more detail in Section 8 – Risk Committee Report.

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

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

Principle 14. Boards should give sufficient attention to overall strategy.
The Board considers a formal strategy report prepared by the Investment Adviser at a separate meeting at least once a year. In the year ended 31 March 2016, a two-day Board meeting was held in September, with the Investment Adviser and third parties with relevant infrastructure knowledge, which was dedicated to reviewing and determining the overall strategy of the Group; in particular the scope and relevance of the current Acquisition Strategy. The exercise involved a fundamental analysis of certain market segments to ensure they are complementary or additive to the existing portfolio. The Acquisition Strategy, has been reaffirmed subject to some small changes in emphasis which were driven by market conditions. See Section 2.2 – Strategy and Investment Policy, under the heading 'Acquisition Strategy' for details.

In addition to the strategy day, adherence to the Acquisition Strategy is discussed regularly at Board meetings. As well as considering acquisitions, the Board also considers disposals, portfolio performance, levels of gearing and likely achievable dividend growth.

Principle 15. The board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).
The Management Engagement Committee ("MEC") of the Board is responsible for reviewing all major service providers to the Group, which includes in particular the Investment Adviser. The terms of reference of this committee include a review of the relationships between the Company and its main service providers, including their performance, compliance with their contracts, and levels of fees paid. The Committee typically meets once a year and its recommendations are given to the Board for consideration and action.

The MEC met once in the year to 31 March 2016 to review the performance of the key service providers. No material weaknesses were identified, some recommendations were conveyed to certain providers and the recommendation to the Board was that the current arrangements are appropriate and provide good quality services and advice to the Company and the Group.

Principle 16. The board should agree policies with the manager covering key operational issues.
The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. To help achieve this end, the Board has a designated Risk Committee. It follows an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

The process is based on a risk-based approach to internal control through a matrix which identifies the key functions carried out by the Investment Adviser and other key service providers, the various activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise and mitigate those risks. A scoring based on 1 to 5 for likelihood and 1 to 5 for impact is used and these are multiplied together to give a total score. Mitigation is considered on a scale of 1 to 5 and this leads to the derivation of a residual risk rating. The matrix is updated quarterly and the Risk Committee is provided with regular reports highlighting all material changes to the Group's risks and their ratings and the action which has been, or is being, taken.

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

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

Further the Risk Committee receives regular reports from the Company Secretary and Administrator in respect of compliance matters and duties performed by them on behalf of the Company.

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

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

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

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

Principle 17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.
Through detailed quarterly reports the Board monitors the Company's share price, share register and discount/premium to NAV per share. Since April 2009 the share price has been trading at a premium to NAV per share due to strong and sustained demand from the investment community. As a result of this demand the Board has encouraged the Investment Adviser to source new investments which meet the Company's investment criteria. Although initially funded by borrowings under the Group's revolving debt facility, these new investments are typically refinanced within a matter of months by way of new equity issuance. The issuance of new shares is the principal tool available to the Board to manage the premium. However, as the Board is wary of the drag on returns that results from holding un-invested cash, new equity is only raised following an investment or when an investment is imminent.

Should the Company's shares trade at a discount at some point in the future, the Board's authority to purchase shares for cancellation was renewed at the AGM on 21 July 2015. The Directors are proposing that it is tabled for renewal when it otherwise expires at the forthcoming AGM on 19 July 2016.

Principle 18. The board should monitor and evaluate other service providers.
As outlined in Principle 15, the Management Engagement Committee (MEC) of the Board is responsible for reviewing all major service providers to the Group at least once a year.

The MEC meeting for the financial year occurred in February 2016, when a review of the Investment Adviser, Administrator, PR Agency, Broker, Transfer Agent, and Luxembourg Administrator was undertaken. Overall, the feedback on performance throughout the year was that service had been delivered to a very high standard and the committee resolved that the continued appointment of all providers be recommended to the Board for approval, which was duly granted.

Shareholder Communications

Principle 19. The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders.
The Company welcomes the views of shareholders and places great importance on communication with its shareholders.

Ahead of each quarterly Board meeting the Board commissions a specialist report which analyses the shareholdings, collating them into holdings by investment group to determine the largest shareholders on the register as well as by trading activity to identify the largest buyers or sellers in the previous quarter.

This analysis is discussed and, where appropriate, follow up actions are agreed. The Company's Financial PR Agency provides the Board with a quarterly report on press and media coverage of the Company and the sectors in which it invests. All reports also reference the peer group for comparison purposes.

The Board makes every effort to engage with shareholders and other stakeholders in the Company. The Company reports formally to shareholders twice a year and normally holds an AGM in Guernsey in July. The Secretary and Registrar monitor the voting of the shareholders and proxy voting is taken into consideration when votes are cast at the AGM.

The Investment Adviser produces a regular factsheet which is available on the Company's website and senior members of the Investment Adviser make themselves available at all reasonable times to meet with principal shareholders and key sector analysts to assist them with their understanding of the sector and the Company in particular. Feedback from these meetings is provided to the Board on a regular basis.

Two Quarterly Update Statements (formerly Interim Management Statements) are published each year and any material new information is published via a Regulatory News Release ("RNS") announcement.

The company held a Capital Markets Seminar in February 2016 which was well attended. The presentation from which is available from the Company's website.

During the year Mr I Russell and Mr G Picken held individual meetings with certain large institutional shareholders, facilitated by the Company's Broker. It is the Board's intention to continue to meet with shareholders periodically so that open two-way communication on the development of the Company is maintained.

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

Principle 20. The board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.

In line with its obligations under the Listing Rules, the Company publishes an RNS whenever there is a material development. All Directors review and discuss the draft before publication and a Director approves the final RNS for release by the Secretary.

All Company-related information is only published following consultation with, and approval by, the Board. As such the Directors have full knowledge and ability to draft, comment upon and approve the content of any communication.

The Board wishes to provide sufficient disclosure and reporting of the Company's performance and strategic intentions to inform shareholders of Company activities. The Board believe this is achieved by the detailed information provided as follows:

- Annual reports
- Interim statement and accounts
- Detailed presentations to accompany the results
- Two Quarterly Update Statements
- Announcements of all material acquisitions
- Meetings and lunches with shareholders, attended by the Directors and the Investment Adviser
- Case studies and investor events

The Company's website has further information on each investment and copies of all publications, together with prospectuses and circulars. The disclosure of key sensitivities and risks has been developed by the Board working with the Investment Adviser and through dialogue with shareholders, the level and type of disclosure has been expanded and refined in order to assist in a full and fair analysis of the Company and its investments.

Principle 21. The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.

The Board, in conjunction with the Investment Adviser, seeks to educate shareholders and prospective investors on the Company's business and the risks and rewards associated with investing in the Company's shares.

This is an ongoing process and the Board looks to provide as much disclosure and transparency as possible about the activities of the Company and the associated risks and rewards, albeit within the boundaries of commercial sensitivities and client confidentiality.

The Board has hosted site visits and shareholder events to provide a deeper understanding of the Company and its investment portfolio. Case studies and other materials, along with constitutional documents and committee terms of reference, are all available from the Company's website.

As a regular issuer of further share capital, the Company has published a number of prospectuses with detailed information on the investment portfolio and the potential risks. The most recent prospectus (February 2013) is available from Company's website.

Section 7: Directors' Remuneration Report

Millburn Academy (Highland Schools), UK

Section 7: Directors' Remuneration Report

I chair the Remuneration Committee, which operates within clearly defined terms of reference and comprises all the Directors including the Chairman of the Board, all of whom are independent and non-executive. It met twice in the year to 31 March 2016.

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

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

Chris Russell
Remuneration Committee Chairman

17 May 2016

Directors' Remuneration Policy Report

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

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

- No service contracts with the Company;
- No annual bonus or short-term incentives;
- No long-term incentive schemes;
- No pension 'rights';
- No options or similar performance incentives; and
- No expense 'allowance' or other taxable benefits.

In accordance with Principle 8 of the AIC Code, the Remuneration Committee is tasked with ensuring that Directors' remuneration:

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

Statement of the Chairman of the Remuneration Committee

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

The most recent external review of the Directors' remuneration was undertaken in February 2015 as part of the tri-annual review cycle. An independent professional consultant, Trust Associates, was appointed and their recommendations, which were set out in the Annual Report & Consolidated Financial Statements for the year ended 31 March 2015, and approved by shareholder resolution at the AGM on 21 July 2015, were adopted for the year ended 31 March 2016.

As part of the February 2015 report, Trust Associates remarked that generally fees should be increased by a moderate amount each year, rather than being held steady for a few years with the need to then increase them sharply to bring them back into line. A further recommendation was that the Remuneration Committee should review how the sector is developing each year, including a review of the fees paid in the sector by competitors, and make decisions on fee levels in light of then-current information.

In accordance with Trust Associates' recommendations, the Committee reviewed board remuneration across the sector during the year and this formed the basis of the following recommendations for routine business for the 2016-17 year:

- Directors' fees to be increased to £41,000 p.a.
- The Chairman of the Audit Committee's fee to increase to £49,000 p.a.
- Both the Senior Independent Director's fee and the Chairman of the Risk Committee's fee to increase to £45,000 p.a.
- The Chairman of the Board's fees to rise to increase to £67,000 p.a.

The applicable premium to the base Directors' fee for each of the latter four roles is calibrated to recognise the additional responsibility involved in performance of the task. In particular, as concerns the Chairman of the Board, the premium is in recognition not only of the considerable greater weight of responsibility but also his involvement in a number of meetings with shareholders and potential investors each year, as well as hosting events on behalf of the Company.

In addition the Committee re-affirmed that the current practice whereby the Director (or, in the case of the reported year, Directors on a pro rata basis) who also acts as director of the two Luxembourg subsidiary company boards and receives an additional £5,000 annually for such role, was appropriate and should therefore continue.

For comparative purposes the table below sets out the Directors' remuneration approved and paid for the year to 31 March 2016 as well as proposed for the year ending 31 March 2017.

Role (YE 2017)	Total fees proposed (YE 2017)	Total remuneration paid (YE 2016)	Total fees approved* (YE 2016)
Chairman	£67,000	£64,000	£64,000
Audit Committee Chair	£49,000	£44,500	£44,500
Risk Committee Chair	£45,000	£42,500	£42,500
Senior Independent Director (SID)	£45,000	£40,500	£40,500
Director (inc. Lux Cos)	£46,000	£43,500	£43,500
Director	£41,000	£38,500	£38,500
Director	£41,000	£38,500	£38,500
TOTAL	**£334,000**	**£312,000**	**£312,000**

** Approved at the AGM on 21 July 2015*

The roles of SID and Chair of Audit Committee were performed by Mr J Hallam at the start of the year ended 31 March 2016. Following the changes during the year, in anticipation of Mr J Hallam's retirement on 30 June 2016, the roles are now split and Mr F Nelson is the SID and Mrs S Evans is the Audit committee chair.

As last year the fees approved/proposed relate to the roles performed, and not to individuals per se. In light of the changes in roles resulting from succession planning in the year ended 31 March 2016, Directors accrued a blended entitlement to the fees attributable to the above roles, pro rated based on the time each Director performed in respect of each position, as set out below:

Director	Total remuneration paid (YE 2016)
Mr I Russell	£41,958
Mrs S Evans	£47,083
Mrs S Farnon	£41,167
Mr J Hallam	£42,333
Mr F Nelson	£38,667
Mr G Picken	£61,875
Mr C Russell	£38,917
TOTAL	**£312,000**

As in previous years, should the Company require Directors to work on specific corporate actions such as further equity raising (other than scrip dividend alternative or tap issues), then this is remunerated appropriately as determined by the Remuneration Committee. In the year to 31 March 2016, apart from additional fees for the Luxembourg subsidiaries work (undertaken by Mrs S Evans and Mr C Russell) as noted above, no such additional fees were paid.

The proposed recommendation for the year ended 31 March 2017 is for aggregate Directors' fees (including the LuxCo fee) to be approximately 0.0151% of the Company's market capitalisation as at 31 March 2016. The comparative figure for the year to 31 March 2016 was 0.0159% which Trust Associates confirmed was, in percentage terms, towards the low end of the range for investment companies.

The total fees paid to Directors in the year were within the annual fee cap of £450,000, which was approved by shareholders at the AGM on 21 July 2015. The Remuneration Committee considers that this cap remains adequate at present to permit the moderate adjustments that may be necessary for subsequent years and to provide contingency for any additional fees associated with non-routine business.

Statement of implementation of remuneration policy in the current financial year

The Board has approved the proposed increase to the fees as recommended by the Remuneration Committee, and is seeking shareholder approval for the Directors' Remuneration Policy at the AGM on 19 July 2016 with a view to implementing it back-dated to 1 April 2016.

Other disclosures

The Directors of the Company on 31 March 2016, and their interests in the shares of the Company, are shown in the table below.

	31 March 2016 Ordinary	31 March 2015 Ordinary
Mr I Russell	41,209	39,265
Mrs S Evans*	251,496	251,496
Mrs S Farnon	20,959	19,743
Mr J Hallam	125,004	119,099
Mr F Nelson	25,000	25,000
Mr G Picken**	262,482	250,086
Mr C Russell***	93,895	93,895

* *of which 181,665 were held by her spouse*
** *of which 122,817 were held by his spouse*
*** *of which 10,000 were held by his family*

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

At the last AGM held on 21 July 2015, the resolutions relating to the Directors' remuneration for the year ended 31 March 2016 and the Directors' Aggregate Annual Remuneration Cap were approved.

Performance graph

In setting the Directors' remuneration, consideration is given to the size and performance of the Company. The graph below highlights the comparative total shareholder return (share price and dividends) ("TSR") for an investment in the Company for the 10 year period from inception at the end of March 2006 until 31 March 2016 compared with an investment in the FTSE All Share Index over the same period. During that period the TSR for the Company was 10.7% p.a. compared with the FTSE All Share Index which was 4.7% p.a.

Source: Thomson Reuters.

By order of the Remuneration Committee
Authorised signatory
Fidante Partners (Guernsey) Ltd
Company Secretary
17 May 2016

Registered Office:

1 Le Truchot
St Peter Port
Guernsey
Channel Islands GY1 1WD

Section 8: Risk Committee Report

Exeter Crown & County Court, UK

Section 8: Risk Committee Report

I have chaired the Risk Committee which has been in operation throughout the year, since 1 August 2015, when I took over the chairmanship from Ian Russell. It operates within clearly defined terms of reference (which are available to view in the Investor Relations section of the Company's website). It comprises all the Directors and it met four times in the year to 31 March 2016, coinciding with the quarterly Board meetings.

