# HICL Infrastructure Company Limited

Annual Results Presentation: Year to 31 March 2018

23 May 2018

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Past performance is not a reliable indicator of future performance.

# Agenda


# Annual Results

Croydon School, UK

# Investment Proposition and Business Model

Delivering Real Value.

**DELIVERING LONG-TERM, STABLE INCOME FROM A DIVERSIFIED PORTFOLIO OF INFRASTRUCTURE INVESTMENTS AT THE LOWER END OF THE RISK SPECTRUM**

**VALUE PRESERVATION**
Active management of the underlying investments

**VALUE ENHANCEMENT**
Outperforming the base case, delivering upside to shareholders

**ACCRETIVE INVESTMENT**
Purchasing assets that enhance the delivery of the investment proposition

**Low asset concentration risk**

**45%**
Ten largest assets as a proportion of the portfolio at 31 March 2018

**Strong inflation correlation**

**0.8**
Correlation of portfolio returns to inflation[1] at 31 March 2018

**Good cash flow longevity**

**29.5yrs**
Weighted avg asset life at 31 March 2018

1. If outturn inflation was 1% p.a. higher than the valuation assumption in each and every forecast period, the expected return from the portfolio (before Group expenses) would increase by 0.8%

# Highlights I

For the year to 31 March 2018

**149.6p**
**NAV per share**

Up 0.6p from NAV per share of 149.0p at 31 March 2017

**£2,836.5m**
**Directors' Valuation[1]**

Value of the Company's investment portfolio (£2,380.0m at 31 March 2017)

**5.7%**
**Total shareholder return**

Based on interim dividends paid plus uplift in NAV per share in the year

**7.85p**
Dividend for the year to 31 March 2018

**8.05p and 8.25p**
Dividend guidance[2] affirmed for 2019 and 2020

**£473m**
**New investments in the year**

Two new and two incremental investments

**1.10x**
**Dividend cash cover**

1.22x for the year to 31 March 2017

1. On an Investment Basis and includes £41.9m of future commitments. On an IFRS basis investments at fair value through profit or loss was £2,794.6m
2. Expressed in pence per ordinary share for financial years ending 31 March. This is a target only and not a profit forecast. There can be no assurance that this target will be met

# Highlights II

HICL Infrastructure

| | |
|---|---|
| **Performance** | ▲ Resilient performance overall<br>▲ Total shareholder return ("TSR")[1] of 5.7% for the year to 31 March 2018 (2017: 10.3%)<br>▲ Solid cash flow, with dividend cover of 1.10x (2017: 1.22x)<br>▲ The impact of the Carillion liquidation affected TSR; c. £50m of value enhancements across the portfolio more than offset the impact of regulatory and operational challenges on Affinity Water |
| **Investment Activity** | ▲ £473m invested[2] during the year; £35m invested since year-end across target market segments<br>▲ In April 2018 HICL agreed to dispose of Highland Schools (PPP) for an attractive price (~21% higher than the valuation of the investment at 30 September 2017) |
| **Funding** | ▲ £274m of equity raised through June 2017 tap issue and scrip issuance<br>▲ Net debt, on an Investment Basis, at 31 March 2018 of £115.2m (2017: net cash of £82.2m)<br>▲ Board and Investment Adviser are comfortable with current borrowing; HICL retains sufficient flexibility to fund accretive opportunities that further the diversification of the portfolio<br>▲ Board and Investment Adviser continue to consider all appropriate options for optimising portfolio performance and managing funding |
| **Governance** | ▲ Board and Investment Adviser agreed a further fee taper, reducing fees for portfolio value over £3bn[3] from 0.8% p.a. to 0.65% p.a. effective from 1 October 2017<br>▲ Mike Bane appointed as a non-executive director of the Board, effective 1 July 2018 |
| **Distributions** | ▲ Delivered aggregate dividends of 7.85p per share this financial year, in line with guidance<br>▲ Reaffirming the 8.05p[4] dividend target for the financial year ending 31 March 2019, and 8.25p[4] for the financial year ending 31 March 2020 |

1. Total shareholder return based on NAV appreciation and dividends paid
2. On an Investment Basis. On an IFRS basis new investments were £269.9m
3. Annually: 1.1% on GAV up to £750m, 1.0% thereafter up to GAV of £1.5bn, 0.9% thereafter up to GAV of £2.25bn, 0.8% thereafter up to GAV of £3.0bn, and 0.65% thereafter; plus a £0.1m investment advisory fee. In addition, a one-off 1.0% acquisition fee on new investments
4. Expressed in pence per ordinary share. This is a target only and not a profit forecast. There can be no assurance that this target will be met

# Summary Financials I

Figures presented on an Investment Basis[1]

| Income Statement | 31 March 2018 | 31 March 2017 |
|---|---|---|
| Total income | £161.7m | £207.6m |
| Fund expenses & finance costs | (£39.6m) | (£30.5m) |
| Profit before tax | £122.1m | £177.1m |
| **Earnings per share[2]** | **6.9p** | **12.4p** |
| **Ongoing charges[3]** | **1.08%** | **1.06%** |

| Balance Sheet (as at) | 31 March 2018 | 31 March 2017 |
|---|---|---|
| **Investments at fair value[4]** | **£2,794.6m** | **£2,347.5m** |
| NAV per share[2] (before final dividend) | 149.6p | 149.0p |
| Final dividend | (2.0p) | (1.9p) |
| **NAV per share (after interim dividend)** | **147.6p** | **147.1p** |

1. Investment Basis is the same basis as was applied in the 2016 Annual Report & Financial Statements which consolidated three corporate subsidiaries. See Section 3.1 of the 2018 Annual Report and Financial Statements for further details
2. Earnings per share and NAV per share are the same under IFRS and Investment Basis
3. Calculated in accordance with Association of Investment Companies' guidelines
4. Directors' Valuation at 31 March 2018 of £2,836.5m net of £41.9m future investment commitments (2017: £2,380.0m, net of £32.5m)

# Summary Financials II

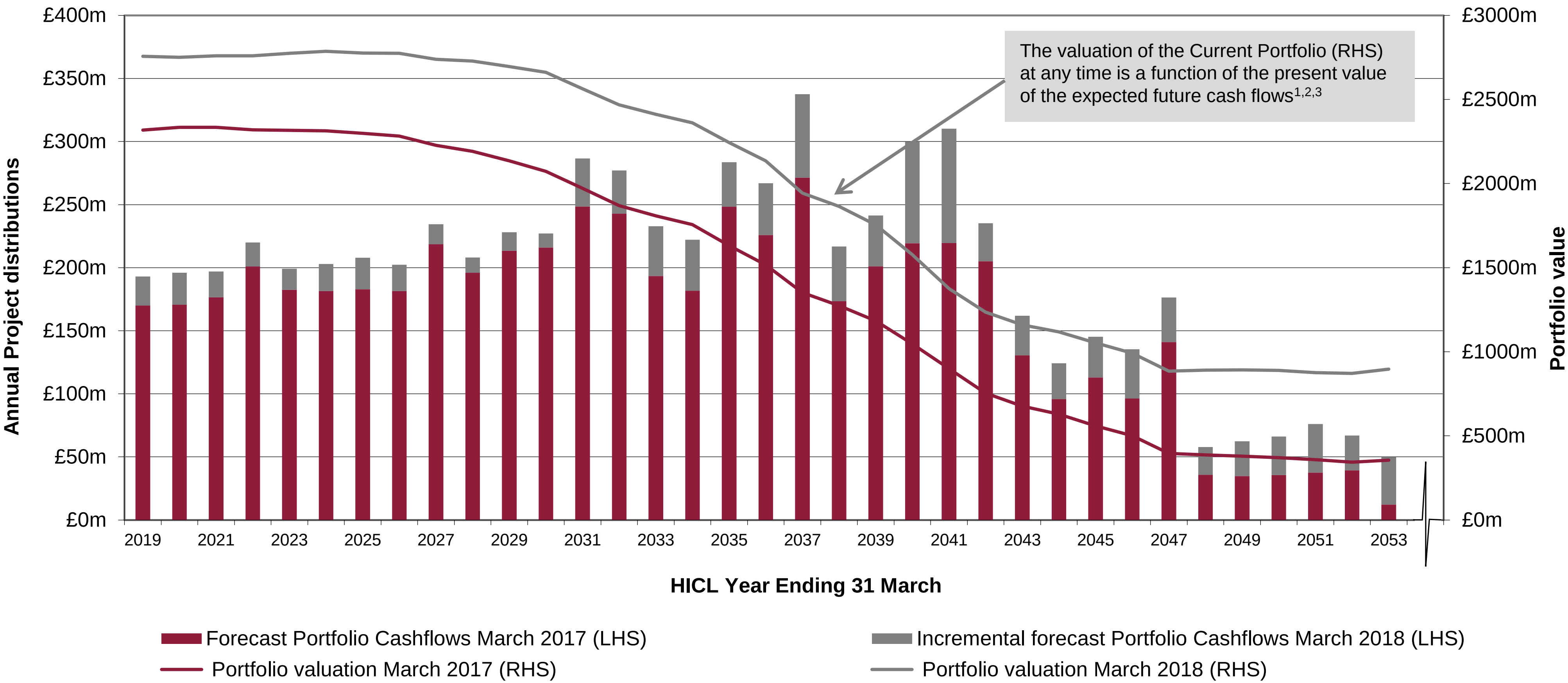
Figures presented on an Investment Basis[1]

| Cash Flow | 31 March 2018 | 31 March 2017 |
|---|---|---|
| Opening net cash | £82.2m | £52.7m |
| **Net operating cash flow** | **£142.9m** | **£122.8m** |
| Investments[2] | (£480.3m) | (£339.5m) |
| Equity raised (net of costs) | £265.8m | £369.7m |
| Forex movements and debt issue costs | £4.1m | (£22.9m) |
| Dividends paid | (£129.9m) | (£100.6m) |
| **Net (debt) / cash** | **(£115.2m)** | **£82.2m** |
| **Dividend cash cover** | **1.10x** | **1.22x** |

1. Investment Basis is the same basis as was applied in the 2016 Annual Report & Financial Statements which consolidated three corporate subsidiaries. See Section 3.1 of the 2018 Annual Report and Financial Statements for further details
2. "Investments" includes acquisition costs

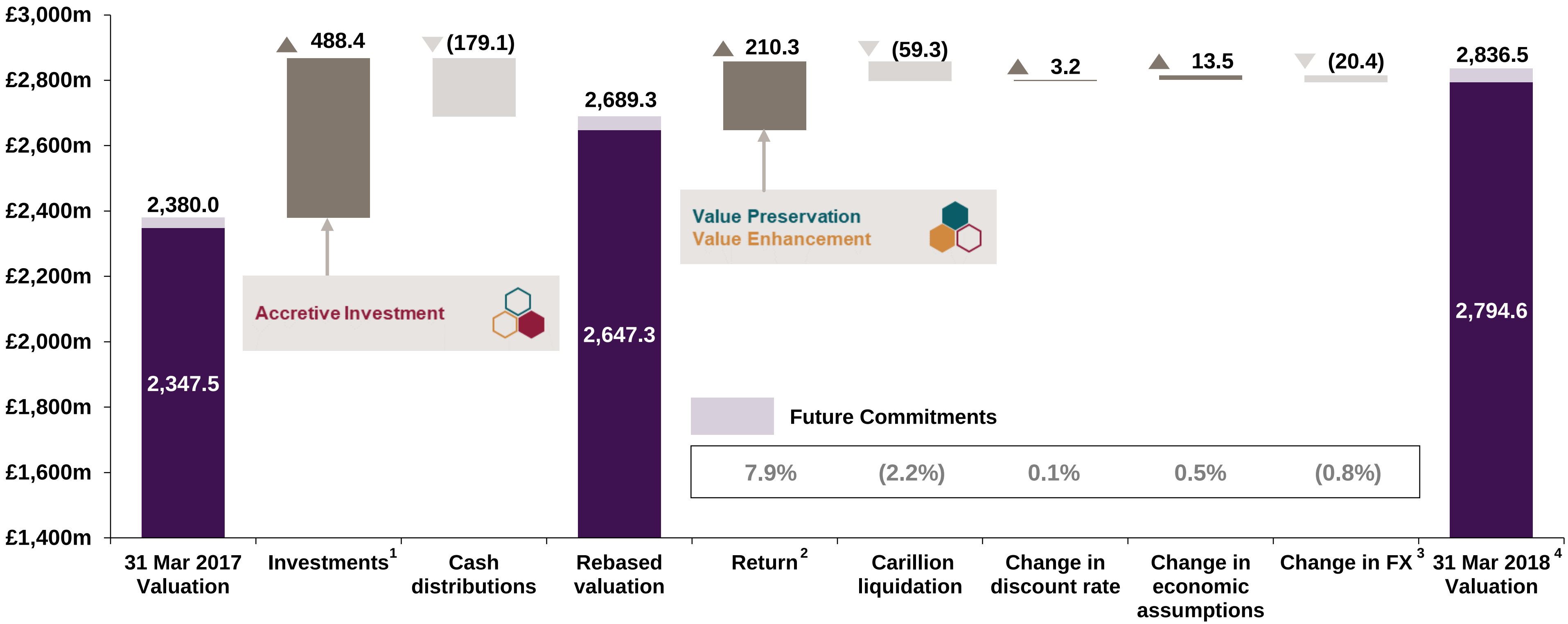
# Portfolio Overview – Cash Flow Profile[1,2,3]