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

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

Susie Farnon
Risk Committee Chairman

17 May 2016

Main Duties and General Approach

The main duties of the Risk Committee are:

- ensuring that the Company implements an effective risk governance structure and control framework which envelops key risk areas with appropriate reporting;
- considering on an annual basis and recommending for approval by the Board the Group's risk appetite, taking account of the current and prospective macroeconomic and financial environment;
- reviewing, challenging and approving, at least on an annual basis, risk limits and tolerances, inter alia by asset type, by geography (sovereign risk), by counterparty exposure, for interest rate exposure, for currency exposure, and for borrowing at the Group level;
- confirming ongoing regulatory compliance where appropriate, e.g. FATCA;
- overseeing the Group risk profile, challenging the assessment and measurement of key risks whilst monitoring the actions taken to manage them;
- reviewing and recommending scenario assumptions for inclusion in business planning (Corporate Plan) and receive the results of stress and scenario analysis to determine whether proposed mitigation is sufficient to manage the business risk profile within the Board's appetite;
- making recommendations to the Board having taken advice from the Investment Adviser, on material changes to investment and strategy, treasury policy and operational risk policy.

Statement of the Chairman of the Risk Committee

The Company has put a risk management framework in place covering all aspects of the Group's business. As the Company is an Investment Company it outsources key services to the Investment Adviser and other service providers. It therefore places reliance on these service providers' own systems and controls, details of which the Board has received and reviews annually.

The risk management framework utilises 'three lines of defence', being cascading approaches by which the interests of the Company and its shareholders are effectively safeguarded and protected. The first line is the development of systems – essentially the day-to-day management of risk through effective controls as documented in, e.g., the Company's and the Investment Adviser's Policies and Controls Manuals. The second line is that of oversight, namely the challenge mechanism that is provided by the Risk Committee which reviews, challenges and monitors to ensure that policies are up-to-date and delegated authorities are respected/complied with, and responds to new strategic priorities and emerging or changing risks. The third and final defence is third party assurance which is utilised on an as-needed basis to provide an independent challenge to the risk management framework of the Company, an audit of key controls and guidance as to best practice, with the results reported to the Audit Committee.

Under direction from the Board the identification, assessment and management of risk are integral elements of the Investment Adviser's and the Operator's work in both the management of the existing portfolio and in seeking new investment opportunities. This is the so-called first line of defence, described above.

The Risk Committee reviews the key risks affecting the Company at each quarterly meeting, by reference to a risk analysis matrix developed and monitored in conjunction with the Investment Adviser. This review, which forms part of the second line of defence, includes consideration of any new circumstances which could arise creating additional risks for the Group. For each identified risk, a mitigation strategy is, where appropriate, developed and implemented, together with appropriate monitoring by the Investment Adviser and other key service providers (as appropriate).

Significant Activities in the Year

The Company has a risk policy principle to ensure that all significant risks are identified, assessed, and their likelihood and impact effectively mitigated within acceptable levels. Part of the Company's risk management processes includes a risk appetite statement, which is a standing agenda item at each meeting. The statement is designed to articulate the risks that the Company is prepared to accept to generate the targeted returns for shareholders, as set in the Company's Objectives – see Section 2.1 – Approach and Objectives. Further, it is designed to reflect the Company's investment mandate, as per the Acquisition Strategy and Investment Policy (see Section 2.2 – Strategy and Investment Policy, under the heading 'New Investment' for details), the current economic and business environment in which the Group operates, the Company's strategic objectives (see Section 2.2 – Strategy and Investment Policy) and business plans; and investors' expectations.

The Committee considered and noted compliance with the 'Approved Delegation Parameters' (ADPs), which are a component of the Company's risk management processes. The ADPs, which

necessarily operate within the limits of the Investment Policy, are designated thresholds pre-agreed with the Risk Committee (and approved by the Board which retains ultimate responsibility for Risk Management) from time to time, in view of the Company's risk appetite, within which the Investment Adviser may make specific, unilateral investment and asset management decisions. They provide the Board with comfort on the delegation of the investment management functions as they are designed to optimise risk and return by empowering the Investment Adviser for the more conventional investment operations of the Group, whilst reserving Board approval for other matters exceeding the ADP limits.

An ongoing programme of various potential stress scenarios for the Company, and the related analyses, was presented to the Committee during the year by the Investment Adviser. This programme was also refreshed and enhanced. As stated by the risk appetite statement, the principal aim is to ensure that, in the relevant stress scenario, the Company retains the ability to generate sufficient cash flow to cover targeted dividends and grow the NAV per share.

In particular, during the year, the Committee received analysis and considered the hypothetical implications of:

- the voluntary termination of one of the Group's projects;
- a change to Gilt rates;
- increased project costs arising for higher lifecycle expenditure, insurance premiums or management costs;
- the insolvency of any one of the facilities management contractors;
- the insolvency of a construction contractor (relevant for those investments under construction);
- the impact of a bank, which holds funds on deposit for a number of project companies, becoming insolvent;
- the impact of increased 'frictional cost' should a number of projects have to deal with whole unavailability triggered by events like fire-stopping that the industry has seen in the UK during the year;
- the impact of adverse foreign exchange movements; and
- the Group's current tax environment, including the recommendations from the OECD's base erosion and profit shifting project ('BEPS'), and how jurisdictions in which the Group has an interest will now implement these recommendations.

The Committee, recognising the impact the BEPS project could have on the Group's future cash flows, agreed that the Investment Adviser should engage, on behalf of the Company, in the consultation exercise undertaken by the OECD and the UK Government and update the Committee on the progress of implementing the BEPS initiatives.

At each meeting, the Investment Adviser provided the Committee with a project and risk review. The content included, inter alia, an analysis of counterparty exposure and portfolio concentration, a summary of pertinent fund matters and the Company's financial risk management policies and status, together with commentary on specific project issues warranting discussion with the Board.

During the year the Investment Adviser provided the Committee with progress updates on how it was assessing the control environments maintained by project companies and helping those companies to develop their controls where it was considered necessary. This was initiated to ensure a minimum appropriate standard level of controls across the Group's portfolio of investments. This work stream is now substantially complete and the Committee has received a final report. In accordance with Company's third line of defence, the Committee may consider engaging a third party to carry out some assurance work to test this control environment further in due course.

The Committee also discussed the risk of cyber-attacks at its meetings. Comfort was taken that the Company's key service providers had appropriate IT systems and policies in place. It was noted that the Investment Adviser had confirmed that its IT systems, particularly its firewalls, had been subject to annual penetration testing by a specialist third party.

The focus of the cyber-threat analysis covered the project companies in which the Group invests and whether any of the buildings (such as schools and hospitals) had building management systems (BMS) connected to the internet. If these systems are connected (to allow for remote monitoring and resetting), these systems are at risk of attack. At the request of the Committee, the Investment Adviser retained the services of a specialist third party to perform independent assurance work to determine if these BMS systems were at risk, and to make recommendations for a management framework to mitigate such risks.

As a consequence of these work streams, a Group cyber-threat policy was developed in the year and is in the process of being passed to all project companies for adoption.

The Company has received notification from the Financial Conduct Authority in the UK and from the Central Bank of Ireland, that it was registered as a self-managed non-EEA Alternative Investment Fund (AIF), and would be able to market into the UK and the Republic of Ireland, respectively, for new issues of shares. The Company has also successfully applied for a marketing licence for Sweden, so that it is now able to market itself in that territory.

The Committee considers, at each meeting, various regulatory compliance reports from the Investment Adviser and from the Administrator. No significant action points or notable comments arose in respect of these regular reviews.

The Committee is committed to the continued development of stress scenario testing and the use of other risk management tools to supplement its current practices and the adoption of best practice. Further assurance work will also be considered as and when it is appropriate to do so.

As part of this continued development the Committee engaged specialists in risk management and reporting from a risk management specialist to advise the Committee on whether its working practices and the information it received was appropriate for the size, complexity and type of investments the Group was making.

The risk management specialist reported to the Committee that it was supportive of the framework in place and work done to date. It noted however that perhaps there was too much detail so that the key risks and mitigants were not as prominent as they should be, and made a number of sensible recommendations. The Committee has a plan to effect these with the Investment Adviser during the course of 2016.

Section 9: Audit Committee Report

Helicopter Training Facility, UK

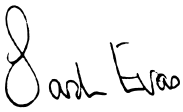
Section 9: Audit Committee Report

The following pages set out the Committee's report on its activities in respect of the year ended 31 March 2016. In August 2015, I replaced Mr J Hallam as chair of the Audit Committee who, after ten years of service to the Company, will retire from the Board in June 2016. The Audit Committee has been in operation throughout the year and operates within clearly defined terms of reference (which are available to view in the Investor Relations section of the Company's website). It met four times in the year to 31 March 2016. It comprises all the Directors except for Mr G Picken and, as of 1 August 2015 and 1 March 2016, Mr J Hallam and Mr I Russell, respectively.

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

We have reviewed the independence, objectivity and effectiveness of the Company's independent auditor and recommended to the Board that KPMG Channel Islands Limited be reappointed in respect of the coming financial year.

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



Sarah Evans
Audit Committee Chairman

17 May 2016

The main duties of the Audit Committee are:

- giving full consideration and recommending to the Board for approval the contents of the half yearly and annual financial statements and reviewing the external auditor's report thereon;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing the valuation of the Group's investments prepared by the Investment Adviser, receiving an independent review of the valuation from a third party expert and making a recommendation to the Board on the valuation of the Group's investments;
- reviewing and recommending to the Board for approval the audit, audit related and non-audit fees payable to the external auditor and the terms of their engagement;
- reviewing and approving the external auditor's plan for the following financial year, including a review of appropriateness of proposed materiality levels;
- reviewing the appropriateness of the Company's accounting policies; and
- ensuring the standards and adequacy of the internal control systems.

The external auditor and the third party valuation expert are invited to attend the Audit Committee meetings at which the Annual Report and Interim Report are considered and at which they have the opportunity to meet with the Audit Committee without representatives of the Investment Adviser being present. The Audit Committee has direct access to the external auditor and to key senior staff of the Investment Adviser and it reports its findings and recommendations to the Board which retains the ultimate responsibility for the financial statements of the Company.

Significant Issues Considered

After discussions with both the Investment Adviser and the external auditor, the Audit Committee determined that the key risks of material misstatement of the Group's financial statements related to the valuation of investments, in particular the key forecast assumptions and valuation discount rates.

Valuation of Investments

As outlined in Note 12 to the financial statements the total carrying value of financial assets at fair value at 31 March 2016 was £1,932.9m. Market quotations are not available for these financial assets such that their valuation is undertaken using a discounted cash flow methodology. This requires a series of material judgements to be made as further explained in Note 3 and Note 4 to the financial statements.

The Audit Committee discussed the valuation process and methodology with the Investment Adviser in July 2015 and November 2015 as part of the review of the Interim Report and again in February 2016 and May 2016 as part of the review of the Annual Report. The Investment Adviser carries out a valuation semi-annually and provides a detailed valuation report to the Company. The Audit Committee also receives a report and opinion on the half-year and year-end valuation from a third party valuation expert.

The Audit Committee met with the external auditor at the time at which the Audit Committee reviewed and agreed the auditor's Group audit plan in February 2016 and also at the conclusion of the audit of the financial statements in May 2016 and in particular discussed the audit approach to the valuation.

Valuation of Investments – key forecast assumptions

The Audit Committee considered in detail those economic assumptions that are subject to judgement and that have a material impact on the valuation. The key assumptions are considered to be future inflation rates, deposit interest rates and tax rates. These assumptions are set out and explained in Section 2.5 – Valuation of the Portfolio and Note 4 of the financial statements.

The Audit Committee reviewed the Investment Adviser's report, in conjunction with a report and opinion on the valuation from a third party valuation expert. The Investment Adviser confirmed to the Audit Committee that the valuation assumptions were consistent with those used for acquisitions and the third party valuation expert confirmed that the valuation assumptions were within a range of acceptable outcomes.

The Investment Adviser provided sensitivities showing the impact of changing these assumptions and these have been considered by the Audit Committee and the auditor. The auditor considered the judgements on these assumptions using their own expertise and experience and comparisons to observable market data. On the basis of their audit work no adjustments were proposed.

The Audit Committee concluded that the Investment Adviser's valuation process was robust, that a consistent valuation methodology had been applied throughout the year and that the key forecast assumptions applied were appropriate.

Valuation of Investments – Discount rates

The discount rates used to determine the valuation are selected and recommended by the Investment Adviser. The discount rate is applied to the expected future cash flows for each investment's financial forecasts (which are derived using the assumptions explained above) to arrive at a valuation (discounted cash flow valuation). The resulting valuation is sensitive to the discount rate selected. The Investment Adviser is experienced and active in the area of valuing these investments and adopts discount rates reflecting their current and extensive experience of the market. The Investment Adviser sets out the discount rate assumptions and the sensitivity of the valuation of the investments to this discount rate in Section 2.5 – Valuation of the Portfolio and Note 4 of the financial statements.

In particular the Audit Committee considered in detail the two reductions of 0.2% (0.4% in total) in the average discount rate applied at 31 March 2016 compared with that applied respectively in the 30 September 2015 and 31 March 2015 valuations. The Investment Adviser explained this was principally as a consequence of increased competition in the secondary market for social and transportation infrastructure assets, which had been seen during bidding and general market activity. This was also corroborated by the third party valuation expert.

The Audit Committee challenged the Investment Adviser on their material judgements and also compared this to feedback from the third party valuation expert. The Audit Committee was satisfied that the range of discount rates was appropriate for the valuation carried out by the Investment Adviser.

The auditor explained the results of their audit and that on the basis of their audit work there were no adjustments proposed that were material in the context of the financial statements as a whole.

Assessment of the auditor

The objectivity of the auditor is reviewed by the Audit Committee which also reviews the terms under which the auditor may be appointed to perform non-audit services. The Audit Committee reviews the scope and results of the audit, its effectiveness and the independence and objectivity of the auditor, with particular regard to any non-audit work that the auditor may undertake. In order to safeguard the independence and objectivity of the auditor, the Audit Committee ensures that any other advisory and/or consulting services provided by the auditor do not conflict with their statutory audit responsibilities.