- Forecast shows steady long-term cash flows combined with a stable portfolio valuation in the medium term
- Portfolio cash flows underpin two years of forward dividend guidance




1. The illustration represents a target only at 31 March 2018 and is not a profit forecast. There can be no assurance that this target will be met
2. Valuation considers cash flows beyond 2053, for example for Northwest Parkway 89 years of cash flows are assumed
3. Subject to certain other assumptions, set out in detail in the Company's Annual Report for the year to 31 March 2018

# Analysis of Change in Directors' Valuation




- Valuation blocks (purple) have been split on an Investment Basis into investments at fair value (dark purple) and future commitments (light purple)
- Percentage movements calculated on the Rebased Valuation as this reflects the returns on the capital employed in the year
- The Portfolio Return for the year to 31 March 2018, excluding the impact of the liquidation of Carillion, is 8.3% (being £210.3m return on the rebased valuation of £2,647.3m and adjusting for the timing to the acquisitions of Affinity Water and High Speed 1)

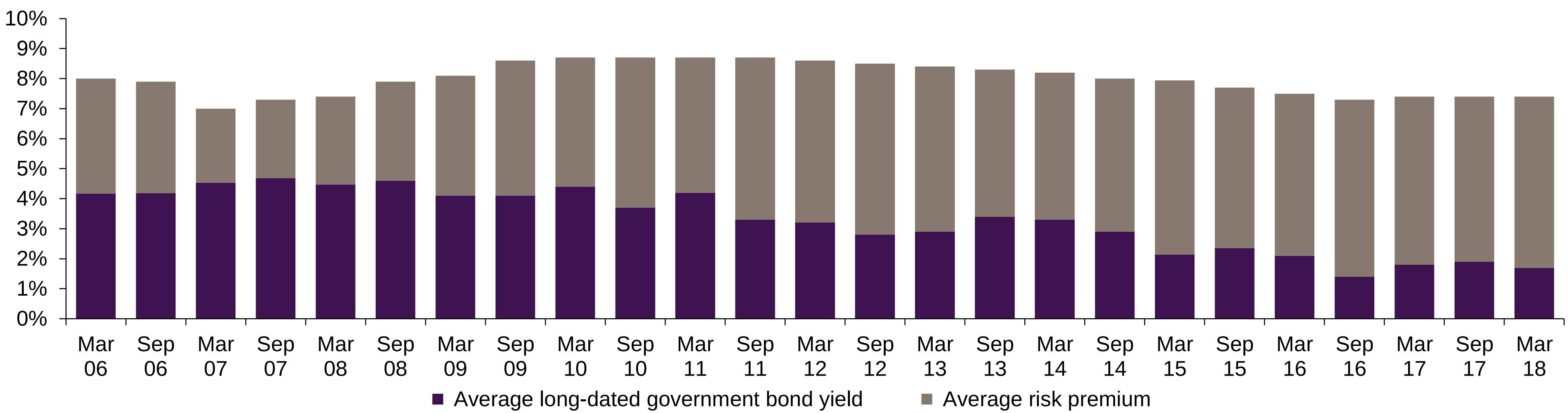
1. Investments includes recognition of the N17/18 option of €16.8m
2. "Return" comprises the unwinding of the discount rate and project outperformance
3. FX movement net of hedging is a loss of £12.0m
4. £2,836.5m reconciles, on an Investment Basis, to £2,794.6m Investments at fair value through £41.9m of future commitments

# Discount Rate Analysis

## Discount rate unchanged overall

- Discount rates for investments range between 4.1% and 9.8%
- Weighted-average discount rate of 7.4%, unchanged from 31 March 2017
- Implied risk premium over long-dated government bonds increased by 0.1% in the year to 5.7%

| | Appropriate long-term government bond yield[1] | | Risk Premium | | Total Discount Rate[2] 31 March 2018 | 30 September 2017 | 31 March 2017 |
|---|---|---|---|---|---|---|---|
| UK | 1.7% | + | 5.7% | = | 7.4% | 7.3% | 7.2% |
| Australia | 2.7% | + | 3.8% | = | 6.5% | 6.5% | 7.3% |
| Eurozone | 1.2% | + | 6.5% | = | 7.6% | 7.5% | 7.6% |
| N. America | 2.8% | + | 5.4% | = | 8.2% | 8.2% | 8.2% |
| **Portfolio** | **1.7%** | **+** | **5.7%** | **=** | **7.4%** | **7.4%** | **7.4%** |




1. The long-term government bond yield for a region is the weighted average for all of the countries in which the portfolio is invested in that region
2. Weighted-average discount rate

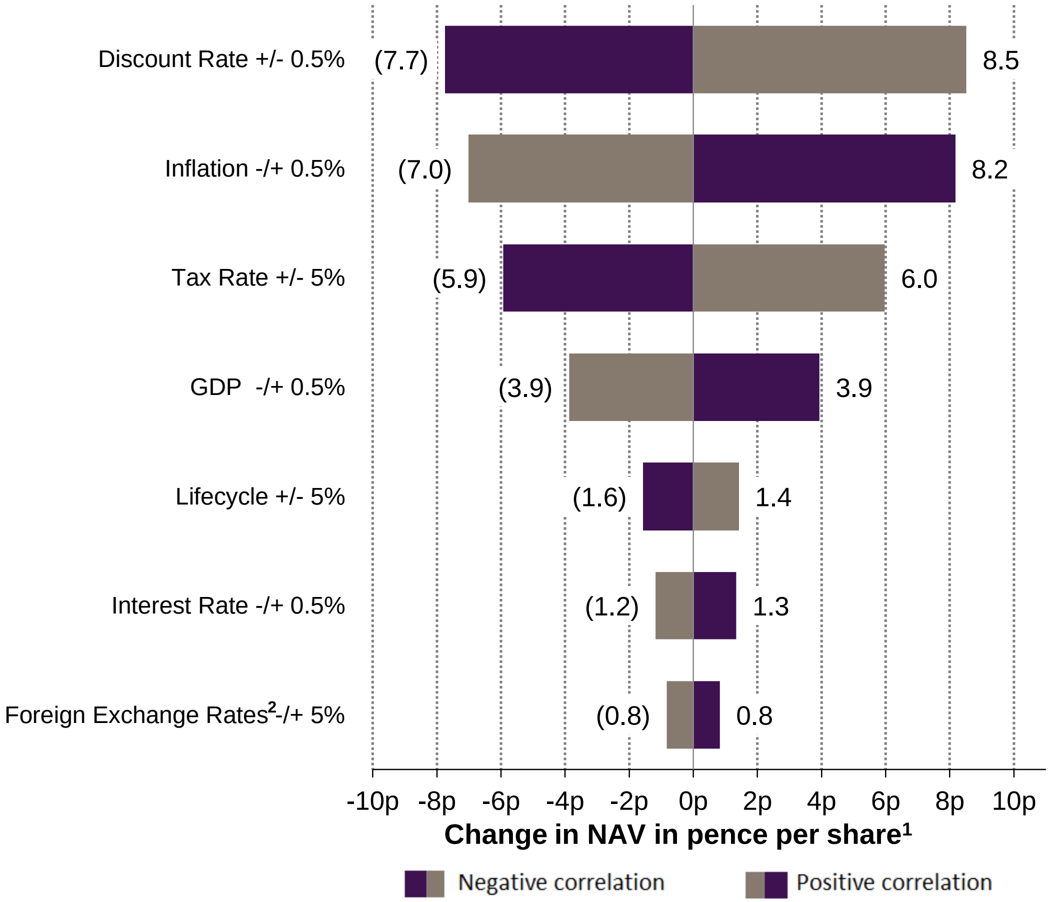
# Key Valuation Assumptions

| | | Movement | 31 March 2018 | 31 March 2017 |
|---|---|---|---|---|
| **Discount Rate** | Weighted Average | ↔ | 7.4% | 7.4% |
| **Inflation**[1] (p.a.) | UK (RPI[2] & RPIx[2]/CPIH[3])<br>Eurozone (CPI)<br>Canada (CPI)<br>Australia (CPI)<br>USA (CPI) | ↔ | 2.75% / 2.0%<br>1.0% to 2019, 2.0% thereafter<br>2.0%<br>2.5%<br>2.0% | 2.75%<br>1.0% to 2019, 2.0% thereafter<br>2.0%<br>2.5%<br>2.0% |
| **Interest Rates** (p.a.) | UK<br>Eurozone<br>Canada<br>Australia<br>USA | *Up in USA, down in Eurozone* | 1.0% to 2021, 2.0% thereafter<br>0.5% to 2021, 1.5% thereafter<br>2.0% to 2021, 3.0% thereafter<br>2.6% with a gradual increase to 3.0% long-term<br>2.0% with a gradual increase to 3.0% long-term | 1.0% to 2021, 2.0% thereafter<br>1.0% to 2021, 2.0% thereafter<br>1.0% to 2021, 2.0% thereafter<br>2.6% with a gradual increase to 3.0% long-term<br>1.0% with a gradual increase to 2.0% long-term |
| **Foreign Exchange** | EUR / GBP<br>CAD / GBP<br>AUD / GBP<br>USD / GBP | *Up in Europe, down in Australia and North America* | 0.88<br>0.55<br>0.55<br>0.71 | 0.85<br>0.60<br>0.61<br>0.80 |
| **Tax Rate** (p.a.) | UK<br>Eurozone<br><br><br><br>Canada<br>Australia<br>USA | ↓<br>*(Eurozone – France, Australia, USA)* | 19% to 2020, 17% thereafter<br>Various - no change apart from French tax rate (33.3% in 2018, 31% in 2019, 28% in 2020, 26.5% in 2021 and 25% thereafter with no 3% distribution tax)<br>26% and 27% (territory-dependent)<br>30% stepping down to 25% from 2027<br>21% Federal & 4.6% Colorado State | 19% to 2020, 17% thereafter<br>Various (French tax rate reducing from 33.3% to 28% by 2019)<br>26% and 27% (territory-dependent)<br>30%<br>35% Federal & 4.6% Colorado State |
| **GDP Growth** (p.a.) | UK<br>Eurozone<br>USA | ↔ | 2.0%<br>1.8%<br>2.5% | 2.0%<br>1.8%<br>2.5% |

1. Some portfolio company revenues are fully indexed, whilst some are partially indexed
2. Retail Price Index and Retail Price Index excluding Mortgage Interest Payments
3. Consumer Prices Index including owner-occupiers' housing costs; used in the valuation of Affinity Water