Advisory and/or consulting services generally only covers reviews of interim financial statements, tax compliance and capital raising work. Any non-audit services conducted by the auditor outside of these areas which are above £20,000 in aggregate in any year require the consent of the Audit Committee before being initiated. The auditor may not undertake any work for the Company in respect of the following matters: preparation of the financial statements; valuations used in financial statements; provision of investment advice; taking management decisions; and advocacy work in adversarial situations.

The Audit Committee reviews the scope and results of the audit, its effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. Total fees paid amounted to £0.7m for the year ended 31 March 2016 (2015: £0.7m) of which £0.2m related to audit and audit related services to the Group and intermediate holding entities, £0.4m related to the audit of the Group's project subsidiaries (which are paid to the UK associate of KPMG Channel Islands Limited) and other audit related services, and £0.1m was in respect of taxation advisory and non-audit services.

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

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered:

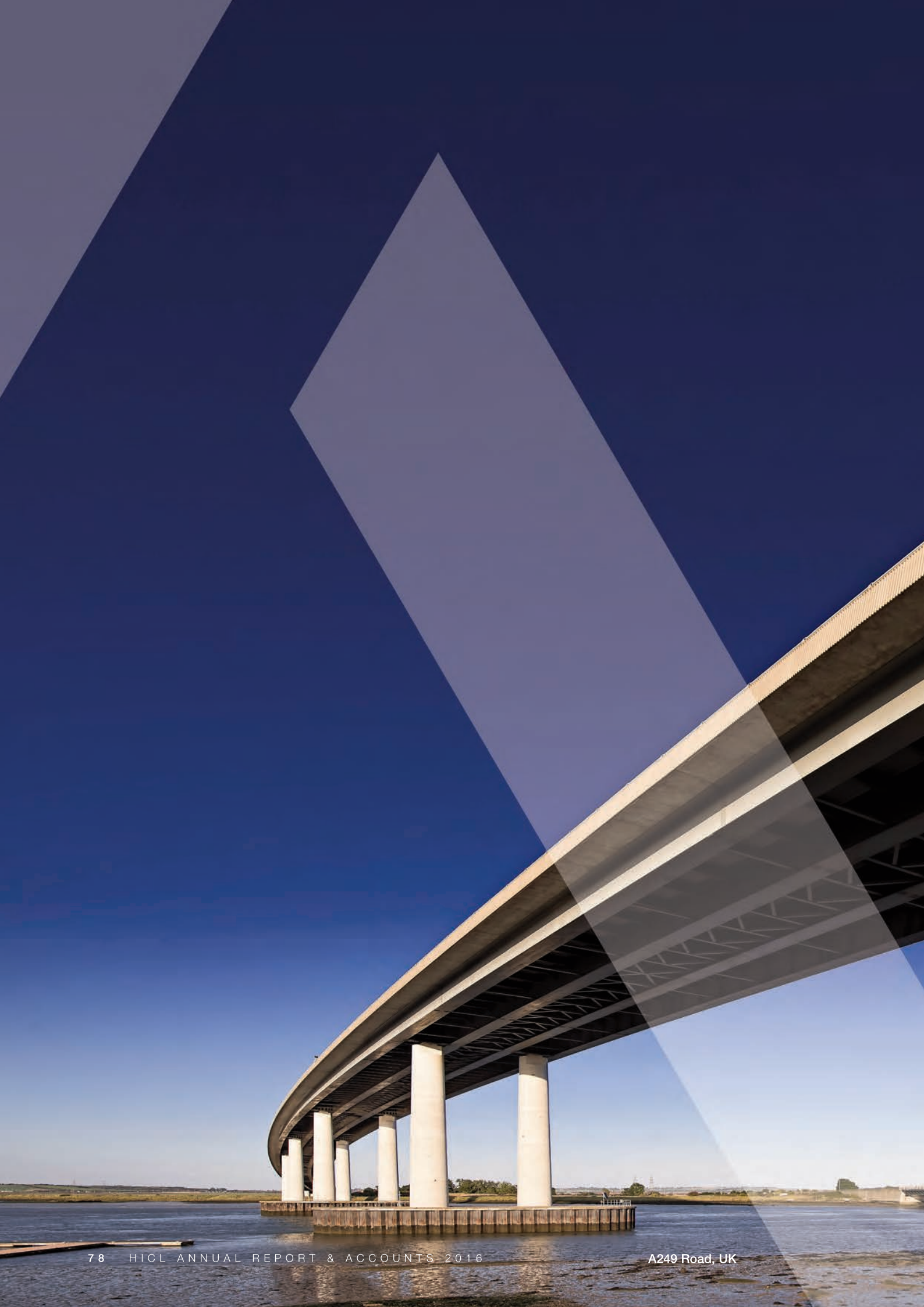
- changes in audit personnel in the audit plan for the current year;
- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor and its associates.

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

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

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

The external audit was most recently tendered for the years commencing after 31 March 2015. As reported in the Annual Report for the year ended 31 March 2015, KPMG was re-appointed as auditor at the completion of the tender process and currently it is expected that the audit will be tendered within the next nine years.



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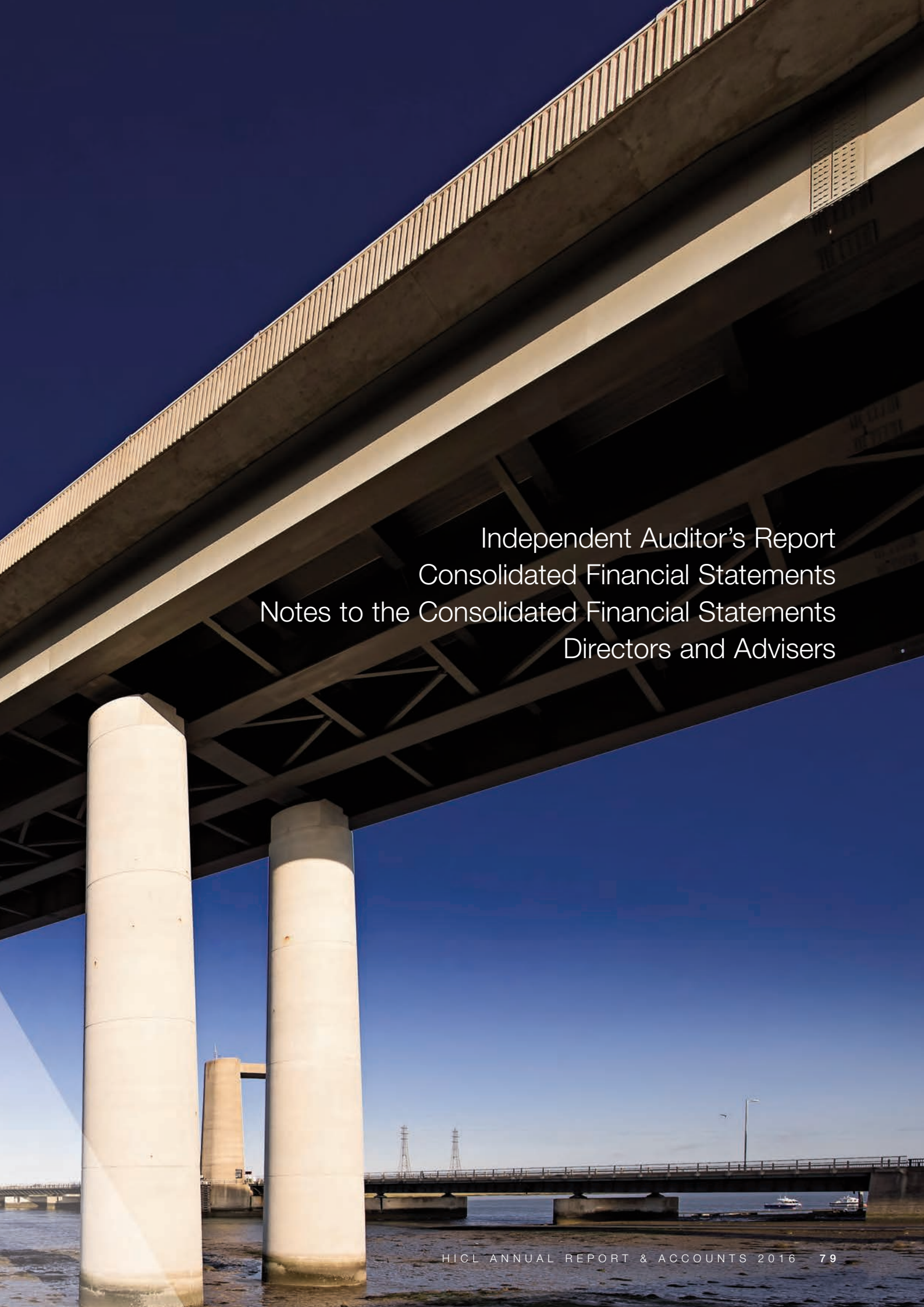


Independent Auditor's Report
Consolidated Financial Statements
Notes to the Consolidated Financial Statements
Directors and Advisers

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

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the consolidated financial statements (the "financial statements") of HICL Infrastructure Company Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2016 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 European Union ("EU"). In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of investments at Fair Value (£1,932.9m)

Refer to pages 76 to 77 of the Audit Committee Report, Note 2 accounting policies, Note 3 critical accounting judgements, estimates and assumptions and Note 4 financial instruments.

The risk:

97% of the Group's total assets (by value) are infrastructure investments, held at fair value, where no quoted market price is available. The fair value is determined using a discounted cash flow methodology applied by the Board, in conjunction with the Investment Adviser. The Directors received a report and opinion on the Investment Adviser's valuation from an independent third party valuation expert. The use of a discounted cash flow valuation methodology requires significant judgements to be applied in respect of estimating long term forecast cash flows, the discount rates applied and the selection of appropriate values for assumptions surrounding uncertain future events. In addition, inherent in these long term forecast cash flows are key macroeconomic assumptions such as inflation, interest and tax rates.

The risk is that inappropriate cash flow assumptions including the discount rates applied and/or the selection of inappropriate values for assumptions surrounding uncertain future events may result in a materially different valuation of these infrastructure investments held at fair value through profit and loss.

Our response:

Our audit procedures with respect to the valuation of investments included, but were not limited to the following:

- we tested the design and implementation of controls around the challenge and approval of the valuation process adopted by management and the Board
- we communicated directly with the project entities and asset managers for a risk based sample of investments to identify circumstances which may materially impact the underlying cash flow forecasts. On this basis, we critically assessed the reasonableness of the cash flow forecasts including whether any identified circumstances had been considered
- we used our own valuation specialists and their market knowledge to support our challenge and determine the appropriateness of management's assumptions
- we evaluated the competency of the third party Valuation Expert in the context of their ability to generate a reliable estimate of the fair value, by assessing their professional qualifications, experience and independence from the Group. We also held discussions with the third party Valuation Expert and considered whether their findings were consistent with the results of the audit work we had performed

We considered the adequacy of the Group's disclosures in respect of the fair value of investments, specifically the estimates and judgements taken by the Group in arriving at the fair value of the investments. We also considered the disclosure of the degree of sensitivity when a reasonably possible change in a key assumption could give rise to a change in the fair value of the investments.

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

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgement in identifying whether a misstatement or omission is material and to do so the auditor identifies a monetary amount as "materiality for the financial statements as a whole".

Materiality for the financial statements as a whole was set at £19 million (2015: £17 million) determined with reference to a benchmark of Group gross assets (of which it represents approximately 1%). Gross assets are considered to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

In addition, we applied a materiality of £2 million (2015: £1 million) to interest and dividend income and fund expenses in the Consolidated Income Statement for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Group.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.95 million (2015: £0.85 million), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single operating entity based on the aggregated set of financial information for the Group. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation and total Group assets.

Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Disclosures of principal risks

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

- the directors' viability statement on page 45 concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Company continuing in operation over the five years to March 2021; or
- the disclosures in note 2 of the financial statements concerning the use of the going concern basis of accounting.

Matters on which we are required to report by exception

Under International Standards on Auditing [ISAs] (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

We have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is:

- fair, balanced and understandable and
- provides the information necessary for members to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies (Guernsey) Law, 2008, we are required 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.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 60 to 66 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and, in respect of any further matters on which we have agreed to report, on terms we have agreed with the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 54, 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 ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Dermot A. Dempsey
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Guernsey

17 May 2016

The maintenance and integrity of the HICL Infrastructure Company Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 31 March 2016

	Note	Year ended 31 March 2016 Total £million	Year ended 31 March 2015 Total £million
Investment income	5	182.8	253.5
Total income		182.8	253.5
Fund expenses	6	(23.3)	(20.4)
Profit before net finance costs and tax		159.5	233.1
Finance costs	7	(2.2)	(2.2)
Finance income	7	0.1	0.1
Profit before tax		157.4	231.0
Income tax expense	8	(0.2)	(0.2)
Profit for the year		157.2	230.8
Attributable to:			
Equity shareholders of the parent		157.2	230.8
		157.2	230.8
Earnings per share – basic and diluted (pence)	9	11.9	18.6

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.

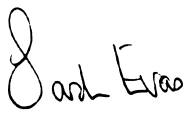
Consolidated Balance Sheet

as at 31 March 2016

	Note	31 March 2016 £million	31 March 2015 £million
Non-current assets			
Investments at fair value through profit or loss	12	1,932.9	1,709.7
Total non-current assets		1,932.9	1,709.7
Current assets			
Trade and other receivables		1.5	0.7
Other financial assets		0.2	1.9
Cash and cash equivalents		52.7	33.5
Total current assets		54.4	36.1
Total assets		1,987.3	1,745.8
Current liabilities			
Trade and other payables	14	(11.3)	(12.3)
Other current financial liabilities		(2.1)	(0.6)
Total current liabilities		(13.4)	(12.9)
Total liabilities		(13.4)	(12.9)
Net assets		1,973.9	1,732.9
Equity			
Ordinary Share capital	16	0.1	0.1
Share premium	16	1,376.5	1,194.2
Retained reserves		597.3	538.6
Total equity attributable to equity shareholders of the parent		1,973.9	1,732.9
Total equity		1,973.9	1,732.9
Net assets per Ordinary Share (pence)	11	142.2	136.7

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 17 May 2016, and signed on its behalf by:



S Evans
Director

I Russell
Director

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 March 2016

	Year ended 31 March 2016		
	Attributable to equity holders of the parent		
	Share capital and share premium *£million*	Retained reserves *£million*	Total shareholders' equity *£million*
Shareholders' equity at 1 April 2015	1,194.3	538.6	1,732.9
Profit for the year	–	157.2	157.2
Distributions paid to Company shareholders in cash	–	(93.0)	(93.0)
Distributions paid to Company shareholders by scrip issue	–	(5.5)	(5.5)
Total distributions paid to Company shareholders in the year	–	(98.5)	(98.5)
Ordinary Shares issued for cash	178.2	–	178.2
Ordinary Shares issued for scrip dividend	5.5	–	5.5
Total Ordinary Shares issued in the year	183.7	–	183.7
Costs of issue of Ordinary Shares	(1.4)	–	(1.4)
Shareholders' equity at 31 March 2016	1,376.6	597.3	1,973.9

	Year ended 31 March 2015		
	Attributable to equity holders of the parent		
	Share capital and share premium *£million*	Retained reserves *£million*	Total shareholders' equity *£million*
Shareholders' equity at 1 April 2014	1,110.1	419.4	1,529.5
Profit for the year	–	230.8	230.8
Distributions paid to Company shareholders in cash	–	(102.5)	(102.5)
Distributions paid to Company shareholders by scrip issue	–	(9.1)	(9.1)
Total distributions paid to Company shareholders in the year	–	(111.6)	(111.6)
Ordinary Shares issued for cash	75.7	–	75.7
Ordinary Shares issued for scrip dividend	9.1	–	9.1
Total Ordinary Shares issued in the year	84.8	–	84.8
Costs of issue of Ordinary Shares	(0.6)	–	(0.6)
Shareholders' equity at 31 March 2015	1,194.3	538.6	1,732.9

Consolidated Cash Flow Statement

for the year ended 31 March 2016

	Year ended 31 March 2016 £million	Year ended 31 March 2015 £million
Cash flows from operating activities		
Profit before tax	157.4	231.0
Adjustments for:		
Investment income	(182.8)	(253.5)
Finance costs	2.2	2.2
Finance income	(0.1)	(0.1)
Operator acquisition investment fees	1.5	1.1
Operating cash flow before changes in working capital	(21.8)	(19.3)
Changes in working capital:		
(Increase)/Decrease in receivables	(0.8)	0.4
(Decrease)/Increase in payables	(1.0)	2.2
Cash flow from operations	(23.6)	(16.7)
Interest received on bank deposits	0.1	0.1
Interest paid	(1.7)	(1.6)
Corporation tax paid	(0.1)	(0.1)
Interest received on investments	88.5	75.2
Dividends received	26.7	30.9
Fees and other operating income	7.8	11.3
Loanstock repayments received	6.0	6.6
Net cash from operating activities	103.7	105.7
Cash flows from investing activities		
Proceeds from disposal of investments	8.9	108.3
Purchases of investments	(172.9)	(204.1)
Net cash used in investing activities	(164.0)	(95.8)
Cash flows from financing activities		
Proceeds from issue of share capital	176.8	75.1
Loan drawdowns	61.1	207.7
Repayment of loan drawdowns	(61.1)	(207.7)
Distributions paid to Company shareholders	(93.0)	(102.5)
Net cash from/(used in) financing activities	83.8	(27.4)
Net increase/(decrease) in cash and cash equivalents	23.5	(17.5)
Cash and cash equivalents at beginning of year	33.5	42.7
Exchange (losses)/gains on cash	(4.3)	8.3
Cash and cash equivalents at end of year	52.7	33.5

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 2016 comprise the Company and its consolidated subsidiaries (together the "Group") (see Note 21).

In accordance with section 244(5) of the Companies (Guernsey) Law, 2008, as the Directors have prepared consolidated financial statements for the period, they have not prepared individual statements for the Company in accordance with section 243 for the period.

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.

2. Key Accounting Policies

(a) Basis of preparation

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 17 May 2016.

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 financial instruments classified at fair value through profit or loss are stated at their fair values. The accounting policies have been applied consistently in these consolidated financial statements. 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that year or the period of the revision and future periods if the revision affects both current and future periods. Note 3 shows critical accounting judgements, estimates and assumptions which have been applied in the preparation of these accounts.

The Directors are of the opinion that the Company has all the typical characteristics of an investment entity and meets the three essential criteria as defined in IFRS 10 and therefore the Company continues to apply Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS27). In addition, certain subsidiaries provide specific investment management services and undertake investment activities that require the results of those subsidiaries to be consolidated in the Group financial statements.

The three essential investment entity criteria met by the Company are:

1. It obtains funds from one or more investors for the purpose of providing these investors with professional investment management services;

2. It commits to its investors that its business purpose is to invest its funds solely for returns from capital appreciation, investment income or both; and

3. It measures and evaluates the performance of substantially all of its investments on a fair value basis.

The International Accounting Standards Board ("IASB") issued Investment Entities: Applying the Consolidation Exemption (Amendments to IFRS 10, IFRS 12 and IAS 28) in December 2014 stating that investment entities should measure at fair value all of their subsidiaries that are themselves investment entities. This revision to the Investment Entity standard does not become effective to the Company until the financial year ending in March 2017 and it is not expected to impact either earnings or net assets.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in Section 2.2 and 2.3 on pages 9 to 16. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in Sections 2.4 and 2.5 on pages 16 to 32. In addition, Notes 1 to 4 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. The financing for these projects is non-recourse to the Group. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

2. Key Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

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

New standards effective for the current year

Standards and amendments to standards that became effective during the period are listed below. These have no material impact on the reported performance or financial statements of the Group.

- Annual improvements to IFRSs 2010-2012 cycle (effective date not later than 1 February 2015)
- Annual improvements to IFRSs 2011-2013 cycle (effective date 1 January 2015)

Standards not yet applied

The Group notes the following amended and improved published standards and interpretations which were in issue at the date of authorisation of these Financial Statements:

- Investment Entities: Applying the Consolidation Exemption (Amendments to IFRS 10, IFRS 12 and IAS 28) (effective for annual periods beginning on or after 1 January 2016) (see above in this Note for further details).
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

(b) Basis of consolidation

In these consolidated financial statements the Company applied IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other entities'. The Company also applied Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS27) which requires entities that meet the definition of an investment entity to fair value relevant subsidiaries through the profit or loss rather than consolidate their results. The Company has applied the Investment Entities amendment such that those entities that provide investment related services or activities to the Company continue to be consolidated, consistent with the prior year.

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, except those required to be held at fair value, up to 31 March 2016. Subsidiaries are those entities controlled by the Company. The Company has control of an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee as defined in IFRS 10 'Consolidated Financial Statements'. The financial statements of subsidiaries, except those held at fair value, are included in the consolidated financial statements on a line by line basis from the date that control commences until the date control ceases.

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, 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 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) Financial instruments

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

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, 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.

2. Key Accounting Policies *(continued)*

(c) Financial instruments *(continued)*

Investments in equity and debt securities

Investments in the equity and loanstock of entities engaged in infrastructure activities which are not classified as subsidiaries of the Group or which are subsidiaries not consolidated in the Group, are designated at fair value through profit or loss since the 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 consolidated income statement.

Loans and borrowings

Loans and 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 consolidated 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 Group holds derivative financial instruments to mitigate its foreign currency risk exposure. 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 consolidated income statement as part of finance costs or finance income. Fair value is based on price quotations from financial institutions active in the relevant market. The Group does not use hedge accounting.

(iii) Fair values

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 relevant long term government bond yields, 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 financial asset's or financial liability's carrying amount.

(d) Share capital and share premium

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

(e) 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. Cash equivalents, including demand deposits, are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(f) Revenue

Interest income is recognised in the consolidated income statement as it accrues on a time-apportioned basis, using the effective interest rate of the instrument concerned as calculated on acquisition or origination date.

Dividends are recognised when the Group's right to receive payment has been established.

Fees and other operating income are recognised when the Group's rights to receive payment have been established. Gains on investments relates solely to the investments held at fair value.

(g) Income tax

Under the current system of taxation in Guernsey, the Company itself is exempt from paying taxes on income, profits or capital gains. Dividend and interest income received by the Group may be subject to withholding tax imposed in the country of origin of such income.

2. Key Accounting Policies *(continued)*

(h) Foreign exchange gains and losses

Transactions entered into by the Group in a currency other than its 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 re-translation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement.

(i) Segmental and geographical 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 Group derives revenue materially from the United Kingdom but none from Guernsey. The Group has no single major customer.

The financial information used by the CODM to allocate resources and manage the Group presents the business as a single segment comprising a homogeneous portfolio.

(j) Expenses

All expenses, including the profit share of the General Partner of Infrastructure Investments Limited Partnership (refer to Note 17), are accounted for on an accruals basis. The Group's investment management and administration fees, finance costs and all other expenses are charged through the consolidated income statement.

(k) Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends, this is when they are paid. In the case of final dividends, this is when they are approved by the shareholders at the Annual General Meeting. 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.

(l) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the 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.

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.

Investments at fair value through profit or loss

By virtue of the Company's status as an investment fund and the exemption provided by IAS 28 and IFRS 11 as well as the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), investments 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 relevant long term government bond yields, specific risks and the evidence of recent transactions. The Directors have satisfied themselves that PPP or similar investments share the same investment characteristics and as such constitute a single asset class for IFRS 7 disclosure purposes.

The weighted average discount rate applied in the March 2016 valuation was 7.5% (2015: 7.9%). The discount rate is considered one of the most significant unobservable inputs through which an increase or decrease would have a material impact on the fair value of the investments at fair value through profit or loss.

The other material impacts on the measurement of fair value are inflation rates, deposit rates and tax rates which are further discussed in Note 4 and include sensitivities to these key judgements.

4. Financial Instruments

Fair value estimation

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

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 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 relevant long term government bond yields, the specific risks of each investment and the evidence of recent transactions.

Note 2 discloses the methods used in determining fair values on a specific asset or 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

	31 March 2016 *£million*	31 March 2015 *£million*
Financial assets		
Investments designated at fair value through profit or loss	1,932.9	1,709.7
At fair value through profit or loss		
Other financial assets (fair value of derivatives)	0.2	1.9
Financial assets at fair value through profit or loss	1,933.1	1,711.6
Trade and other receivables	1.5	0.7
Cash and cash equivalents	52.7	33.5
Financial assets – loans and receivables	54.2	34.2
Financial liabilities		
At fair value through profit or loss		
Other financial liabilities (fair value of derivatives)	(2.1)	(0.6)
Financial liabilities at fair value through profit or loss	(2.1)	(0.6)
Trade and other payables	(11.3)	(12.3)
Other financial liabilities	(11.3)	(12.3)

The Directors believe that the carrying values of all financial instruments are equal to their fair values.

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).

4. Financial Instruments *(continued)*

	As at 31 March 2016			
	Level 1	Level 2	Level 3	Total
	£million	*£million*	*£million*	*£million*
Investments at fair value through profit or loss (Note 12)	–	–	1,932.9	1,932.9
Other financial assets (fair value of derivatives)	–	0.2	–	0.2
	–	0.2	1,932.9	1,933.1
Other financial liabilities (fair value of derivatives)	–	(2.1)	–	(2.1)
	–	(2.1)	–	(2.1)

	As at 31 March 2015			
	Level 1	Level 2	Level 3	Total
	£million	*£million*	*£million*	*£million*
Investments at fair value through profit or loss (Note 12)	–	–	1,709.7	1,709.7
Other financial assets (fair value of derivatives)	–	1.9	–	1.9
	–	1.9	1,709.7	1,711.6
Other financial liabilities (fair value of derivatives)	–	(0.6)	–	(0.6)
	–	(0.6)	–	(0.6)

There were no transfers between Level 1, 2 or 3 during the year (2015: None). A reconciliation of the movement in level 3 assets is disclosed in Note 12.

Level 2

Valuation methodology

The Directors have satisfied themselves as to the methodology used for the valuation of Level 2 financial assets and liabilities. All financial assets and liabilities are valued using a discounted cashflow methodology, consistent with the prior period. The key inputs to this methodology are foreign currency exchange rates and foreign currency forward curves. Fair value is based on price quotations from financial institutions active in the relevant market.

Valuations are performed on a 6 monthly basis every September and March for all financial assets and liabilities.

Level 3

Valuation methodology

The Directors have satisfied themselves as to the methodology used, the discount rates and key assumptions applied, and the valuation. All investments in PPP or similar projects are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with those used in the prior year. This valuation uses key assumptions which are benchmarked from a review of recent comparable market transactions in order to arrive at a fair market value. Valuations are performed on a six monthly basis every September and March for all investments.

For the valuation of investments, the Directors have also obtained an independent opinion from a third party with experience in valuing this type of investments, supporting the reasonableness of the valuation.

Investments – The key valuation assumptions and sensitivities for the valuation are:

Discount rates

Judgement is used in arriving at the appropriate discount rate for each investment based on the Investment Adviser's knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers knowledgeable of these markets and publicly available information on relevant transactions.

The discount rates used for valuing each infrastructure investment vary on a project-by-project basis and 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.

4. Financial Instruments *(continued)*

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

Period ending	Range	Weighted average
31 March 2015	7.4% to 10.5%	7.9%
30 September 2015	7.3% to 10.4%	7.7%
31 March 2016	**7.0% to 10.1%**	**7.5%**

A change to the weighted average rate of 7.5% by plus or minus 0.5% has the following effect on the valuation and NAV per Ordinary Share.

Discount rate	-0.5% change	Investments at fair value through profit or loss	+0.5% change
March 2015	+£85.8m	£1,709.7m	-£79.4m
March 2016	**+£101.5m**	**£1,932.9m**	**-£93.7m**
Implied change in NAV per Ordinary Share[1] – March 2016 (March 2015)	**+7.3 pence** (+6.8 pence)	**142.2 pence** (136.7 pence)	**-6.7 pence** (-6.3 pence)

1. NAV per Ordinary Share based on 1,388 million Ordinary Shares at 31 March 2016

Inflation rates

All 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 long term UK inflation of 2.75% per annum for both RPI and RPIx, the same assumption as used at 30 September 2015 and 31 March 2015. For non-UK investments, long term CPI of 2.0% per annum is used for Netherlands, Ireland, Canada and France and 2.5% for Australia – the same assumption as used at 30 September 2015 and 31 March 2015. The near term inflation assumption to March 2018 in the Eurozone is 1.0% per annum.