# Key Valuation Sensitivities

## Sensitivity to key macroeconomic assumptions



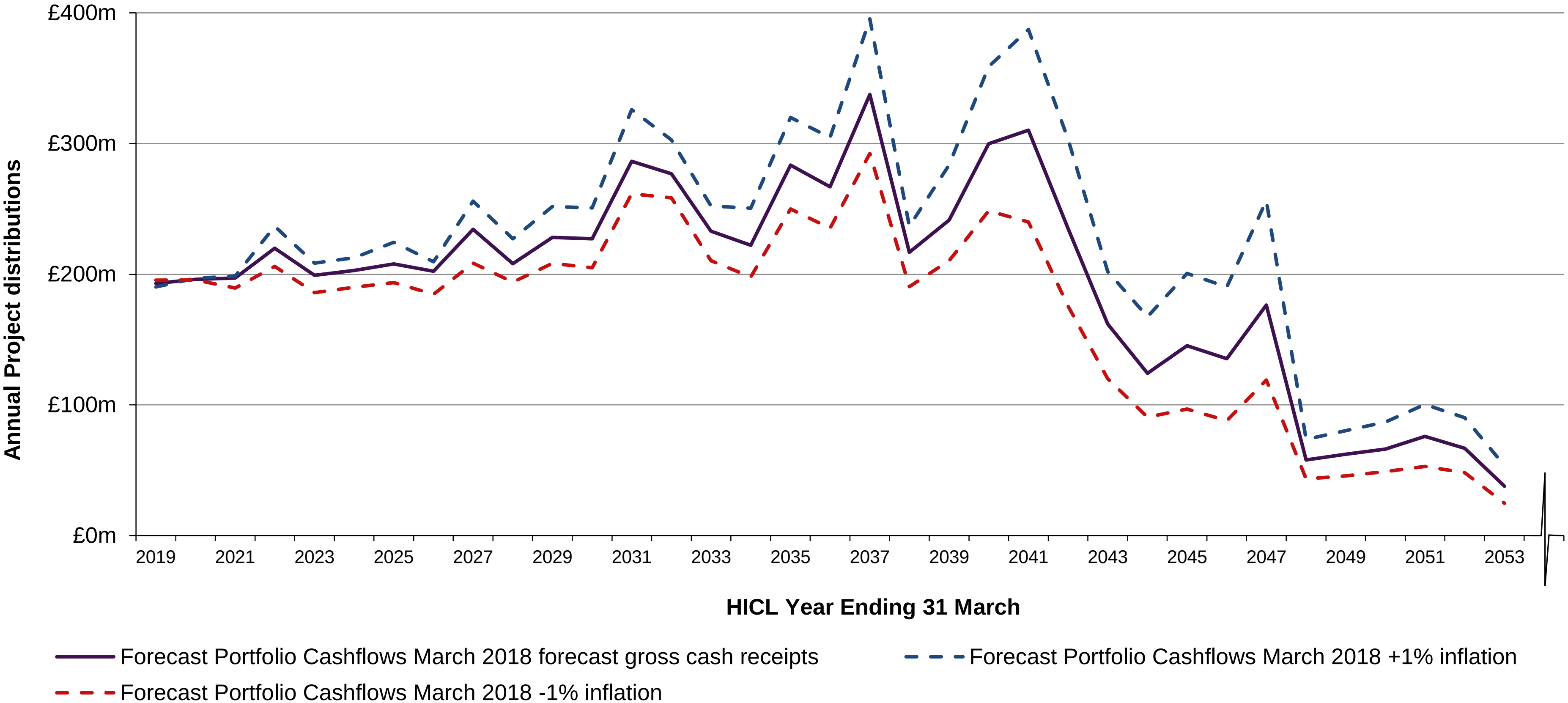

- NAV per share of 149.6p
- The discount rate, FX rate and GDP sensitivities are based on analysis of the whole portfolio
- Remaining sensitivities are based on the 35 largest investments in the HICL portfolio by value, extrapolated across the portfolio
- The GDP sensitivity shows the impact of a 0.5% per annum change in GDP across the four assets[3] where revenues are to some degree correlated with economic activity
- If outturn GDP growth was 0.5% p.a. lower in all relevant geographies for all future periods than the valuation assumption on page 13, expected return from the portfolio[4] (before Group expenses) would decrease 0.2% from 7.4% to 7.2% (7.2% at 31 March 2017)
- If the rate of UK Corporation Tax was 5% p.a. higher in each and every forecast period, NAV/share would decrease by 4.9p

1. NAV per share based on 1,790m ordinary shares in issue at 31 March 2018
2. Foreign exchange rate sensitivity is net of current Group hedging at 31 March 2018
3. Assets subject to GDP movements are High Speed 1, Northwest Parkway (USA), A63 Motorway (France) and M1-A1 Link Road
4. Expected return is the expected gross internal rate of return from the portfolio before group expenses; there is no assurance that returns will be met

# Portfolio Cash Flow Sensitivity I

Inflation correlated returns for long-term investors[1,2]

- If outturn inflation was 1.0% p.a. higher in all future periods than the rates in the valuation assumptions set out on page 13, the expected return from the portfolio[3] (before Group expenses) would increase by 0.8% from 7.4% to 8.2% (8.1% at 31 March 2017)

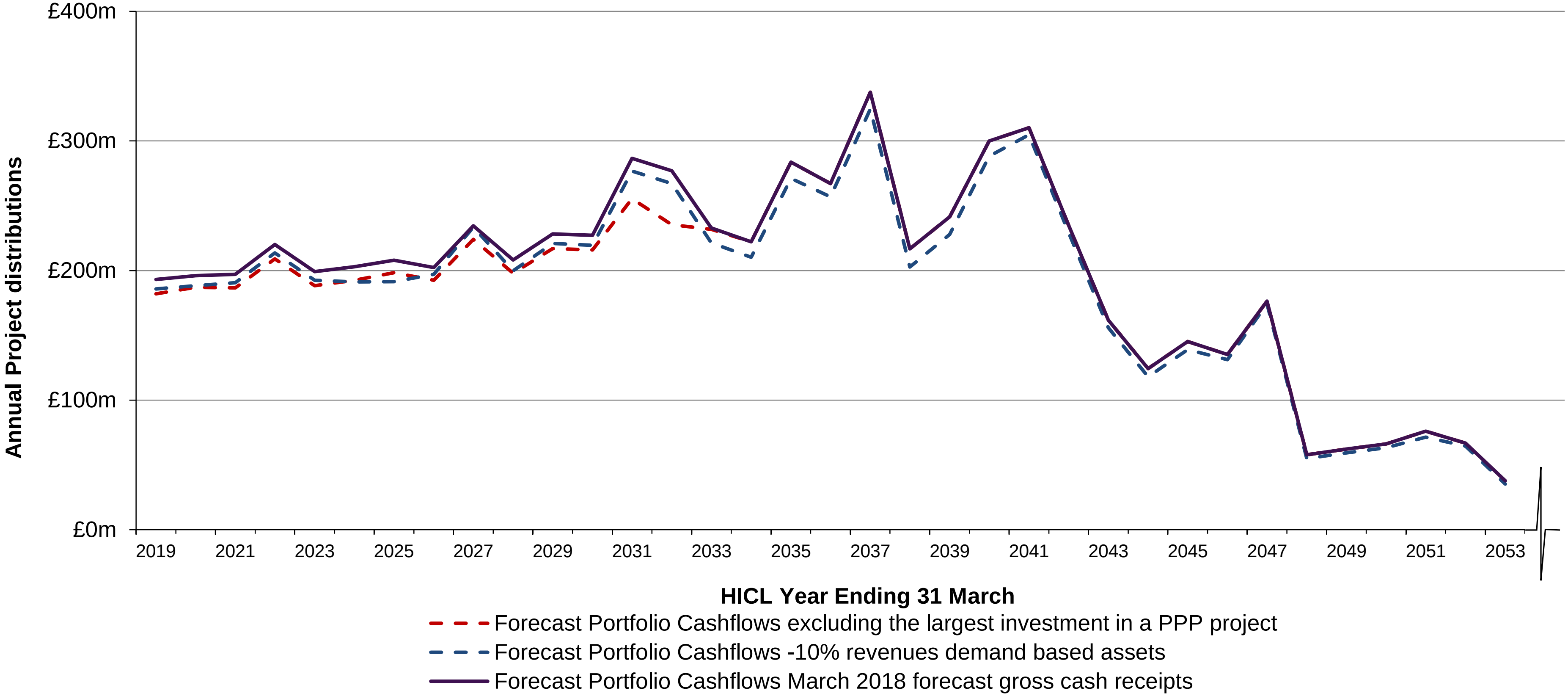



1. Sensitivity based on forecast gross portfolio cash flows as at 31 March 2018
2. The illustration represents a target only and is not a profit forecast. There can be no assurance that this target will be met
3. Expected return is the expected gross internal rate of return from the portfolio before group expenses; there is no assurance that returns will be met

# Portfolio Cash Flow Sensitivity II

Robust under stress scenarios [1,2,3]

- In a recession stress scenario, which assumes a 10% reduction in revenues in all periods for the GDP correlated assets in the portfolio[4], NAV/share would reduce by 6.0p (as at 31 March 2018)
- If the largest PPP project in the Group's portfolio (by value) was terminated with zero compensation[5], the impact on valuation would be 6.4p NAV/share (7.5p at 31 March 2017)




1. Sensitivity based on forecast gross portfolio cash flows as at 31 March 2018
2. The illustration represents a target only and is not a profit forecast. There can be no assurance that this target will be met
3. Expected return is the expected gross internal rate of return from the portfolio before group expenses; there is no assurance that returns will be met
4. Assets subject to GDP movements are High Speed 1, Northwest Parkway (USA), A63 Motorway (France) and M1-A1 Link Road
5. Illustrative scenario only

# Portfolio Performance, Asset Management and Risk

Oldham Library, UK

# Portfolio Performance and Asset Management I

## Carillion: progress on working through the implications of the liquidation

HICL Infrastructure

- Carillion was the facilities manager and / or the construction contractor on 15 HICL PPP projects
- The overriding priority of the Board and InfraRed has been to ensure continuity of service provision and asset availability:
  - this has been consistently delivered on all affected projects;
  - facilities management subcontracts terminated on nine[1] projects and interim arrangements with replacement operators in place; and
  - long-term replacement facilities management contract agreed on the Birmingham and Solihull LIFT project (all 11 affected contracts)
- InfraRed's Asset Management Team working closely with key stakeholders
  - replacement operators (selected on basis of experience, financial strength and to ensure diversification);
  - public sector clients, including central government; and
  - project finance lenders
- £59.3m[2] value reduction at 31 March 2018, covering:
  - costs of transitioning to new long-term facilities management subcontractors on 10 PPP projects;
  - distribution lock-up impact on these and a further five PPP projects where Carillion had acted as construction subcontractor;
  - historic liabilities previously borne by Carillion where costs are now expected to be borne by equity investors; and
  - £19m reduction in perceived market value of affected PPP projects at 31 March 2018, taken through increased discount rates
- The value reduction represents c. 2% of NAV (as at 31 March 2018), demonstrating that a well-diversified portfolio can mitigate the impact on HICL of relatively severe downside events
- Four projects[3] out of distribution lock-up; substantially all expected to be out of distribution lock-up during the course of the financial year to 31 March 2019

1. Remaining project is in contract with Carillion administered entity; termination of subcontract and transition of services to interim arrangement expected imminently
2. Including a £9.4m provision taken in the Interim Results in September 2017
3. BaS LIFT and three projects where Carillion had previously acted as construction subcontractor

# Portfolio Performance and Asset Management II

Portfolio performance overall benefited from diversification

HICL Infrastructure

**PPP Projects**

- PPP projects continue to perform well overall
- InfraRed's Asset and Portfolio Management teams have delivered a number of significant value enhancements, generating approx. £50m of positive value movements during the financial year
- Construction completion on two projects during the year (N17/N18 in Ireland; Ecole Centrale Supélec in France) and another since year end – all on time and on budget

**Demand-based Assets**

- Traffic on Northwest Parkway (USA) and A63 Motorway (France) ahead of acquisition assumptions, generating positive value movements
- Good progress on-boarding High Speed 1; investment performance slightly ahead of expectations
- A transformation agreement was signed in the year to extend the Helicopter Training Facility concession, delivering benefits to HICL and a saving for the UK Ministry of Defence