A change to the inflation rate by plus or minus 0.5% has the following effect on the valuation and NAV per Ordinary Share:

Inflation assumption[1]	-0.5% p.a. change	Investments at fair value through profit or loss	+0.5% p.a. change
March 2015	-£52.9m	£1,709.7m	+£57.6m
March 2016	**-£65.3m**	**£1,932.9m**	**+£72.0m**
Implied change in NAV per Ordinary Share[2] – March 2016 (March 2015)	**-4.7 pence** (-4.2 pence)	**142.2 pence** (136.7 pence)	**+5.2 pence** (+4.5 pence)

1. Analysis is based on the Consolidated Group's 20 largest investments, pro-rata for the whole portfolio

2. NAV per Ordinary Share based on 1,388 million Ordinary Shares at 31 March 2016

Deposit rates

Each PPP or similar project in the portfolio has cash held in bank deposits, which is a requirement of their senior debt financing. As at 31 March 2016 cash deposits for the portfolio were earning interest at a rate of 0.4% per annum on average.

The March 2016 portfolio valuation assumes UK deposit interest rates are 1% p.a. to March 2020 and 2.5% p.a. thereafter, changed from September 2015 and March 2015 when the assumption was 1% p.a. to March 2019 and 3.0% p.a. thereafter.

Each project's interest costs are either inflation-linked or fixed rate. This is achieved through fixed rate or inflation-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 required as part of the project funding.

4. Financial Instruments *(continued)*

A change to the deposit rate by plus or minus 0.5% has the following effect on the valuation:

Cash deposit rate Base case is 1.0% p.a. til March 2020, then 2.5% p.a.	-0.5% p.a. change	Investments at fair value through profit or loss	+0.5% p.a. change
March 2015	-£19.8m	£1,709.7m	+£19.4m
March 2016	**-£24.5m**	**£1,932.9m**	**+£23.2m**
Implied change in NAV per Ordinary Share[1 2] – March 2016 (March 2015)	**-1.8 pence** (-1.6 pence)	**142.2 pence** (136.7 pence)	**+1.7 pence** (+1.5 pence)

1. Analysis is based on the Consolidated Group's 20 largest investments, pro-rata for the whole portfolio

2. NAV per Ordinary Share based on 1,388 million Ordinary Shares at 31 March 2016

Tax rates

The profits of each UK project company are subject to UK corporation tax. On 1 April 2015 the prevailing rate of corporation tax fell from 21% to 20%. The Finance Act 2015 enacted further reductions to 19% effective from April 2017 and 18% effective from April 2020. The UK corporation tax assumption for the portfolio valuation at 31 March 2016 was 20% until March 2017, 19% to March 2020 and 18% thereafter, changed from September 2015 and March 2015 when it was 20% for all future periods.

A change to the tax rate by plus or minus 1.0% has the following effect on the valuation and NAV per Ordinary Share:

Tax rate assumption[1]	-1% p.a. change	Investments at fair value through profit or loss	+1% p.a. change
March 2015	+£11.0m	£1,709.7m	-£11.0m
March 2016	**+£13.5m**	**£1,932.9m**	**-£13.4m**
Implied change in NAV per Ordinary Share[2] – March 2016 (March 2015)	**+1.0 pence** (+0.9 pence)	**142.2 pence** (136.7 pence)	**-1.0 pence** (-0.9 pence)

1. This analysis is based on the Consolidated Group's 20 largest investments, pro-rata for the whole portfolio

2. NAV per Ordinary Share based on 1,388 million Ordinary Shares at 31 March 2016

Risk management

Market risk

Returns from the 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.

Financial risk management

The objective of the 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 which has documented procedures designed to identify, monitor and manage the financial risks to which the 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 Group owns a portfolio of investments predominantly in the subordinated loanstock and 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.

4. Financial Instruments *(continued)*

Interest rate risk

The 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 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 re-forecasted 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 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, when entering into material medium/long term borrowings, to protect the Group's net interest margins from significant fluctuations in interest rates. This may include engaging in interest rate swaps or other interest rate derivative contracts.

The 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.

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 Group's overall cashflows vary with inflation, although they are not directly correlated as not all flows are indexed. The effects of these inflation changes do not always immediately flow through to the 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 to inflation is also shown above within Note 4.

Currency risk

The majority of projects in which the Group invests, conduct their business in the United Kingdom and pay loan interest, loan principal, dividends and fees in sterling. The projects in which the Group invests in France, Netherlands and Ireland (comprising 5% (2015: 6%) of the investments at fair value and £5.4m of revenue (2015: £4.9m)), conduct their business and pay their loan interest, loan principal, dividends and fees in Euros, those in Canada (comprising 3% (2015: 1%) of the investments at fair value and £1.8m of revenue (2015: £2.6m)), conduct their business and pay loan interest, loan principal, dividends and fees in Canadian dollars and its investment in Australia (comprising 4% (2015: 4%) of the investments at fair value and £7.0m of revenue (2015: £2.2m)), conducts its business and pays loan interest, loan principal, dividends and fees in Australian 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 against the effect of exchange rate fluctuations on the level of sterling distributions that the Group expects to receive 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 dollar, Australian dollar and other currency denominated borrowings. The Group at 31 March 2016 hedged its currency exposure through Euro, Canadian dollar and Australian dollar forward contracts. This has reduced the volatility in the NAV from foreign exchange movements.

The hedging policy is designed to provide confidence in the near term yield and to limit NAV per share sensitivity to no more than 1% for a 10% foreign exchange movement.

A change to foreign currency/Sterling exchange by plus or minus 5.0% has the following effect on the valuation and NAV per Ordinary share:

Foreign Exchange sensitivites[1]	-5% change	Net Asset Value	+5% change
Directors' valuation – March 2015	-£3.8m	£1,732.9m	+£3.8m
Directors' valuation – March 2016	**-£5.5m**	**£1,973.9m**	**+£5.5m**
Implied change in NAV per Ordinary Share[2] – March 2016 (March 2015)	**-0.4 pence** (-0.3 pence)	**142.2 pence** (136.7 pence)	**+0.4 pence** (+0.3 pence)

1. Sensitivities include effect of foreign exchange hedging contracts

2. NAV per Ordinary Share based on 1,388 million Ordinary Shares at 31 March 2016

4. Financial Instruments *(continued)*

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 Group's near term cash flow forecasts are used to monitor the timing of cash receipts from project counterparties. Underlying the cash flow forecasts 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 Group's investment and subsidiary entities 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 each project's sub-contractors 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 sub-contractors 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 Group's largest credit risk exposure to a project at 31 March 2016 was to the Southmead Hospital project (6% of investments at fair value) and the largest sub-contractor counterparty risk exposure was to subsidiaries of the Carillion group which provided facilities management services in respect of 20% of the investments at fair value.

The Group is subject to credit risk on its loans, receivables, cash and deposits. The Group's cash and deposits are held with 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 loan impairment is recorded equal to the valuation shortfall.

The Group's maximum exposure to credit risk over financial assets is the carrying value of those assets in the balance sheet. The 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 they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient financial resources and liquidity to meets its liabilities when due. The Group ensures it maintains adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group investments are predominantly funded by share capital and medium term debt funding.

The 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 Group's investments have third party borrowings which rank senior to the 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 Group.

The 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 Group's bankers in favour of the senior lenders to the investment companies. Such investment obligations are met from the Group's cash resources when they fall due. Investment obligations totalled £97.4 million (2015: £22.5 million) and the Group also has a contingent commitment of €16.8 million at March 2016 (2015: €16.8 million) (See Note 18).

Unconsolidated subsidiaries are subject to contractual agreements that may impose temporary restrictions on their ability to distribute cash. Such restrictions are not deemed significant in the context of the Group's overall liquidity.

4. Financial Instruments *(continued)*

Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

31 March 2016	Less than 1 year £million	Between 1 and 2 years £million	Between 2 and 5 years £million	More than 5 years £million
Trade and other payables	11.3	–	–	–
Other financial liabilities	2.1	–	–	–
Total	13.4	–	–	–

31 March 2015	Less than 1 year £million	Between 1 and 2 years £million	Between 2 and 5 years £million	More than 5 years £million
Trade and other payables	12.3	–	–	–
Other financial liabilities	0.6	–	–	–
Total	12.9	–	–	–

Capital management

The Group has a £200 million revolving acquisition facility which had no cash drawings 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.

The Group makes prudent use of its leverage. Under the Articles the Group's outstanding borrowings, including any financial guarantees to support outstanding subscription obligations but excluding internal Group borrowings of the 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 Group's debt to Adjusted Gross Asset Value at the end of the year was as follows:

	31 March 2015 £million	31 March 2014 £million
Outstanding drawings		
Bank borrowings	–	–
Letter of credit facility	36.6	22.5
	36.6	22.5
Adjusted Gross Asset Value		
Portfolio valuation (Note 12)	2,030.3	1,732.2
Cash and cash equivalents	52.7	33.5
	2,083.0	1,765.7
Borrowing ratio	1.8%	1.3%

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

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

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

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

5. Investment Income

	For year ended 31 March 2016 Total £million	Represented[1] For year ended 31 March 2015 Total £million
Interest from investments	80.3	74.4
Dividend income from investments	28.3	79.4
Fees and other operating income	7.8	11.8
Gains on investments (Note 12)	75.1	77.4
Foreign exchange hedging (losses)/gains	(8.7)	10.5
	182.8	253.5

1. Foreign exchange hedging (losses)/gains have been represented from finance income in 2015 to investment income in 2016. This change shows all the foreign exchange gains/losses on the Group's underlying foreign currency investments within the same caption on the face of the income statement.

Dividend income from investments includes an amount received of £1.7 million (2015: £50.6 million) in relation to a disposal.

6. Fund Expenses

	For year ended 31 March 2016 Total £million	For year ended 31 March 2015 Total £million
Fees payable to the Group's auditor for the audit of the Group and intermediate holding companies	0.2	0.2
Fees payable to the Group's auditor and its associates for audit-related assurance services	0.1	0.1
Operator fees (Note 17)	18.9	16.9
Investment fees (Note 17)	1.5	1.2
Directors' fees (Note 17)	0.3	0.3
Investment bid costs	0.8	0.5
Professional fees	1.3	1.1
Other costs	0.2	0.1
	23.3	20.4

In addition to the above an amount of £0.8 million (2015: £0.8 million) was paid by project companies to associates of the Group's auditors in respect of audit and tax services provided to project companies (and therefore not included within consolidated administrative expenses) of which £0.3 million (2015: £0.3 million) related to the audit of the Group's project subsidiaries.

The Group had no employees during the year.

7. Net Finance Costs

	For year ended 31 March 2016 Total £million	Represented[1] For year ended 31 March 2015 Total £million
Interest on bank loans	(0.1)	(0.5)
Other finance costs	(2.1)	(1.7)
Total finance costs	(2.2)	(2.2)
Interest on bank deposits	0.1	0.1
Total finance income	0.1	0.1
Net finance costs	(2.1)	(2.1)

1. See Note 5 for details.

Other finance costs include £0.6 million (2015: £0.4 million) of amortisation of debt arrangement fees related to the revolving debt facility.

8. Income Tax

Guernsey

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.

Overseas tax jurisdictions

The income tax expense in the income statement relates to the tax charge for the three consolidated subsidiaries of the Company which form the Group, of which two are subject to taxes in Luxembourg and one in the UK.

The Consolidated financial statements do not include the tax charges for any of the Group's 104 (2015: 101) investments as these are held at fair value. All of these investments are subject to taxes in the countries in which they operate.

9. 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.

	2016	2015
Profit attributable to equity holders of the Company	£157.2 million	£230.8 million
Weighted average number of Ordinary Shares in issue	1,319.8 million	1,243.5 million
Basic and diluted earnings per Ordinary Share	11.9 pence	18.6 pence

Further details of shares issued in the year are set out in Note 16.

10. Dividends

	For year ended 31 March 2016 *Total £million*	For year ended 31 March 2015 *Total £million*
Amounts recognised as distributions to equity holders during the year:		
Fourth quarterly interim dividend for the year ended 31 March 2015 of 1.87p (2014 semi-annual: 3.6p) per share	23.7	43.5
First quarterly interim dividend for the year ended 31 March 2016 of 1.86p per share (2015: 1.81p)	24.7	22.6
Second quarterly interim dividend for the year ended 31 March 2016 of 1.86p per share (2015: 1.81p)	24.7	22.6
Third quarterly interim dividend for the year ended 31 March 2016 of 1.86p per share (2015: 1.81p)	25.4	22.9
	98.5	**111.6**
Amounts not recognised as distributions to equity holders during the year:		
Fourth quarterly interim dividend for the year ended 31 March 2016 of 1.87p (2015: 1.87p) per share	26.0	23.7

The fourth quarterly interim dividend was approved by the Board on 12 May 2016 and is payable on 30 June 2016 to shareholders on the register as at 27 May 2016. The fourth quarterly interim dividend is payable to shareholders as a cash payment or alternatively as a scrip dividend. The fourth quarterly interim dividend has not been included as a liability at 31 March 2016.

The 2015 fourth quarterly interim dividend of 1.87p and the first three 2016 quarterly interim dividends of 1.86p each are included in the consolidated statement of changes in shareholder equity.

	Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2014	Year ended 31 March 2013	Year ended 31 March 2012
Interim dividend for the 3 month period ending 30 June	1.86p	1.81p			
Interim dividend for the 3 month period ending 30 September	1.86p	1.81p			
Interim dividend for the 3 month period ending 31 December	1.86p	1.81p			
Interim dividend for the 3 month period ending 31 March	1.87p	1.87p			
Interim dividend for the 6 month period ending 30 September			3.5p	3.425p	3.35p
Interim dividend for the 6 month period ending 31 March			3.6p	3.575p	3.5p
	7.45p	7.3p	7.1p	7.0p	6.85p

11. Net Assets per Ordinary Share

	2016 £million	2015 £million
Shareholders' equity at 31 March	1,973.9	1,732.9
Less: fourth interim dividend (2015: fourth interim dividend)	(26.0)	(23.7)
	1,947.9	**1,709.2**
Number of Ordinary Shares at 31 March (million)	**1,388.4**	**1,267.7**
Net assets per share after deducting fourth interim dividend (2015: fourth interim dividend)	**140.3p**	**134.8p**
Add fourth interim dividend (2015: fourth interim dividend)	**1.87p**	**1.87p**
Net assets per Ordinary Share at 31 March	**142.2p**	**136.7p**

12. Investments at Fair Value through Profit or Loss

	2016 £million	2015 £million
Opening balance	1,709.7	1,495.5
Investments in the year	169.1	203.3
Disposals in the year	(8.9)	(57.7)
Accrued interest	5.1	5.8
Repayments in the year	(19.4)	(18.0)
Subscription obligations	0.8	–
Gains on valuation	75.9	78.5
Other movements	0.6	2.3
Carrying amount at year end	1,932.9	1,709.7
This is represented by:		
Less than one year	–	–
Greater than one year	1,932.9	1,709.7
Carrying amount at year end	1,932.9	1,709.7
Gains on valuation as above	75.9	78.5
Less: transaction costs incurred	(0.8)	(1.1)
Gains on investments (Note 5)	75.1	77.4

The gains on valuation of £75.9 million (2015: £78.5 million) have been included in Investment income (see Note 5) and comprise unrealised gains of £77.9million (2015: £93.1 million) and unrealised losses of £2.0 million (2015: £14.6 million).

Included within the gains on investments is an unrealised exchange gain of £13.9 million on the Group's Euro, Australian and Canadian investments (2015: £17.7 million loss). This gain is partly offset by a realised foreign exchange hedging loss of £8.7 million (2015: £10.5 million gain).

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2016. 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 experience in valuing these types of investments, supporting the reasonableness of the valuation. All investments in PPP or similar 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 7.0% to 10.1% (weighted average of 7.5%) (2015: 7.4% to 10.5% (weighted average of 7.9%)).

12. Investments at Fair Value through Profit or Loss *(continued)*

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

UK inflation rates	2.75%
Eurozone inflation rates	1.0% to March 2018 and 2.0% thereafter
Australia inflation rate	2.5%
Canada inflation rate	2.0%
UK deposit interest rates	1% to March 2020 and 2.5% thereafter
UK corporation tax rate	20% to March 2017, 19% to March 2020, 18% thereafter

The economic assumptions for the year ended 31 March 2015 were as follows:

UK inflation rates	2.75%
Eurozone inflation rates	0.0% to March 2017 and 2.0% thereafter
Australia inflation rate	2.5%
Canada inflation rate	2.0%
UK deposit interest rates	1% to March 2019 and 3.0% thereafter
UK corporation tax rate	20%

The valuation of the Group's portfolio at 31 March 2016 reconciles to the Consolidated Balance Sheet as follows:

	31 March 2016 *£million*	31 March 2015 *£million*
Portfolio valuation	2,030.3	1,732.2
Less: future commitments	(97.4)	(22.5)
Investments per Consolidated Balance Sheet	1,932.9	1,709.7

Included in the 31 March 2016 portfolio valuation and future commitments is the €87m conditional investment commitment to acquire the A63 Motorway project in France – see Note 13. This commitment is accounted for as a derivative and the fair value reflected in investments at fair value through profit or loss.

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.

12. Investments at Fair Value through Profit or Loss *(continued)*

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

	Percentage Holding					
	31 March 2016			31 March 2015		
Project name	Equity	Subordinated debt	Mezzanine debt	Equity	Subordinated debt	Mezzanine debt
A63 Motorway [5 & 8]	13.82%	13.82%		–	–	
A92 Road	50.00%	50.00%		50.00%	50.00%	
A249 Road	50%	50%		50%	50%	
Addiewell Prison	33.30%	33.30%		33.30%	33.30%	
Allenby & Connaught MoD	12.50%	12.50%		12.50%	12.50%	
Aquasure Desalination [6]	9.70%	–		9.30%	–	
Barking and Dagenham Schools [1]	100.00%	100.00%		100.00%	100.00%	
Barnet Hospital [1]	100.00%	100.00%		100.00%	100.00%	
Birmingham and Solihull LIFT	60.00%	60.00%		60.00%	60.00%	
Birmingham Hospitals	30.00%	30.00%		30.00%	30.00%	
Bishop Auckland Hospital	36.00%	37.00%	100.00%	36.00%	37.00%	100.00%
Blackburn Hospital [1]	100.00%	100.00%		100.00%	100.00%	
Blackpool Primary Care Facility	75.00%	75.00%		75.00%	75.00%	
Boldon School [1]	100.00%	100.00%		100.00%	100.00%	
Bradford BSF Phase 1	29.20%	35.00%		29.20%	35.00%	
Bradford BSF Phase 2	34.00%	34.00%		34.00%	34.00%	
Brentwood Community Hospital	75.00%	75.00%		75.00%	75.00%	
Brighton Hospital	50.00%	50.00%		50.00%	50.00%	
Central Middlesex Hospital [1]	100.00%	100.00%		100.00%	100.00%	
Connect	33.50%	33.50%		33.50%	33.50%	
Conwy Schools [1]	90.00%	90.00%		90.00%	90.00%	
Cork School of Music [2]	50.00%	50.00%		50.00%	50.00%	
Croydon Schools [1]	100.00%	100.00%		100.00%	100.00%	
Darlington Schools	50.00%	50.00%		50.00%	50.00%	
Defence Sixth Form College	45.00%	45.00%		45.00%	45.00%	
Derby Schools [1]	100.00%	100.00%		100.00%	100.00%	
Doncaster Mental Health	50.00%	50.00%		50.00%	50.00%	
Dorset Fire and Rescue [1]	100.00%	100.00%		100.00%	100.00%	
Durham and Cleveland Police Tactical Training Centre [1]	100.00%	100.00%		72.90%	72.90%	
Dutch High Speed Rail Link [3]	43.00%	43.00%		43.00%	43.00%	
Ealing Care Homes	63.00%	63.00%		84.00%	84.00%	
Ealing Schools	50.00%	50.00%		50.00%	50.00%	
Ecole Centrale Supelec [5]	85.00%	–		85.00%	–	
Edinburgh Schools [1]	100.00%	100.00%		100.00%	100.00%	
Exeter Crown Court [1]	100.00%	100.00%		100.00%	100.00%	
Falkirk NPD Schools	29.10%	29.10%		29.10%	29.10%	
Fife Schools 2	30.00%	30.00%		30.00%	30.00%	
Fife Schools [7]	–	–		50.00%	50.00%	100.00%
Glasgow Hospital	25.00%	25.00%		25.00%	25.00%	
Gloucestershire Fire and Rescue	75.00%	75.00%		75.00%	75.00%	
Government Accommodation in Northern Europe	85.00%	–		–	–	
Greater Manchester Police Authority [1]	72.90%	72.90%		72.90%	72.90%	
Haverstock School	50.00%	50.00%		50.00%	50.00%	
Health and Safety Executive (HSE) Merseyside Headquarters	50.00%	50.00%		50.00%	50.00%	
Health and Safety Laboratory	80.00%	90.00%		80.00%	90.00%	
Helicopter Training Facility – AssetCo [1]	86.60%	7.20%		86.60%	7.20%	
Helicopter Training Facility – OpCo	23.50%	74.10%		23.50%	74.10%	
Highland Schools [1]	100.00%	100.00%		100.00%	100.00%	
Home Office Headquarters [1]	100.00%	100.00%		100.00%	100.00%	

12. Investments at Fair Value through Profit or Loss *(continued)*

	Percentage Holding					
	31 March 2016			31 March 2015		
Project name	Equity	Subordinated debt	Mezzanine debt	Equity	Subordinated debt	Mezzanine debt
Irish Grouped Schools [2]	50.00%	50.00%		50.00%	50.00%	
Kent Schools	50.00%	50.00%		50.00%	50.00%	
Kicking Horse Canyon Transit P3 [4]	50.00%	–		50.00%	–	
Lewisham Hospital [1]	100.00%	100.00%		100.00%	100.00%	
M80 DBFO	50.00%	50.00%		50.00%	50.00%	
Manchester School	50.00%	50.00%		50.00%	50.00%	
Medway LIFT	60.00%	60.00%		60.00%	60.00%	
Medway Police [1]	100.00%	100.00%		100.00%	100.00%	
Metropolitan Police Specialist Training Centre [1]	72.90%	72.90%		72.90%	72.90%	
Miles Platting Social Housing	50.00%	33.30%		50.00%	33.30%	
Newcastle Libraries	50.00%	50.00%		50.00%	50.00%	
Newham BSF	80.00%	80.00%		80.00%	80.00%	
Newport Schools [1]	100.00%	100.00%		100.00%	100.00%	
Newton Abbot Hospital [1]	100.00%	100.00%		100.00%	100.00%	
North Tyneside Schools	50.00%	50.00%		50.00%	50.00%	
Northwest Anthony Henday Ring Road P3 [4]	50.00%	50.00%		50.00%	50.00%	
Northwood MoD HQ	50.00%	50.00%		50.00%	50.00%	
Norwich Area Schools	75.00%	75.00%		75.00%	75.00%	
Nuffield Hospital	25.00%	25.00%		25.00%	25.00%	
N17/N18 Road [2]	10.00%	–		10.00%	–	
Oldham Library [1]	90.00%	90.00%		90.00%	90.00%	
Oldham Schools	75.00%	75.00%		75.00%	75.00%	
Oxford Churchill Oncology	40.00%	40.00%		40.00%	40.00%	
Oxford John Radcliffe Hospital [1]	100.00%	100.00%		100.00%	100.00%	
PSBP (North East Batch Schools)	45.00%	–		45.00%	–	
Perth and Kinross Schools [1]	100.00%	100.00%		100.00%	100.00%	
Pinderfields and Pontefract Hospitals [1]	100.00%	100.00%		100.00%	100.00%	
Queen Alexandra Hospital Portsmouth [1]	100.00%	100.00%		100.00%	100.00%	
Queen's (Romford) Hospital	66.70%	66.70%		66.70%	66.70%	
RD901 Road [5]	90.00%	–		90.00%	–	
Redbridge & Waltham Forest LIFT	60.00%	60.00%		60.00%	60.00%	
Renfrewshire Schools	30.00%	30.00%		30.00%	30.00%	
Rhonnda Cynon Taf Schools [1]	100.00%	100.00%		100.00%	100.00%	
Royal Canadian Mounted Police [1 & 4]	100.00%	–		–	–	
Royal School of Military Engineering [1]	26.00%	32.10%		26.00%	32.10%	
Salford Hospital	50.00%	50.00%		50.00%	50.00%	
Salford & Wigan Phase 1 BSF	80.00%	80.00%		40.00%	40.00%	
Salford & Wigan Phase 2 BSF	80.00%	80.00%		40.00%	40.00%	
Sheffield BSF	59.00%	59.00%		59.00%	59.00%	
Sheffield Hospital	75.00%	75.00%		75.00%	75.00%	
Sheffield Schools	75.00%	75.00%		37.50%	37.50%	
South Ayrshire Schools [1]	100.00%	100.00%		100.00%	100.00%	
South East London Police Stations	50.00%	50.00%		50.00%	50.00%	
South West Hospital, Enniskillen	39.00%	39.00%		39.00%	39.00%	
Southmead Hospital	62.50%	62.50%		–	–	
Staffordshire LIFT	60.00%	60.00%		60.00%	60.00%	
Stoke Mandeville Hospital [1]	100.00%	100.00%		100.00%	100.00%	
Sussex Custodial Services [1]	100.00%	100.00%		100.00%	100.00%	
Tameside General Hospital	50.00%	50.00%		50.00%	50.00%	
Tyne and Wear Fire Stations [1]	100.00%	–		100.00%	–	
University of Bourgogne [5]	85.00%	85.00%		85.00%	–	
University of Sheffield	50.00%	50.00%		50.00%	50.00%	

12. Investments at Fair Value through Profit or Loss *(continued)*

	Percentage Holding					
	31 March 2016			31 March 2015		
Project name	Equity	Subordinated debt	Mezzanine debt	Equity	Subordinated debt	Mezzanine debt
West Lothian Schools	75.00%	75.00%		75.00%	75.00%	
West Middlesex Hospital [1]	100.00%	100.00%		100.00%	100.00%	
Willesden Hospital [1]	100.00%	100.00%		100.00%	100.00%	
Wooldale Centre for Learning	50.00%	50.00%		50.00%	50.00%	
Zaanstad Penitentiary [3]	75.0%	–		75.0%	–	

1. *The project is a subsidiary that has not been consolidated.*
2. *The project is located in Ireland.*
3. *The project is located in the Netherlands.*
4. *The project is located in Canada.*
5. *The project is located in France.*
6. *The project is located in Australia.*
7. *The investment was sold in April 2015 (see Note 13).*
8. *The investment is a conditional investment*

13. Investments – Acquisitions and Disposals

The Group made the following acquisitions and disposals for the year ending 31 March 2016:

Acquisitions

- In April 2015 the Group acquired a further 40% equity and loan interest in Salford and Wigan Phase 1 BSF Project and Salford and Wigan Phase 2 BSF for a combined consideration of £16.0 million, which took the Group's stake in each project to 80%.
- In July 2015 the Group acquired a 50% equity and loan interest in the Southmead Hospital project for a total consideration of £87.8 million.
- In July 2015 the Group invested further loan stock in the Oxford Churchill Oncology project of £2.0 million on a pro-rata basis with the other shareholders in the project.
- In September 2015 the Group acquired 100% equity and loan interest in the Royal Canadian Mounted Police 'E' Division Headquarters P3 project in British Columbia, Canada. The total consideration for the investment was CAD$ 54.0 million (£26.9 million).
- In November 2015 the Group acquired the remaining 27.1% equity and loanstock interest in the Durham & Cleveland Police Tactical Training Centre project for a total consideration of £0.7 million, which took the Group's interest in the project to 100%.
- In January 2016 the Group acquired an incremental 12.5% equity and loan interest in the Southmead Hospital project for a total consideration of £25.3 million, which took the Group's stake to 62.5%.
- In January 2016 the Group acquired an incremental 37.5% equity and loan interest in the Sheffield Schools project for a consideration of £4.1 million through an existing joint venture holding company, Redwood Partnership Ventures 2 Limited in which the Group has a 75% shareholding. This took the Group's interest in the project to 75%.
- In February 2016 the Group reached an agreement to acquire a 13.8% equity and loan interest in the A63 Motorway project in France. The acquisition is subject to a number of conditions and is expected to complete in early 2017. Consideration of up to €87 million (c. £69 million) will be paid to the vendors at completion.
- In February 2016 the Group acquired an incremental c.0.4% equity interest in the Aquasure Desalination PPP project for a consideration of Australian $5.6 million (£2.8 million).
- In the year to March 2016 the Group acquired an 85% equity interest in a Government accommodation project in Northern Europe for a total consideration of £7.5 million including future loan note subscription obligations.