**Regulated Assets**

- Good progress on-boarding Affinity Water at Board and management level
- InfraRed and co-shareholders appointed replacement Chair and CEO during the year
- Affinity Water faces an adverse regulatory environment (PR19) and experienced operational challenges; these factors, and an adjustment to total expenditure forecasts, resulted in a value reduction of £34m
- Further PR19 consultation announced April 2018; not expected to have a material negative impact on NAV per share

**ESG initiatives**

- Joint project between North Bristol NHS Trust (Southmead Hospital) and the Galleries Shopping Centre to promote the Trust's recruitment and charitable activities; resulted in more than 20 vacant roles being filled and raised money to fund equipment, research and improve the hospital environment
- The A63 Motorway project company completed the installation of a trial road surface technology that generates electricity from solar energy and the energy generated will be sufficient to supply most of the northern toll plaza's needs
- High Speed 1 won "Highest Gender Balance" at the Women in Rail Awards 2018

# Risk and Risk Management I

HICL Infrastructure

## Political Risk

- ▲ Due to the contractual relationship that infrastructure assets have with public sector counterparties and regulators, political and regulatory risks are inherent in HICL's business model
- ▲ During the year, there has been political commentary raising the possibility of nationalisation of UK PPP project companies and regulated utilities
- ▲ The concept of nationalising infrastructure disregards:
  - ring-fenced capital maintenance budgets and the transfer to the private sector of significant operational risk (as demonstrated by the Carillion liquidation);
  - material costs to the taxpayer of both consultant costs and compensation to investors;
  - private sector management expertise and resource; and
  - practical considerations
- ▲ The Board and Investment Adviser retain their conviction that private investment in critical infrastructure, when responsibly undertaken, is a positive force

## Tax

- ▲ The environment around cross-border taxation is evolving and changes could impact shareholder returns
- ▲ The Company could undertake a change in domicile to the UK if the Board believed such a move was warranted
- ▲ The Board keeps the Company's domicile under review, while maintaining an open dialogue with shareholders on the subject

# Risk and Risk Management II

HICL Infrastructure

## Construction Quality and Fire Safety

- InfraRed continues to work closely to prioritise safety with management teams of the PPP projects in which the Group has invested
- A key focus in the period was on construction quality, particularly fire-stopping, cladding systems and wall-ties
- No material safety issues have been identified from inspections undertaken to date
- Follow-up activities are being undertaken to ensure that any defects found are rectified by appropriate subcontractors

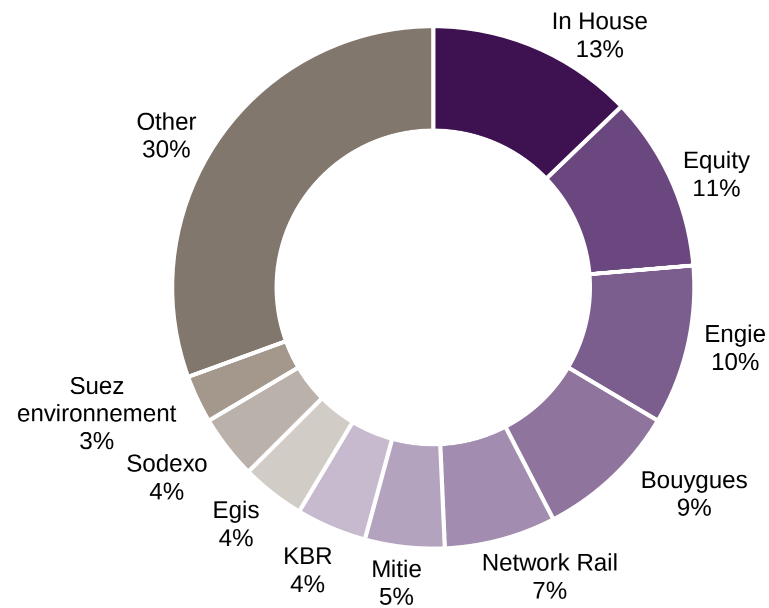
## Counterparty Risk

- Procurement models such as PPP projects and demand-based concessions transfer to the private sector asset delivery risks such as construction and maintenance
- Subcontracting these risks to specialist counterparties mitigates the impact of these risks on equity investors in infrastructure such as HICL
- In the event of a failure of a counterparty, delivery risks revert to the PPP project company - in the case of operations / maintenance, until a replacement subcontractor is found
- The cost to rectify known construction defects across the portfolio are the responsibility of the relevant construction subcontractors on each project

# Facilities Management and Operations Counterparty Exposure

- Exposure is reviewed quarterly and reported to the Risk Committee by the Investment Adviser
- Contingency plans are in place to address scenarios where material issues lead to a failure of service provision by a subcontractor
- "In House" represents Affinity Water and Northwest Parkway (USA); increase in the year as Affinity Water brought certain operations in house during the year
- "Equity" represents facilities management contracts which were with Carillion subsidiaries and which are expected to transition to arrangements with new counterparties in due course

**10 Largest Facilities Management and Operations Counterparty Exposures[1]**

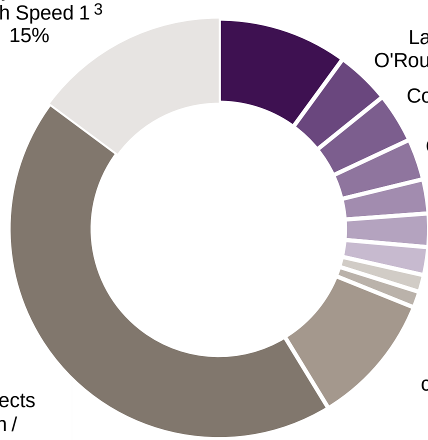



1. By value, at 31 March 2018, using Directors' Valuation excluding A13 senior bonds. Where a project has more than one operations contractor in a joint and several contract, the better credit counterparty has been selected (based on analysis by the Investment Adviser). Where a project has more than one operations contractor, not in a joint and several contract, the exposure is split equally among the contractors, so the sum of the pie segments equals the Directors' Valuation

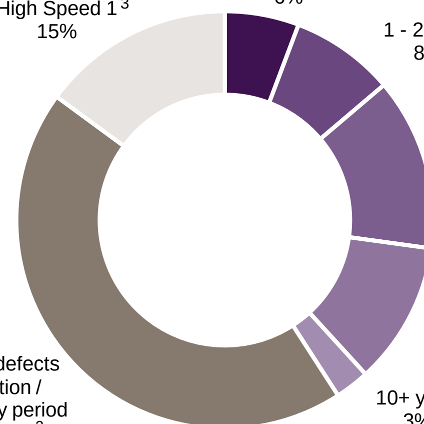
# Construction Counterparty Exposure

- Following construction completion, the construction contractors are required to remediate construction defects for a specified period of time; in the UK the statutory period of limitations is 12 years
- As at 31 March 2018, 41% of HICL's portfolio[1] benefited from this protection after having adjusted for those projects where Carillion was the construction contractor
- Where construction defects are detected within the defect limitations / warranty period, remediation is sought from the construction contractor; if negotiated solutions cannot reasonably be reached, then portfolio companies may seek to use contractual remedies to obtain resolution

## 10 Largest Construction Counterparty Exposures[1,2]




## Latent Defects Limitations / Warranty Periods Remaining[1,2]




1. By value, at 31 March 2018, using Directors' Valuation excluding A13 senior bonds. Where a project has more than one operations contractor in a joint and several contract, the better credit counterparty has been selected (based on analysis by the Investment Adviser). Where a project has more than one operations contractor, not in a joint and several contract, the exposure is split equally among the contractors, so the sum of the pie segments equals the Directors' Valuation
2. Latent defects limitations / warranty period expired includes 13% portion for construction contracts which at 15 January 2018 were in their warranty defects period with Carillion
3. Assets subject to regulatory regimes that help mitigate the potential impact of defects on equity

HICL Infrastructure

# Investment Activity

A249 Road, UK

# Summary Investment Activity

Investment activity during the year

## Acquisitions

| Net Amount | Type | Stage | Project | Segment | Sector | Stake Acquired | Overall Stake | Date |
|---|---|---|---|---|---|---|---|---|
| £250m | New | Operational | Affinity Water | Regulated | Water | 36.6% | 33.2%[1] | May-17 |
| £202m | New | Operational | High Speed 1 | Demand | Transport | 35.0% | 21.8%[2] | Sept-17 |
| £12m | Incremental | Operational | Addiewell Prison | PPP | Accommodation | 33.3% | 66.7% | Nov -17 |
| £9m | Incremental | Operational | PSBP | PPP | Education | 45.0% | 90.0% | Mar-18 |

## Acquisitions and Disposal after the year end

| Net Amount | Type | Stage | Project | Segment | Sector | Stake Acquired | Overall Stake | Date |
|---|---|---|---|---|---|---|---|---|
| €21m | New | Greenfield | Paris-Sud University | PPP | Education | 85.0% | 85.0% | Apr-18 |
| £10m | New | Operational | Burbo Bank OFTO | Regulated | Energy | 50.0% | 50.0% | Apr-18 |
| £6m | New | Operational | Belfast Metropolitan | PPP | Education | 75.0% | 75.0% | Apr-18 |
| (£56m) | Disposal | Operational | Highland Schools[3] | PPP | Education | (100.0%) | 0.0% | Apr-18 |

1. Net of co-investment of c. £25m
2. Net of co-investment of c. £120m
3. Agreement to divest signed April 2018; due to complete by 30 September 2018

# Portfolio Optimisation

- HICL sought and received offers for the Highland Schools PPP in March 2018 that represented significantly greater value than could be achieved by retaining the investment
- The disposal was accretive in terms of:
  - total return;
  - inflation correlation; and
  - weighted average asset life of the portfolio
- This delivered a profit of £9.7m in excess of the valuation as at 30 September 2017 recognised in the March 2018 valuation
- InfraRed’s Origination and Transaction team structured a process that:
  - was efficient;
  - confirmed strong demand for a UK PPP investment; and
  - demonstrated value within the Group’s portfolio
- Shareholder value enhanced by facilitating pursuit of opportunities to redeploy capital into more accretive acquisitions or managing funding


# HICL's Portfolio

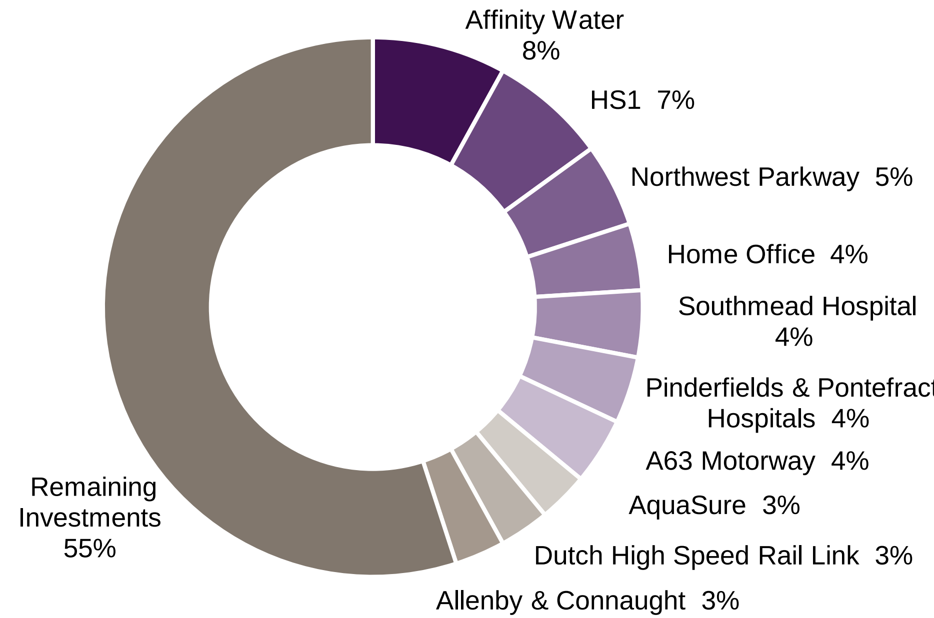
Central Middlesex Hospital, UK

# Portfolio Metrics

## Ten largest assets account for c.45% of the portfolio[1]

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| **Number of investments** | 116 | 114 |
| **Percentage of portfolio by value – 10 largest assets** | 45% | 40% |
| **Inflation correlation[2]** | 0.8 | 0.7 |
| **Weighted average asset life[3]** | 29.5 years | 24.4 years |
| **Average remaining maturity of long-term debt financing[4]** | 17.6 years | 18.2 years |