The above investments are all held at fair value.

In October 2015 the Group provided €20 million as senior debt on a short term basis in the Zaanstad Penitentiary project. The senior debt was repaid to the Group in February 2016.

13. Investments – Acquisitions and Disposals *(continued)*

Disposals

- The Group concluded the sale of its entire stake of 50% equity and subordinated debt interest and 100% junior loan interest in Fife Schools project in April 2015 generating net disposal cash proceeds of £7.3 million, in line with the valuation of the investment as at 31 March 2015.

- In September 2015 the Group partially disposed of its investment in the Ealing Care Homes project to its joint venture, Redwood Partnership Ventures 2 Limited in which the Company holds a 75% stake. The transaction reduced the Group's 84% stake to 63%, generating £1.6 million of proceeds.

14. Trade and other Payables

	31 March 2016 *£million*	31 March 2015 *£million*
Trade payables	11.3	11.9
Other payables	–	0.4
Trade and other payables	11.3	12.3

Included in trade payables are the fees payable to InfraRed Capital Partners Limited of £10.1 million (2015: £9.8 million) – see Note 17 for details.

15. Loans and Borrowings

The Group had no cash loans or borrowings outstanding at 31 March 2016 (2015: Nil) under its revolving bank facility. Letters of credit utilised on the revolving bank facility totalled £36.6 million at 31 March 2016 (2015: £22.5 million).

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

Floating rate:	2016 *£million*	2015 *£million*
Secured		
– expiring within one year	–	–
– expiring between 1 and 2 years	–	127.5
– expiring between 2 and 5 years	163.4	–
– expiring after 5 years	–	–
	163.4	127.5

The Group's multi-currency revolving bank facility was increased from £150m to £200m in November 2015 and is jointly provided by Royal Bank of Scotland, National Australia Bank, Lloyds Bank, Sumitomo Mitsui Banking Corporation and HSBC. The facility runs until May 2019 and has a margin of 1.70%. It is available to be drawn in cash and letters of credit for future investment obligations.

During the year, the Group complied with its bank covenants on its revolving bank facility, the most significant of which were maintaining a forward and historic interest cover ratio above 3:1 and gearing ratio not greater than 0.275:1.

16. Share Capital and Reserves

Ordinary Shares

	31 March 2016 *million*	31 March 2015 *million*
Authorised and issued at 1 April	1,267.7	1,207.4
Issued for cash	117.1	54.0
Issued as a scrip dividend alternative	3.6	6.3
Authorised and issued at 31 March – fully paid	1,388.4	1,267.7

The holders of the 1,388,426,479 Ordinary Shares of 0.01p each are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company (2015: 1,267,744,626 Ordinary Shares).

16. Share Capital and Reserves *(continued)*

Ordinary Share capital and share premium

	31 March 2016 *£million*	31 March 2015 *£million*
Opening balance	1,194.3	1,110.1
Premium arising on issue of equity shares	183.7	84.8
Expenses of issue of equity shares	(1.4)	(0.6)
Balance at 31 March	1,376.6	1,194.3

Share capital at 31 March 2016 is £138.8 thousand (2015: £126.8 thousand).

For the year ended 31 March 2016

On 30 June 2015, 0.7 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 152.66p as a scrip dividend alternative in lieu of cash for the fourth interim dividend of 1.87p in respect of the year ending 31 March 2015.

On 30 September 2015, 1.3 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 151.5p as a scrip dividend alternative in lieu of cash for the first quarterly interim dividend of 1.86p in respect of the year ending 31 March 2016.

On 31 December 2015, 0.5 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 152.34p as a scrip dividend alternative in lieu of cash for the second quarterly interim dividend of 1.86p in respect of the year ending 31 March 2016.

On 31 March 2016, 1.1 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 155.66p as a scrip dividend alternative in lieu of cash for the third quarterly interim dividend of 1.86p in respect of the year ending 31 March 2016.

In the year ending 31 March 2016, 117.1 million new Ordinary Shares of 0.01p each were issued to various institutional investors at an issue price per share (before expenses) ranging between 150.0p and 156.0p.

For the year ended 31 March 2015

On 30 June 2014, 2.6 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 137.14p as a scrip dividend alternative in lieu of cash for the second interim dividend of 3.6p in respect of the year ending 31 March 2014.

On 30 September 2014, 1.3 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 143.96p as a scrip dividend alternative in lieu of cash for the first quarterly interim dividend of 1.81p in respect of the year ending 31 March 2015.

On 7 January 2015, 1.2 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 150.76p as a scrip dividend alternative in lieu of cash for the second quarterly interim dividend of 1.81p in respect of the year ending 31 March 2015.

On 31 March 2015, 1.1 million new Ordinary Shares of 0.01p each fully paid in the Company were issued at a reference price of 156.34p as a scrip dividend alternative in lieu of cash for the third quarterly interim dividend of 1.81p in respect of the year ending 31 March 2015.

In the year ending 31 March 2015, 54.0 million new Ordinary Shares of 0.01p each were issued to various institutional investors at an issue price per share (before expenses) ranging between 137.0p and 147.0p.

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.

17. 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 6) (2015: £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 fellow subsidiary of IRCP. The Operator and the General Partner may each terminate the appointment of the Operator by either party giving one year's written notice. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Advisory Agreement is terminated in accordance with its terms. The General Partner's appointment does not have a fixed term, however if IRCP ceases to be the Operator, the Company has the option to buy the entire share capital of the General Partner and IRCP Group has the option to sell the entire share capital of the General Partner to the Company, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In the year to 31 March 2016, in aggregate IRCP and the General Partner were 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 up to £750 million, 1.0 per cent per annum for the incremental value in excess of £750 million up to £1,500 million, 0.9 per cent for the incremental value in excess of £1,500 million up to £2,250 million and 0.8 per cent for the incremental value in excess of £2,250 million and ii) 1.0 per cent of the value of new portfolio investment, that were not sourced from entities, funds or holdings managed by the IRCP Group.

The total Operator fees charged to the Consolidated income statement was £18.9 million (2015: £16.9 million) of which £9.7 million remained payable at year end (2015: £8.8 million). The total charge for new portfolio investments (disclosed within investment fees in Note 6) was £1.5 million (2015: £1.1 million) of which £0.4 million remained payable at year end (2015: £1.0 million).

In October 2015 the Company acquired 100% equity and loan note interest in the Royal Canadian Mounted Police 'E' Division Headquarters P3 project in British Columbia, Canada, of which 99.9% was acquired for a consideration of approximately CAD$ 53 million (£26.4 million) from InfraRed Infrastructure Fund III, a fund managed by IRCP.

The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report on page 69.

Total fees for Directors for the year were £307,000 (2015: £269,167). Directors expenses of £12,939 (2015: £18,844) were also paid in the year. In addition, aggregate fees of £5,000 (2015: £5,000) were paid to both Directors who served as director of the two Luxembourg subsidiaries during the year.

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

18. Guarantees and other Commitments

As at 31 March 2016 the Group had £97.4 million commitments for future project investments (2015: £22.5 million), and an additional contingent commitment of €16.8 million (2015: €16.8 million) to acquire a further 32% equity and loan interest in the N17/N18 Road project from existing co-shareholders following completion of construction which is currently expected to occur in 2019.

19. Events after the Balance Sheet Date

In April 2016 the Group acquired a 30% equity and loan interest in the M1-A1 Link Road (Lofthouse to Bramham) DBFO Road project for a total consideration of £14.5 million.

In April 2016 the Group acquired a 37.5% equity and loan interest in the Hinchingbrooke Hospital project for a total consideration of £2.6m through an existing joint venture holding company, Redwood Partnership Ventures 2 Limited in which the Group has a 75% shareholding.

The fourth quarterly interim dividend for the year ended March 2016 of 1.87pence per share was approved by the Board on 12 May 2016 and is payable on 30 June 2016 to shareholders on the register as at 29 May 2016.

20. Disclosure – Service Concession Arrangements

The Group held at 31 March 2016 investments in 103 (2015: 101) service concession arrangements and one conditional contract to acquire an investment 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.

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.

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
A63 Motorway [1]	Design, build, finance, operate and maintain an upgrade to the A63 highway between Salles and Saint Geours de Maremne in France	2051	40	€1,130m	Colas
A92 Road	Design, construct, finance and operate the upgraded A92 shadow toll road between Dundee and Arbroath for Transport for Scotland	2035	30	£54m	Bear
A249 Road	Design, construct, finance, operate and maintain the section from Iwade Bypass to Queensborough of the A249 road for the Secretary of State for Transport	2036	30	£79m	Carillion
Addiewell Prison	Design, build, finance and operate a new maximum security prison at Addiewell, West Lothian	2033	25	£75m	Sodexo
Allenby & Connaught MOD	Design, build and finance new and refurbished MoD accommodation across four garrisons on Salisbury Plain and in Aldershot, comprising working, leisure and living quarters as well as ancillary buildings	2041	35	£1,557m	Carillion KBR
Aquasure Desalination	Design, build, finance and operate a 150GL/year desalination plant and associated infrastructure.	2039	30	A$3,512m	SUEZ Environmental
Barking and Dagenham Schools	Design, construct, finance, operate and maintain the Eastbury Comprehensive and Jo Richardson Community Schools for London Borough of Barking & Dagenham	2030	26	£47m	Bouygues Energies & Services
Barnet Hospital	Design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust Bouygues Energies & Services	2032	33	£65m	Bouygues Energies & Services
Birmingham and Solihull LIFT	Design, construct and invest in facilities of new health and social care facilities	2031	27	£65m	Carillion
Birmingham Hospitals	Design, construct, finance and maintain a new acute hospital and six mental health facilities for University Hospitals Birmingham NHS Foundation Trust and Solihull Mental Health NHS Foundation Trust	2046	40	£553m	Cofely
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	2059	60 (with break option by Grantor at Year 30, 40 & 50)	£66m	ISS
Blackburn Hospital	Design, construct, finance and maintain new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust	2041	38	£100m	Cofely

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

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Blackpool Primary Care Facility	Design, construct, finance and operate a primary care centre in Blackpool for Blackpool Primary Care Trust	2040	32	£19m	Eric Wright
Boldon School	Design, construct, finance, operate and maintain Boldon School for the Borough of South Tyneside	2031	26	£18m	Mitie
Bradford BSF Phase 1	Design, construct, finance and operate three new secondary schools (Buttershaw High School, Salt Grammar School and Tong School), along with routine and major lifecycle maintenance for the life of the concession	2035	27	£84m	Amey
Bradford BSF Phase 2	Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council	2036	27	£230m	Amey
Brentwood Community Hospital	Design, construct, finance and maintain a new community hospital for South West Essex Primary Care Trust	2036	30	£23m	Interserve
Brighton Hospital	Construct and operate a new children's hospital in Brighton	2034	30	£37m	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	2036	33	£75m	Bouygues Energies & Services
Connect	Upgrade London Underground Limited's existing radio and telecommunications systems and implement and operate a new system	2019	20	£330m	Thales
Conwy Schools	Design, build, operate and maintain three schools for Conwy County Borough Council in North Wales	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)	2030	25	€50m	Bilfinger Berger
Croydon Schools	Design, construct, finance, operate and maintain a secondary school and community library in Croydon for the London Borough of Croydon	2034	30	£20m	Vinci
Darlington Schools	Design, construct, finance, operate and maintain an Education Village comprising four schools	2029	25	£31m	Mitie
Defence Sixth Form College	Design, build, operate, finance and maintain a new residential sixth form college for the Secretary of State for Defence	2033	30	£40m	Interserve
Derby Schools	Design, construct, finance, operate and maintain three primary schools and two secondary schools in Derby for Derby City Councili	2031	27	£37m	Vinc
Doncaster Mental Health	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	2031	28	£15m	Royal BAM
Dorset Fire and Rescue	Design, construct, finance, operate and maintain the fire and police facilities at three sites in Dorset for the Dorset Fire Authority & Police and Crime Commissioner for Dorset	2034	27	£45m	Cofely

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

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Durham and Cleveland Police Tactical Training Centre	Finance, construct, operate and maintain a state of the art firearms and tactical training centre at Urlay Nook in the North of England	2025	25	£6m	Carillion
Dutch High Speed Rail Link	Design, construct, finance, operate and maintain power, track and signalling for the high speed railway between Schiphol Airport and Belgian border in the Netherlands	2026	25	€890m	Fluor Royal BAM Siemens
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	2035	30	£22m	Viridian
Ealing Schools	Design, construct, finance, operate and maintain a four-school education project consisting of one secondary school and three primary schools in the London Borough of Ealing	2029	27	£31m	Mitie
Ecole Centrale Supelec	Design, construct, finance and maintain a new facility for the Ecole Centrale Supelec in France, as well as a shared teaching and research facility	2041	26	€65m	Bouygues
Edinburgh Schools	Design, construct, finance, operate and maintain six secondary schools and two primary schools for the City of Edinburgh Council	2039	32	£165m	Mitie
Exeter Crown Court	Build and service a new crown and county court building in Exeter	2034	32	£20m	Sodexo
Falkirk NPD Schools	Design, construct, finance and operate four secondary schools in the Falkirk area of Scotland	2039	32	£120m	FES
Fife Schools 2	Design, construct, finance and maintain nine primary schools and one special education facility in Fife, Scotland	2032	27	£64m	FES
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	2036	30	£178m	Cofely
Gloucestershire Fire and Rescue	Construct and operate 4 community fire stations in Gloucestershire and a SkillZone education centre	2037	26	£23m	Capita
Greater Manchester Police Authority	Design, build, finance and operate a new traffic headquarters and 16 new police stations for the Greater Manchester Police Authority	2031	29	£82m	Carillion
Haverstock School	Design and construction of a single new secondary school on an existing school site on Haverstock Hill, Camden	2030	26	£21m	Mitie
Health and Safety Laboratory	Construct new workshops and offices in Buxton	2034	32	£60m	Interserve
Health and Safety Executive (HSE) Merseyside Headquarters	Finance, construct, operate and maintain a new four-storey office building for the Health and Safety Executive	2035	30	£62m	Honeywell
Helicopter Training Facility	Design, construct, management, operate and finance simulators based training facility for Royal Airforce (RAF) helicopter pilots	2037	40 (with break clause by Grantor at Year 20)	£100m	Rockwell Collins

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

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Highland Schools	Design, construct and operate eleven urban and rural schools	2037	30	£143m	Mears
Home Office Headquarters	Build, finance, operate and maintain a new headquarters building to replace the Home Office's existing London office accommodation with purpose-built serviced offices	2031	29	£200m	Bouygues Energies & Services
Irish Grouped Schools	Design, construct, finance, operate and maintain five secondary schools in the Republic of Ireland for the Department of Education and Skills	2026	25	€34m	Bilfinger Berger
Kent Schools	Design, build, funding and partially operate six schools in Kent	2035	30	£95m	Mitie
Kicking Horse Canyon Transit P3	Upgrade, operate and maintain a section of highway in British Columbia, Canada	2027	22	CAD$127m	HMC Services
Lewisham Hospital	Design, construct, finance, operate and maintain a new wing in Lewisham Hospital for the Department of Health	2036	32	£58m	Carillion
M80 DBFO	Design, build, finance and operate a section of the M80 motorway in Scotland	2039	30	£275m	Bear
Manchester School	Design, construct, finance, operate and maintain the Wright Robinson College in Manchester for Manchester City Council	2031	26	£29m	Hochtief
Medway LIFT	Deliver health and social care infrastructure to NHS property services and Community Health Partnerships within the Medway area of North Kent	2034	29	£19m	Rydon
Medway Police	Design, construct, finance, operate and maintain a divisional police headquarters for Police and Crime Commissioner for Kent	2034	30	£21m	Vinci
Metropolitan Police Specialist Training Centre	Finance, operate and maintain firearms and public order training facility in Gravesend, Kent for the Mayor's Office for Policing and Crime	2026	25	£40m	Carillion
Miles Platting Social Housing	Redesign and refurbish approximately 1,500 occupied properties, as well as to build 20 new extra care homes and 11 new family homes in Miles Platting, Manchester	2037	30	£79m	Morgan Sindall
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	2032	25	£30m	Integral
Newham BSF	Design, build, finance, maintain and operate two new secondary schools in Newham, London on behalf of the London Borough of Newham Council	2036	27	£53m	Mitie
Newport Schools	Design, construct, finance, operate and maintain a nursery, infant and junior school for Newport City Council	2033	25	£15m	Vinci
Newton Abbot Hospital	Design, construct, finance, operate and maintain a community hospital for Devon Primary Care Trust	2039	32	£20m	Rydon
North Tyneside Schools	Design, construct, finance, operate and maintain a four-school education project consisting of one secondary school and three primary schools in North Tyneside	2033	31	£30m	Mitie

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

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Northwest Anthony Henday Ring Road P3	Finance, build, maintain and rehabilitate the northwest leg of the Anthony Henday Drive ring road in the City of Edmonton, Alberta, Canada	2041	33	CAD$995m	Vinci
Northwood MoD HQ	Design, construct and commission new-built facilities on behalf of the Ministry of Defence in Northwood, Greater London	2031	25	£198m	Carillion
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	2032	26	£43m	Kier
Nuffield Hospital	Design, construct, finance, operate and maintain a new orthopaedic hospital for the Secretary of State for Health	2036	34	£37m	G4S
N17/N18 Road	Design, build, finance, operate and maintain the N17/N18 road in Ireland for the National Road Authority, which is responsible for the development and improvement of national roads in Republic of Ireland	2042	28	€336m	Strabag
Oldham Library	Design, construct, finance, operate and maintain the Oldham Library and Lifelong Learning Centre for Oldham Metropolitan Borough Council	2029	25	£15m	Kier
Oldham Secondary Schools	Design, construct, finance and operate two secondary schools for Oldham Metropolitan Borough Council	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	2038	33	£124m	Impregilo
Oxford John Radcliffe Hospital	Design, construct, manage, finance, operate and maintain a new wing adjacent to the former Radcliffe Infirmary	2036	33	£161m	Carillion
PSBP (North East Batch Schools)	Design, construct, operate and maintain 6 new primary and 6 new secondary schools in various UK locations	2041	26	£103m	Galliford Try
Perth and Kinross Schools	Design, construct, financing and operation of four secondary schools and five primary schools for the Perth and Kinross Council	2041	34	£136m	Mitie
Pinderfields and Pontefract Hospitals	Design, construct, manage, finance 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	2042	35	£311m	Cofely
Queen Alexandra Hospital, Portsmouth	Design and construct a new hospital and retained estates work in Portsmouth	2040	35	£255m	Carillion
Queen's (Romford) Hospital	Design, construct, manage, finance, operate and maintain a new hospital in Romford	2040	36	£211m	Sodexo
RD901 Road	Design, construct, finance and maintain a new 7km dual carriageway bypassing the small town of Troissereux, near Beauvais in France	2039	25	€84m	Bouygues

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

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Redbridge & Waltham Forest LIFT	Deliver health and social care infrastructure for NHS Property Services and Community Health Partnerships within Redbridge and Waltham Forest in North London	2030	25	£15m	Rydon
Renfrewshire Schools	Design, construct, manage, finance, operate and maintain six primary and four secondary schools in Renfrewshire, Scotland	2038	30	£100m	Amey
Rhonnda Cynon Taf Schools	Design, construct, manage, finance and operate a primary school, secondary school, a day nursery and an adult learning centre in South Wales for Rhondda Cynon Taf Authority	2028	24	£22m	Vinci
Royal Canadian Mounted Police	Design, construct, finance, operate and maintain a 72,000 sqm headquarters office facility building in Surrey, British Columbia, Canada	2040	28	CAD$234m	Bouygues Energies and Services
Royal School of Military Engineering	Design, build, refurbish and maintain 32 new buildings, 21 refurbishments and five training areas across three UK locations on behalf of the UK Ministry of Defence, that supports the Royal School of Military Engineering	2038	30	£300m	Carillion
Salford Hospital	Design, construct and commission new-build facilities and associated site infrastructure for the Salford Royal NHS Foundation Trust	2042	35	£137m	Cofely
Salford & Wigan Phase 1 BSF	Design, build, finance, maintain and operate two new secondary schools in Salford and Wigan, Greater Manchester on behalf of Salford City Council and Wigan Borough Council	2036	26	£56m	SPIE
Salford & Wigan Phase 2 BSF	Design, build, finance, maintain and operate three new secondary schools in Salford and Wigan, Greater Manchester on behalf of Salford City Council and Wigan Borough Council	2038	27	£70m	SPIE
Sheffield BSF	Design, build, finance, maintain and operate two new secondary schools and one new special educational needs secondary school in Sheffield for Sheffield City Council	2034	25	£75m	Vinci
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	2036	32	£26m	Dalkia
Sheffield Schools	Design, construct, finance and operate two primary schools and two secondary schools for Sheffield City Council	2030	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	2039	33	£76m	Mitie
South East London Police Stations	Design, construct, finance and operate four police stations in South East London for the Mayor's Office for Policing and Crime	2026	25	£80m	Carillion

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

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Southmead Hospital	Design, construct, finance, operate and maintain an 800-bed acute hospital on a single site at Southmead in North Bristol, on behalf of the North Bristol NHS Trust	2049	35	£431m	Carillion
South West Hospital, Enniskillen	Design, construct, finance and maintain a new acute hospital and key worker accommodation at Enniskillen in Northern Ireland	2042	34	£227m	Interserve
Staffordshire LIFT	Develop, design, construct, invest in and maintain health and social care facilities	2030	25	£40m	Integral
Stoke Mandeville Hospital	Design, finance, construct, refurbish, operate and maintain a new hospital facility for the Buckingham Hospitals NHS Trust	2034	30	£40m	Sodexo
Sussex Custodial Services	Build and service custody centres in Sussex for the Police and Crime Commissioner for Sussex (formerly the Sussex Police Authority). The centres are at Worthing, Chichester, Brighton and Eastbourne	2031	30	£20m	Capita
Tameside General Hospital	Design, construct and commission new-build facilities and associated site infrastructure for the Tameside Hospital NHS Foundation Trust	2041	34	£78m	Cofely
Tyne and 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	2031	25	£23m	Carillion
University of Bourgogne	Design, construct, finance and maintain 3 new buildings on the Bourgogne university campus in France and the refurbishment of an existing one	2040	27	€20m	Bouygues
University of Sheffield Student Accommodation	Construct and manage a new student village at the University of Sheffield	2046	40	£160m	Lend Lease
West Lothian Schools	Design, construct, finance and operate two new schools, Armadale Academy and the Deans Community High School for West Lothian Council	2039	31	£60m	Dawn Construction
West Middlesex Hospital	Design, construct, finance, operate and maintain a new 228 bed hospital for West Middlesex University Hospital NHS Trust	2036	35	£60m	Bouygues Energies & Services
Willesden Hospital	Design, construct, manage and finance a community hospital in north London for NHS Brent	2034	32	£24m	Accuro
Wooldale Centre for Learning	Design, construct, manage, finance and operate the Wooldale Centre for Learning 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	2029	25	£24m	Mitie
Zaanstad Penitentiary	Design, build, finance, maintain and operate of a new penitentiary institution at business park Hoogtij in Zaanstad, the Netherlands	2041	25	€160m	Ballast Nedam

1. The A63 Motorway investment is a conditional investment, see Note 13.

21. Consolidated 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%

22. Subsidiaries

The following project subsidiaries have not been consolidated in these Financial Statements, as a result of applying IFRS 10 and Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27):

Name	Country	Ownership interest
2003 Schools Services Limited	United Kingdom	100.0%
Ashburton Services Limited	United Kingdom	100.0%
Annes Gate Property Plc*	United Kingdom	100.0%
Alpha Schools Highland Limited**	United Kingdom	100.0%
Axiom Education (Edinburgh) Limited*	United Kingdom	100.0%
Axiom Education (Perth & Kinross) Limited*	United Kingdom	100.0%
Boldon School Limited	United Kingdom	100.0%
ByCentral Limited*	United Kingdom	100.0%
By Education (Barking) Limited*	United Kingdom	100.0%
ByWest Limited*	United Kingdom	100.0%
Consort Healthcare (Blackburn) Limited*	United Kingdom	100.0%
Consort Healthcare (Mid Yorks) Limited*	United Kingdom	100.0%
CVS Leasing Limited	United Kingdom	87.6%
Derby School Solutions Limited*	United Kingdom	100.0%
Education 4 Ayrshire Limited*	United Kingdom	100.0%
Enterprise Civic Buildings Limited*	United Kingdom	100.0%
Enterprise Education Conwy Limited*	United Kingdom	90.0%
Enterprise Healthcare Limited*	United Kingdom	100.0%
H&D Support Services Limited*	United Kingdom	100.0%
Green Timbers Limited Partnership	Canada	100.0%
Information Resources (Oldham) Limited*	United Kingdom	90.0%
Metier Healthcare Limited	United Kingdom	100.0%
Newport Schools Solutions Limited*	United Kingdom	100.0%
Newton Abbot Health Limited*	United Kingdom	100.0%
PFF (Dorset) Limited*	United Kingdom	100.0%
Ravensbourne Health Services Limited*	United Kingdom	100.0%
Services Support (Cleveland) Limited*	United Kingdom	100.0%
Services Support (Gravesend) Limited*	United Kingdom	72.9%
Services Support (Manchester) Limited*	United Kingdom	72.9%
Sussex Custodial Services Limited*	United Kingdom	100.0%
THC (OJR) Limited*	United Kingdom	100.0%
THC (QAH) Limited*	United Kingdom	100.0%
TW Accommodation Services Limited	United Kingdom	100.0%
Willcare (MIM) Limited*	United Kingdom	100.0%

** = Reporting date 31 December*
*** = Reporting date 31 January*
All other reporting dates are 31 March.

Directors and Advisers

Directors

Ian Russell, CBE (Chairman)
Sarah Evans
Susie Farnon
John Hallam
Frank Nelson
Graham Picken
Chris Russell

Registrar

Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St. Sampson
Guernsey GY2 4LH

Administrator to Company, Company Secretary and Registered Office

Fidante Partners (Guernsey) Limited
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St Peter Port
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Investment Adviser and Operator

InfraRed Capital Partners Limited
12 Charles II Street
London SW1Y 4QU
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Financial PR

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London EC4Y 1AE

UK Transfer Agent

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Kent BR3 4TU
Helpline: 0871 664 0300

Auditor

KPMG Channel Islands Limited
Glategny Court, Glategny Esplanade
St. Peter Port
Guernsey GY1 1WR

Broker

Canaccord Genuity Limited
9th Floor
88 Wood Street
London EC2V 7QR

Company Summary

Company	HICL Infrastructure Company Limited, a non-cellular company limited by shares incorporated under the laws of the Island of Guernsey with registration number 44185
Investment Adviser ("IA") and Operator	InfraRed Capital Partners Limited (authorised and regulated by the UK's FCA) is a wholly-owned subsidiary of InfraRed Partners LLP which is owned by its senior management
Company Secretary and Administrator	Fidante Partners (Guernsey) Limited (formerly Dexion Capital (Guernsey) Limited)
Shareholders' funds	£2.0bn as at 31 March 2016
Market capitalisation	£2.2bn as at 31 March 2016
Investment Adviser and Operator Fees	1.1% per annum of the Adjusted Gross Asset Value[1] of the portfolio up to £750m 1.0% from £750m up to £1.5bn 0.9% from £1.5bn up to £2.25bn and 0.8% above £2.25bn plus 1.0% of the value of new acquisitions[2] plus £0.1m per annum investment advisory fee No performance fee Fees relating to shareholder matters from underlying project companies are paid to the Group (and not to the Investment Adviser)
ISA, NISA, PEP and SIPP status	The shares are eligible for inclusion in NISAs, ISAs and PEPs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs
NMPI status	Following the receipt of legal advice, the Board confirms that it conducts the Company's affairs such that the Company would qualify for approval as an investment trust if it were resident in the United Kingdom. It is the Board's intention that the Company will continue to conduct its affairs in such a manner and that IFAs should therefore be able to recommend its shares to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products.
AIFMD status	The Company is a Guernsey-domiciled self-managed non-EEA Alternative Investment Fund
FATCA	The Company has registered for FATCA and has GIIN number X5FC1F.00000.LE.831
Investment policy	The Company's investment policy is summarised in Section 2.2 – Strategy and Investment Policy and can be found in full on the Company's website
ISIN and SEDOL	ISIN: GB00B0T4LH64 SEDOL: B0T4LH6
Website	**www.hicl.com**

Notes:

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

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

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HICL Infrastructure

Delivering Real Value

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