**10 Largest Investments[1]**




1. By value using Directors' Valuation of £2,836.5m as at 31 March 2018
2. If outturn inflation was 1% p.a. higher than the valuation assumption in each and every forecast period, the expected return from the portfolio (before Group expenses) would increase by 0.8%
3. Assumes a 100-year asset life for Affinity Water
4. Excludes investment in A13 Senior Bonds

# Portfolio Characteristics I

At 31 March 2018

## MARKET SEGMENT


| | Mar 2018 | Mar 2017 |
|---|---|---|
| ▲ PPP Projects | 74% | 88% |
| ▲ Demand-based Assets | 18% | 12% |
| ▲ Regulated Assets | 8% | 0% |

## GEOGRAPHIC LOCATION


| | Mar 2018 | Mar 2017 |
|---|---|---|
| ▲ UK | 80% | 77% |
| ▲ EU | 10% | 11% |
| ▲ Australia | 3% | 4% |
| ▲ North America | 7% | 8% |

- Demand-based assets comprise six investments located in three geographies:
  - Assets with returns correlated to GDP: High Speed 1, Northwest Parkway (USA), A63 Motorway (France) and M1-A1 Link Road
  - Other demand-based assets: University of Sheffield Student Accommodation and Helicopter Training Facility
- Demand-based assets with returns correlated to GDP accounted for 17% of the portfolio at 31 March 2018 (2017: 10%), within the self-imposed 20% limit previously communicated to shareholders

1. All charts are by value using Directors' Valuation of £2,836.5m as at 31 March 2018

# Portfolio Characteristics II

At 31 March 2018

## OWNERSHIP STAKE

**March 2018**

**March 2017**

| | Mar 2018 | Mar 2017 |
|---|---|---|
| ▲ 100% ownership | 27% | 33% |
| ▲ 50% - 100% ownership | 28% | 32% |
| ▲ Less than 50% ownership | 45% | 35% |

## INVESTMENT STATUS

**March 2018**

**March 2017**

| | Mar 2018 | Mar 2017 |
|---|---|---|
| ▲ Fully operational | 99% | 98% |
| ▲ Construction | 1% | 2% |

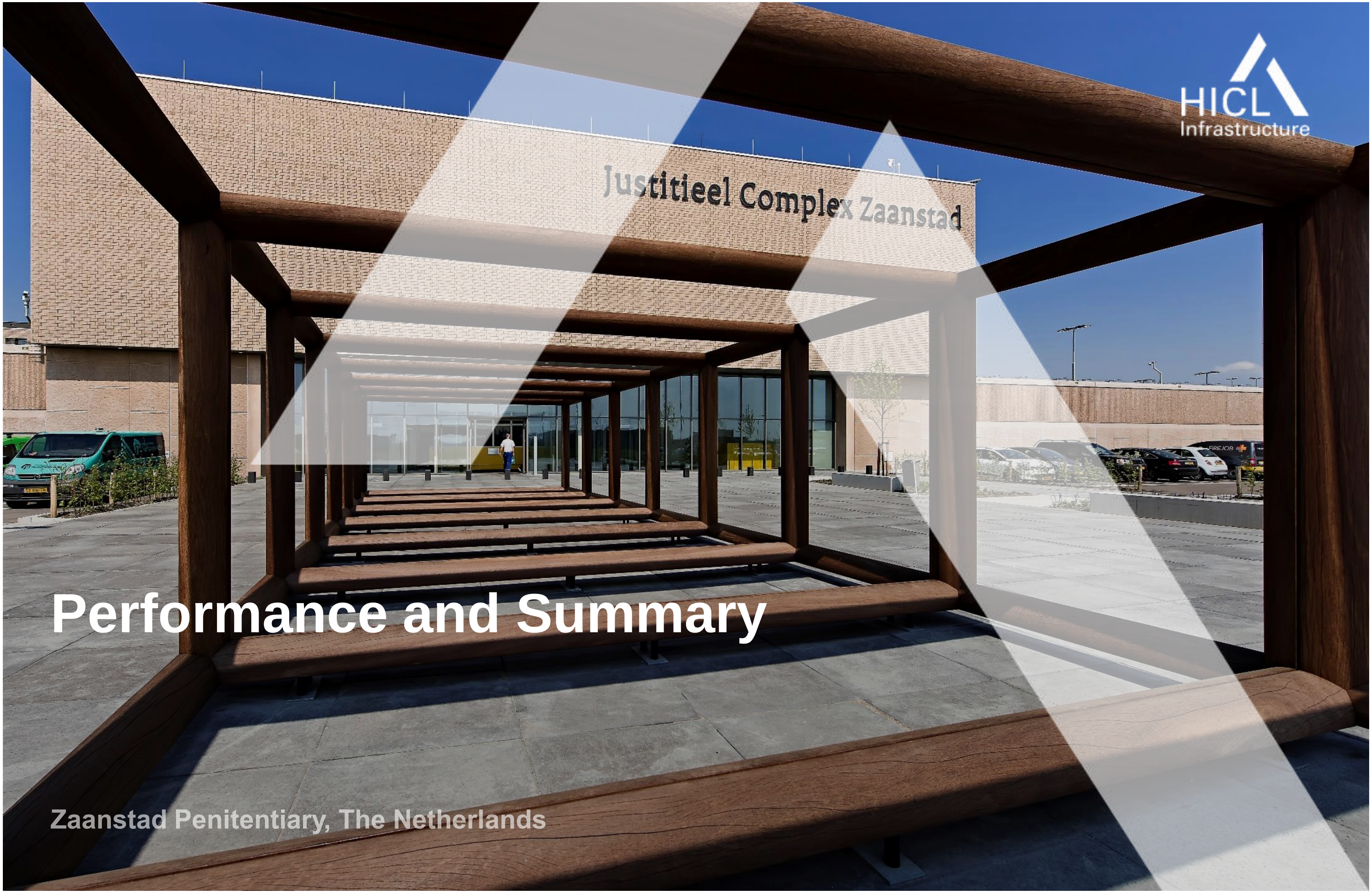
## SECTOR

**March 2018**

**March 2017**

| | Mar 2018 | Mar 2017 |
|---|---|---|
| ▲ Accommodation | 10% | 12% |
| ▲ Education | 18% | 20% |
| ▲ Health | 28% | 35% |
| ▲ Fire, Law & Order | 7% | 7% |
| ▲ Transport | 26% | 22% |
| ▲ Water | 11% | 4% |

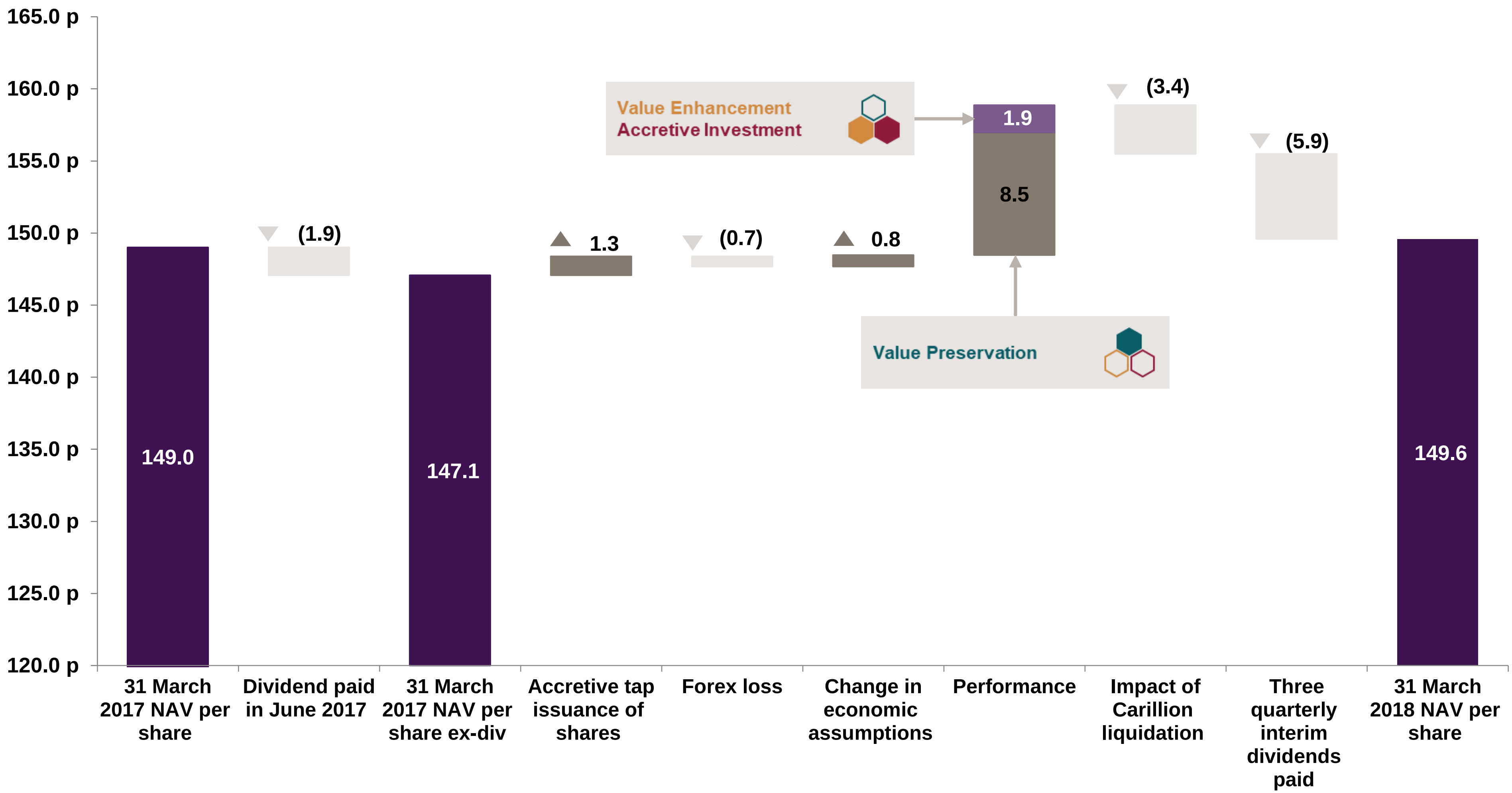
1. All charts are by value using Directors' Valuation of £2,836.5m as at 31 March 2018




# Performance and Summary

Zaanstad Penitentiary, The Netherlands

# Analysis of Change in NAV per Share




1. The sum of the movements (grey and light purple) may not equate to the overall change (dark purple bars), due to rounding

# Company’s Key Performance Indicators (“KPIs”)

| KPI | Measure[1] | 31 March 2018 | 31 March 2017 | Objective | Commentary |
|---|---|---|---|---|---|
| **Dividends** | Aggregate interim dividends declared per share in the period | 7.85p | 7.65p | An annual distribution of at least that achieved in the prior year | Achieved |
| **Total Return** | NAV growth and dividends paid per share (since IPO) | 9.3% p.a. | 9.6% p.a. | A long-term IRR target of 7% to 8% as set out at IPO[2] | Achieved |
| **Cash-covered Dividends** | Operational cash flow / dividends paid to shareholders | 1.10x | 1.22x | Cash covered dividends | Achieved |
| **Positive Inflation Correlation** | Changes in expected portfolio return for 1% p.a. inflation change | 0.8% | 0.7% | Maintain positive correlation | Achieved |
| **Competitive Cost Proposition** | Annualised ongoing charges / average undiluted NAV[3] | 1.08% | 1.06% | Efficient gross (portfolio) to net (investor) returns, with the intention to reduce ongoing charges where possible | Market competitive cost proposition |

1. Please refer to the Annual Report for full details of the measure and supporting information
2. Set by reference to the issue price of 100p per share, at the time of the Company’s IPO in March 2006. Previously reported on dividends declared basis
3. Calculated in accordance with Association of Investment Companies guidelines; ongoing charges exclude non-recurring items such as acquisition costs

# Company's Key Quality Indicators ("KQIs")

| KQI | Measure[1] | 31 March 2018 | 31 March 2017 | Objective | Commentary |
|---|---|---|---|---|---|
| **Investment Concentration Risk** | Percentage of portfolio value represented by the ten largest investments | **45%** | **40%** | Maintain a diversified portfolio of investments (thereby mitigating concentration risk) and, at all times, remain compliant with the Company's Investment Policy | **Within acceptable tolerances** |
| | Percentage of portfolio value represented by the single largest investment | **8%** | **6%** | | |
| **Risk/Reward Characteristics** | Percentage of portfolio value represented by the aggregate value of projects with construction and/or demand-based risk[2] | **19%** | **14%** | Compliance with the Company's Investment Policy | **Achieved** |
| **Unexpired Concession Length** | Portfolio's weighted average unexpired concession length | **29.5 years** | **24.4 years** | Seek where possible investments that maintain or extend the portfolio concession life | **Achieved** |
| **Treasury Management** | FX gain / (loss) as a percentage of the portfolio NAV | **(0.4%)** | **0.0%** | Maintain effective treasury management processes, notably:<br>• Appropriate FX management (confidence in near-term yield and managing NAV gain / (loss) within Hedging Policy limits)<br>• Efficient cash management (low net cash position) | **Achieved** |
| | Cash less current liabilities as a percentage of the portfolio NAV | **0.3%** | **2.7%** | | |
| **Refinancing Risk** | Investments with refinancing risk as a percentage of portfolio value | **16%** | **9%** | Manage exposure to refinancing risk | **Within acceptable tolerances** |

1. Please refer to the Annual Report for full details of the measure and supporting information
2. More diversified infrastructure investments made with the intention 'to enhance returns for shareholders', as permitted by the Company's Investment Policy – namely pre-operational projects, demand based projects and/or other vehicles making infrastructure investments

# Market & Outlook

**Market**

- Deal flow in UK PPP markets remains muted:
  - small number of high-profile secondary market transactions
  - primary market pipeline remains quiet
- Other geographies and market segments (demand-based and regulated assets) continue to generate opportunities and see healthy demand
- Direct institutional investors and unlisted funds have significant ‘dry powder’:
  - material impact observed on asset pricing in some situations

**Outlook**

- Board and Investment Adviser focused on:
  - value preservation in existing portfolio; and
  - value enhancement activities
- Clear strategy to deliver value to shareholders by optimising portfolio diversification and accretion, while managing funding position:
  - achieved through selective acquisitions and/or strategic disposals;
  - activity supported by flexible Revolving Credit Facility[1]

1. Revolving Credit Facility sized at £400m, maturing in May 2021

# Concluding Remarks

Delivering Real Value.

HICL Infrastructure

- HICL offers a differentiated investment proposition combining:
  - Low asset concentration risk;
  - Strong correlation between portfolio returns and inflation[1]; and
  - Good cash flow longevity
- Well-diversified portfolio:
  - solid, predictable cash flows (cash covered dividend); and
  - resilient performance
- Reaffirmation of dividend guidance[2]:
  - 8.05p for the year ending 31 March 2019; and
  - 8.25p per share for the year ending 31 March 2020
- The Investment Adviser and the Board will continue to proactively:
  - optimise portfolio diversification and enhance performance; and
  - manage HICL's funding position

1. If outturn inflation was 1% p.a. higher than the valuation assumption in each and every forecast period, the expected return from the portfolio (before Group expenses) would increase by 0.8%
2. This not a profit forecast; there can be no assurance that this target will be met

# Appendix I

The Investment Adviser

# Overview of InfraRed Capital Partners Ltd ("InfraRed")

## InfraRed is the Investment Adviser and Operator

HICL Infrastructure

- Strong, 25+ year track record of launching 17 infrastructure and real estate funds (including HICL and TRIG)
- Currently over US$10bn of equity under management
- Independent manager owned by senior management team[1]
- London based, with offices in Hong Kong, New York, Seoul and Sydney, with over 130 partners and staff
- InfraRed is a signatory of the Principles for Responsible Investment (PRI). These principles provide a voluntary framework to help institutional investors incorporate ESG issues into investment analysis, decision-making and ownership practices. In the annual assessment by PRI, InfraRed has achieved top ratings, standing well above industry standards for the last three consecutive years, with an A+ rating for Infrastructure in 2017 assessed by PRI

| Infrastructure funds | Strategy | Amount (m) | Years | Status |
|---|---|---|---|---|
| Fund I | Unlisted, capital growth | £125 | 2001-2006 | Realised |
| Fund II | Unlisted, capital growth | £300 | 2004-2015 | Realised |
| HICL Infrastructure Company Limited ("HICL") | Listed, income yield | £2,432[2] | Since 2006 | Evergreen |
| Environmental Fund | Unlisted, capital growth | €235 | Since 2009 | Divesting |
| Fund III | Unlisted, capital growth | US$1,000 | Since 2011 | Divesting |
| Yield Fund | Unlisted, income yield | £500 | Since 2012 | Invested |
| The Renewables Infrastructure Group ("TRIG") | Listed, income yield | £1,068[2] | Since 2013 | Evergreen |

Source: InfraRed

1. InfraRed is an indirect subsidiary of InfraRed Partners LLP which is owned by its partners
2. Market capitalisation as at 31 March 2018

# InfraRed – Infrastructure Team Skills and Experience

- Proven track record in target markets of Europe, North America, Latin America, Australia and New Zealand
- Focused teams including:
  - Origination and Transaction team responsible for sourcing, diligencing and acquiring new investment opportunities;
  - Asset Management team responsible for managing the portfolio;
  - Portfolio Management team responsible for financial reporting and management;
  - Corporate shared services including Finance, Compliance, Risk
- Strong sector and geographic experience with in-depth technical, operational and investment knowledge

| 70+ | 4 | 20 |
|---|---|---|
| infrastructure professionals | continent coverage | spoken languages |

# Appendix II

The Company and Group

# HICL's Characteristics

| | |
|---|---|
| **Objective** | ▲ To generate long-term, stable income from a diversified portfolio of infrastructure investments<br>▲ Focused on investments at the lower end of the risk spectrum, which generate inflation-correlated returns |
| **History** | ▲ IPO in 2006, 11 successive years of dividend growth<br>▲ First infrastructure investment company to list on the main market of the London Stock Exchange<br>▲ Member of the FTSE 250 index |
| **Portfolio** | ▲ 116 investments, as at 31 March 2018 (113 operational and three under construction)<br>▲ Assets spread across six sectors and seven countries |
| **Net Asset Value** | ▲ Directors' Valuation of £2,836.5m at 31 March 2018 (31 March 2017: £2,380.0m)[1]<br>▲ NAV/share of 149.6p at 31 March 2018 (31 March 2017: 149.0p)<br>▲ Directors' Valuation based on a weighted average discount rate of 7.4% (31 March 2017: 7.4%) |
| **Board and Governance** | ▲ Board comprises six independent non-executive Directors<br>▲ Investment Adviser and Operator is InfraRed, a leading global investment manager focused on infrastructure and real estate |
| **Fees and ongoing charges** | ▲ Tapered annual management fee based on portfolio's Adjusted Gross Asset Value (GAV)[2]<br>▲ Ongoing charges percentage (as defined by the Association of Investment Companies) of 1.08% at 31 March 2018 (31 March 2017: 1.06%) |
| **Liquidity[3]** | ▲ Good daily liquidity – average daily trading volume of over 5m shares<br>▲ Tight bid / offer spread |

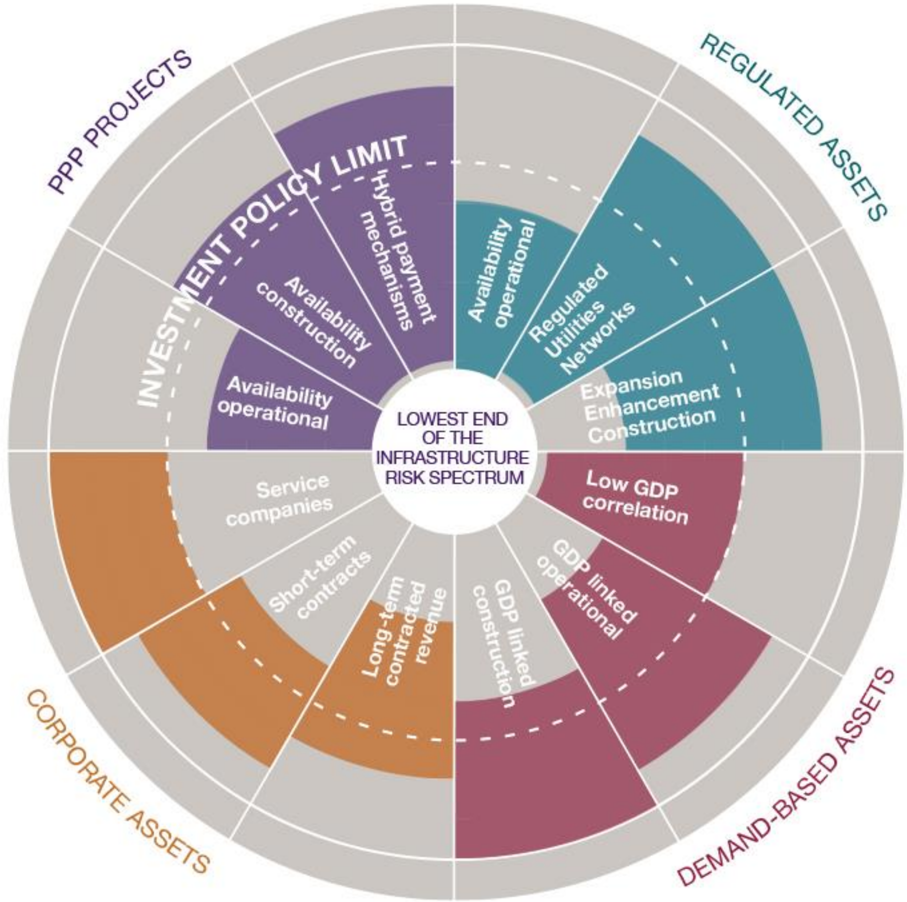
1. Including £41.9m of future investment obligations (2017: £32.5m)
2. Annually: 1.1% on GAV up to £750m, 1.0% thereafter up to GAV of £1.5bn, 0.9% thereafter up to GAV of £2.25bn, 0.8% thereafter up to GAV of £3.0bn, and 0.65% thereafter; plus a £0.1m investment advisory fee. In addition, a one-off 1.0% acquisition fee on new investments
3. Source: Thomson Reuters Datastream, year to 31 March 2018

# Infrastructure Market Map

Schematic showing HICL's Investment Policy[1] Scope

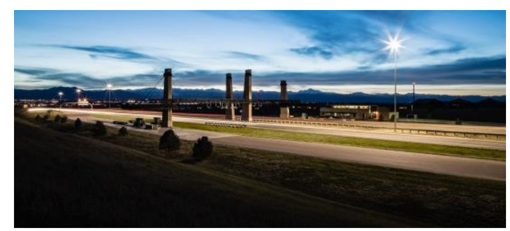
Examples: hospitals, schools, government accommodation and availability transport (e.g. road/rail)

Examples: gas and electricity transmission and distribution; water utilities; district heating




Examples: rolling stock

Examples: operational toll roads, tunnels, bridges; student accommodation



1. The Investment Policy can be found on the HICL website

# Accretive Investment: Current Acquisition Strategy

- Acquisition Strategy reviewed between Board and Investment Adviser in October 2017 - confirmed existing focus
- Origination activity progressed across all core market segments during the year
- Pricing discipline remains fundamentally important

## GEOGRAPHY

### Located in target markets

- Europe / UK
- North America
- Australia / NZ

## MARKET SEGMENT

### Generates long-term revenues

- Principal focus:
  - PPP projects, e.g. availability payments
  - Regulated assets supported by clear robust regulatory framework
  - Demand-based assets with a track record of usage, downside protection or other mitigation of cash flow volatility
- Opportunistic approach:
  - corporate assets with contracted revenues and acceptable covenant

## ASSET QUALITY

### At the lower end of the risk spectrum

- Monopoly or essential asset/concession
- Long-term, stable cash flows built on:
  - revenues with good visibility
  - where relevant, good quality counterparties
  - where possible, long-term debt financing at asset level

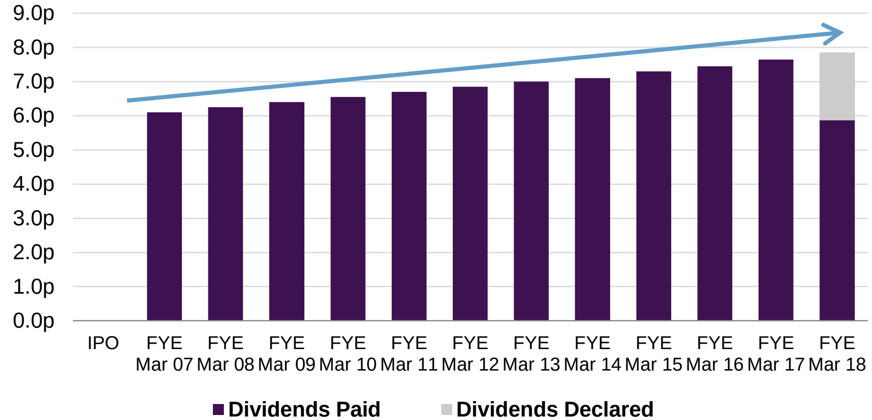
## OPPORTUNITY TO ADD VALUE

### Enhances existing portfolio

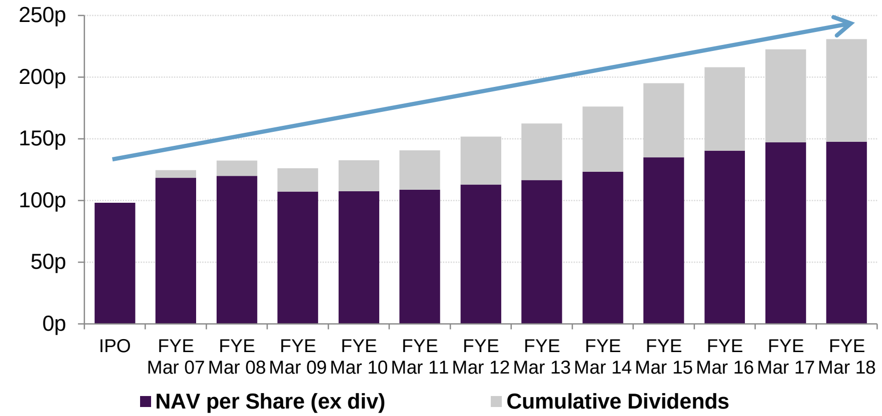
- Accretive on one or more metric:
  - total return
  - yield
  - inflation-linkage
  - asset life
- Pricing discipline
- Potential for upside
- Sustains prudent portfolio construction and diversification

# Historic Performance

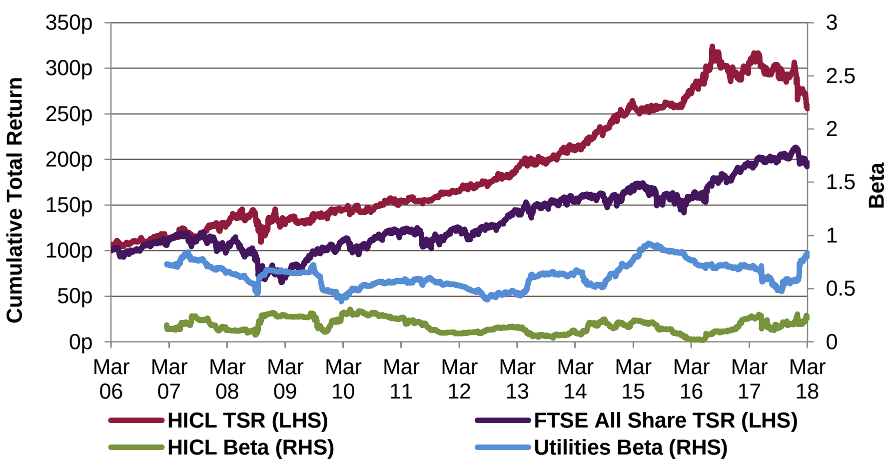
## HICL has grown its dividend for each of the last 11 years



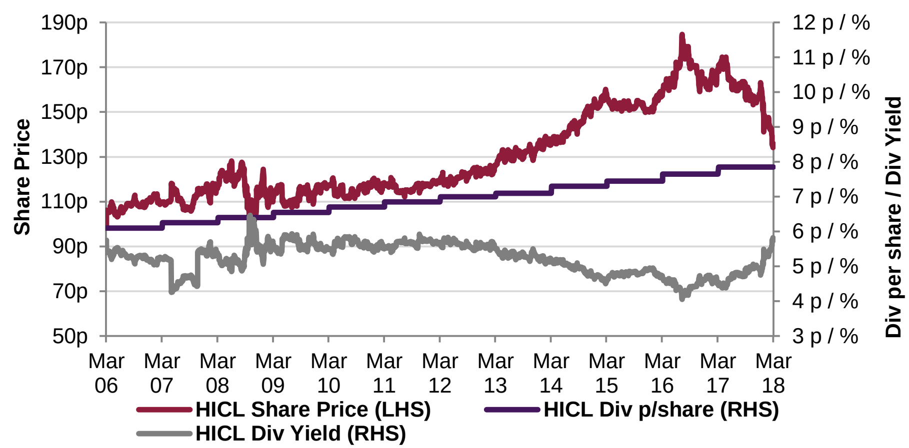

## Total Return (NAV growth and dividends) of 9.3% p.a. since IPO




## HICL has outperformed FTSE All Share while offering a low beta

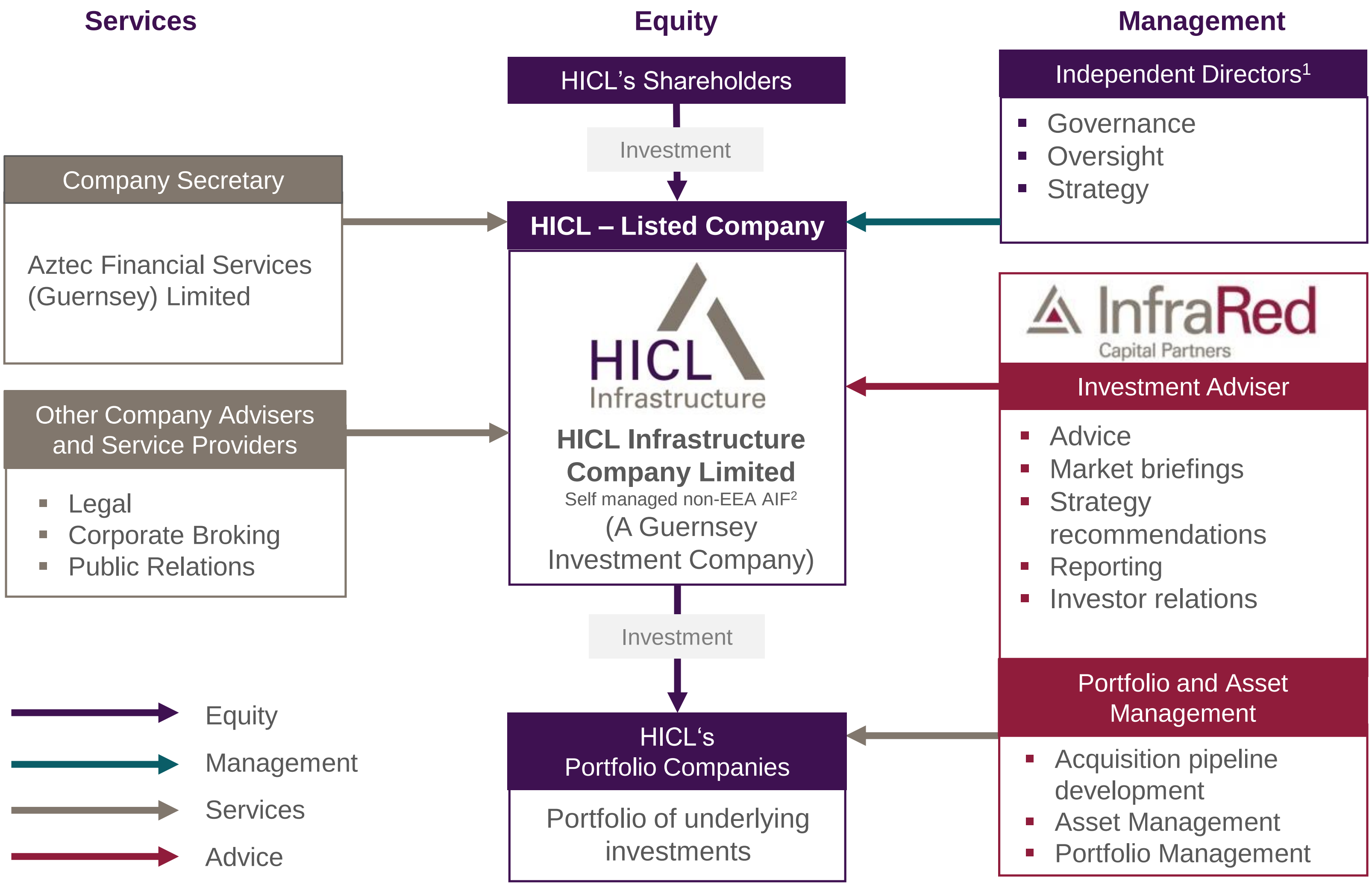



## Growing dividend has maintained a 4 - 6% yield




Source: InfraRed, Thomson Reuters Datastream.
Past performance is not a reliable indicator of future performance. Investments can fluctuate in value and there can be no assurance of future returns

# Group Structure Diagram




1. Independent of the Investment Adviser
2. Alternative Investment Fund, as defined by the EU's Alternative Investment Fund Managers Directive

# Governance

## Independent board of non-executive Directors

- Approves and monitors adherence to strategy
- Fulfils Company's AIFM[1] responsibilities under the European Commission's Alternative Investment Fund Managers Directive
- Monitors risk through Risk Committee
- Additional committees in respect of Audit, Remuneration, Management Engagement, Nomination and Market Disclosure
- Monitors compliance with, and implementation of actions to address, regulation impacting HICL
- Sets Group's policies
- Monitors performance against objectives
- Oversees capital raising (equity or debt) and deployment of cash proceeds
- Appoints service providers and auditors

## Investment Adviser / Operator: InfraRed

- Day-to-day management of portfolio within agreed parameters
- Utilisation of cash proceeds
- Full discretion within strategy determined by Board over acquisitions and disposals (through Investment Committee)
- Authorised and regulated by the Financial Conduct Authority

1. Alternative Investment Fund Manager

# Board of Directors[1] I

## Non-executive Directors with a broad range of relevant experience and qualifications

**Ian Russell CBE, Chairman**

Ian, HICL's Chairman, 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.

Ian is chairman of Scottish Futures Trust and a director of Aberdeen Diversified Income and Growth Trust and the Mercantile Investment Trust.

**Frank Nelson, SID**

Frank, a UK resident, is a qualified accountant. He was Finance Director of the construction and house-building group Galliford Try plc from 2000 until October 2012, having held the position at Try Group plc from 1987.

After Galliford Try, he took on the role of interim CFO of Lamprell plc in the UAE.

Following his return from the Middle East, Frank was appointed as the Senior Independent Director of McCarthy and Stone, Telford and Eurocell.

**Susie Farnon, Director**

Sally-Ann (known as Susie), a Guernsey resident, is a Fellow of the Institute of Chartered Accountants in England and Wales, and 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 as Vice-Chairman of The Guernsey Financial Services Commission. Susie was also appointed as a non-executive director of the AIC on 1 April 2018.

1. Mike Bane was announced as a new non-executive director of the Board in April 2018, to take effect from 1 July 2018

# Board of Directors II

Non-executive Directors with a broad range of relevant experience and qualifications

HICL Infrastructure

**Simon Holden, Director**

Simon, a Guernsey resident, has over 15 years of experience in private equity and portfolio company operations roles at Candover Investments then Terra Firma Capital Partners. From 2015 Simon held a limited number of directorships of alternative investment funds and fiduciary and trading company clients. including Permira's global buy-out funds.

Simon graduated from the University of Cambridge with an MEng and MA in Manufacturing Engineering. He holds the DipIOD from the Institute of Directors in Company Direction and the IMC, and is a member of the States of Guernsey's GIFA, NED Forum and IP Commercial Group.

**Kenneth D. Reid, Director**

Kenneth, a Singapore resident, has more than 30 years international experience in infrastructure development, construction and investment. Initially with Kier Group, and then from 1990 with Bilfinger Berger AG, Ken served globally in various senior management roles, including as a member of the main PLC Board of Bilfinger between 2007 and 2010.

Ken graduated in Civil Engineering from Heriot-Watt University with First Class Honours and then Edinburgh Business School with an MBA. He is a Chartered Engineer and a member of the Singapore Institute of Directors.

**Chris Russell, Director**

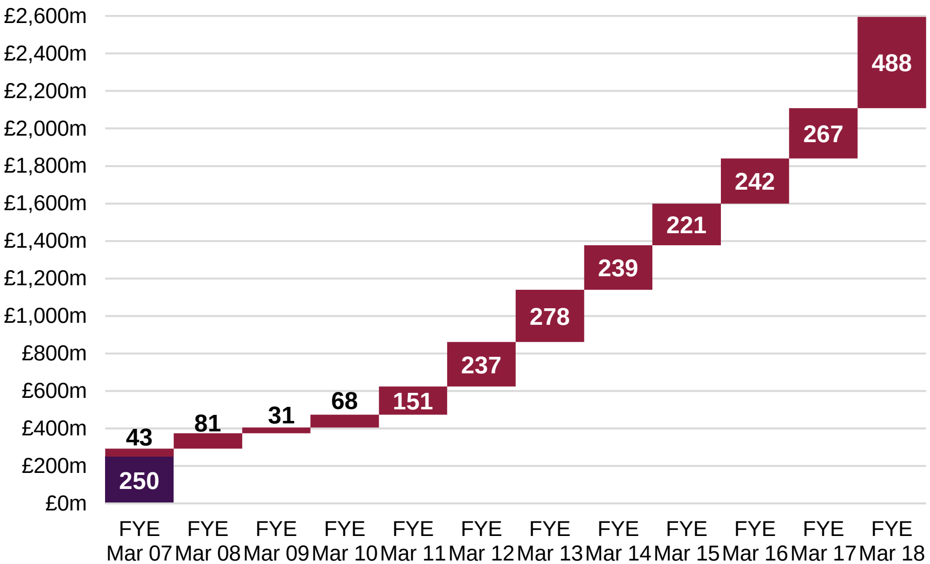
Chris, a Guernsey resident, is a non-executive director of investment and financial companies in the UK, Hong Kong and Guernsey. He is the Chairman of F&C Commercial Property Trust Limited and Macau Property Opportunities Fund Ltd. Chris was a director of Gartmore Investment Management plc, where he was Head of Gartmore's business in the US and Japan. Before that he was a holding board director of the Jardine Fleming Group in Asia.

Chris is a Fellow of the UK Society of Investment Professionals and a Fellow of the Institute of Chartered Accountants in England and Wales.

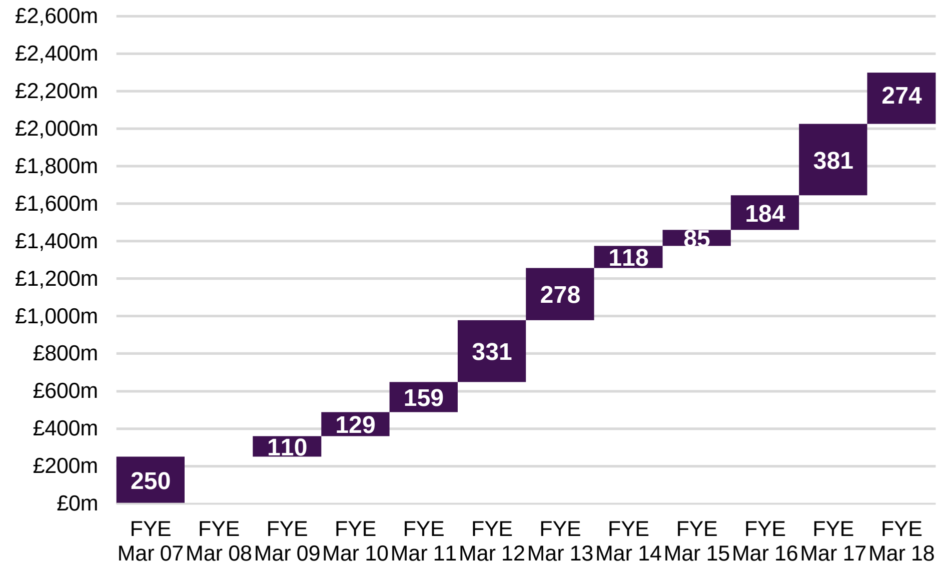
# Investment and Capital Raising

- Acquisitions are identified which fit the Acquisition Strategy; facilitated by demand for HICL shares
- Acquisitions are initially debt-funded (using £400m committed Revolving Credit Facility at Group level), to avoid cash drag and to give shareholders visibility over the new investments, and then refinanced through equity issuance (subject to market conditions)
- HICL raised £250m at IPO and c.£2.0bn through subsequent share issues

**184 Acquisitions[1] since IPO to 31 March 2018 totaling £2.56bn**




**Over £2.2bn of Equity Issuance from IPO to 31 March 2018 [2]**




1. Split into 116 investments, as at 31 March 2018. Excludes disposals, the proceeds of which have been reinvested
2. Includes primary and secondary issuance by way of tap and scrip issues

# Appendix III

The Investment Portfolio

# Current Portfolio I

## Portfolio of 116 assets at 31 March 2018

HICL Infrastructure

### Education — 18% of Directors' Valuation[1]

| | | | |
|---|---|---|---|
| Bangor & Nendrum Schools | Ealing Schools | Kent Schools | Rhondda Schools |
| Barking & Dagenham Schools | East Ayrshire Schools | Manchester School | Salford & Wigan BSF Phase 1 |
| Boldon School | Ecole Centrale Supelec (France) | Newham BSF Schools | Salford & Wigan BSF Phase 2 |
| Bradford Schools 1 | Edinburgh Schools | Newport Schools | Salford Schools |
| Bradford Schools 2 | Falkirk Schools NPD | North Ayrshire Schools | Sheffield Schools |
| Conwy Schools | Fife Schools 2 | North Tyneside Schools | Sheffield BSF Schools |
| Cork School of Music (Ireland) | Haverstock School | Norwich Schools | South Ayrshire Schools |
| Croydon School | Health & Safety Labs | Oldham Schools | University of Bourgogne (France) |
| Darlington Schools | Helicopter Training Facility | Perth & Kinross Schools | West Lothian Schools |
| Defence Sixth Form College | Highland Schools PPP | PSBP NE Batch | Wooldale Centre for Learning |
| Derby Schools | Irish Grouped Schools (Ireland) | Renfrewshire Schools | |

### Fire, Law & Order — 7%

| | | | |
|---|---|---|---|
| Addiewell Prison | Gloucestershire Fire & Rescue | Northern European Project | Tyne & Wear Fire Stations |
| Dorset Fire & Rescue | Greater Manchester Police Stations | Royal Canadian Mounted Police HQ | Zaanstad Prison (Netherlands) |
| Durham & Cleveland Firearms Training Centre | Medway Police | South East London Police Stations | |
| Exeter Crown & County Court | Metropolitan Police Training Centre | Sussex Custodial Centre | |

### Transport — 26%

| | | | |
|---|---|---|---|
| A9 Road (Netherlands) | A249 Road | Kicking Horse Canyon P3 (Canada) | Northwest Parkway (USA) |
| A13 Road | Connect PFI | M1-A1 Link Road | NW Anthony Henday (Canada) |
| A63 Motorway (France) | Dutch High Speed Rail Link | M80 Motorway | RD901 Road (France) |
| A92 Road | High Speed 1 | N17/N18 Road (Ireland) | |

1. By value using Directors' Valuation of 2,836.5m as at 31 March 2018; excludes investments after the period end

# Current Portfolio II

Portfolio of 116 assets at 31 March 2018

HICL Infrastructure

## Health — 28% of Directors' Valuation[1]

| | | | |
|---|---|---|---|
| Barnet Hospital | Doncaster Mental Health Hospital | Oxford John Radcliffe Hospital | South West Hospital Enniskillen |
| Birmingham Hospitals | Ealing Care Homes | Oxford Nuffield Hospital | Staffordshire LIFT |
| Birmingham & Solihull LIFT | Glasgow Hospital | Pinderfields & Pontefract Hospitals | Stoke Mandeville Hospital |
| Bishop Auckland Hospital | Hinchingbrooke Hospital | Queen Alexandra Hospital | Tameside General Hospital |
| Blackburn Hospital | Ireland Primary Care Centres | Redbridge & Waltham Forest LIFT | West Middlesex Hospital |
| Blackpool Primary Care Facility | Lewisham Hospital | Romford Hospital | Willesden Hospital |
| Brentwood Community Hospital | Medway LIFT | Salford Hospital | |
| Brighton Hospital | Newton Abbot Hospital | Sheffield Hospital | |
| Central Middlesex Hospital | Oxford Churchill Oncology | Southmead Hospital | |

## Accommodation — 10%

| | | | |
|---|---|---|---|
| Allenby & Connaught MOD Accommodation | Miles Platting Social Housing | Northwood MoD HQ | Royal School of Military Engineering |
| Health & Safety Headquarters | Newcastle Libraries | Oldham Library | University of Sheffield Accommodation |
| Home Office | | | |

## Water — 11%

| | |
|---|---|
| Affinity Water | AquaSure Desalination Plant (Australia) |

**Key**

▲ New investment since 31 March 2017

▲ Incremental investment since 31 March 2017

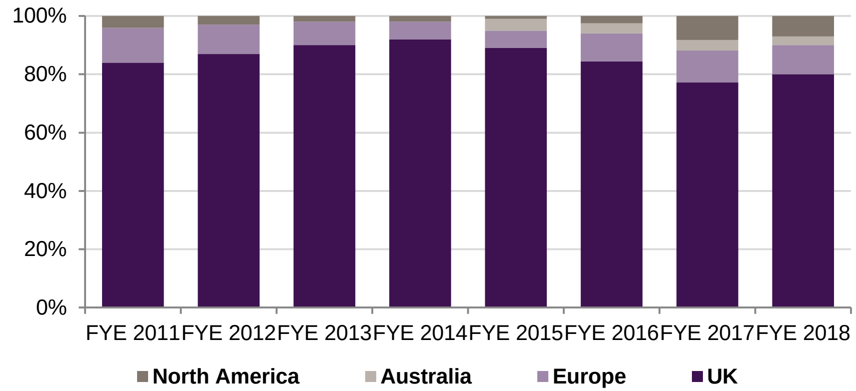
1. By value using Directors' Valuation of 2,836.5m as at 31 March 2018; excludes investments after the period end

# Current Portfolio – Key Attributes

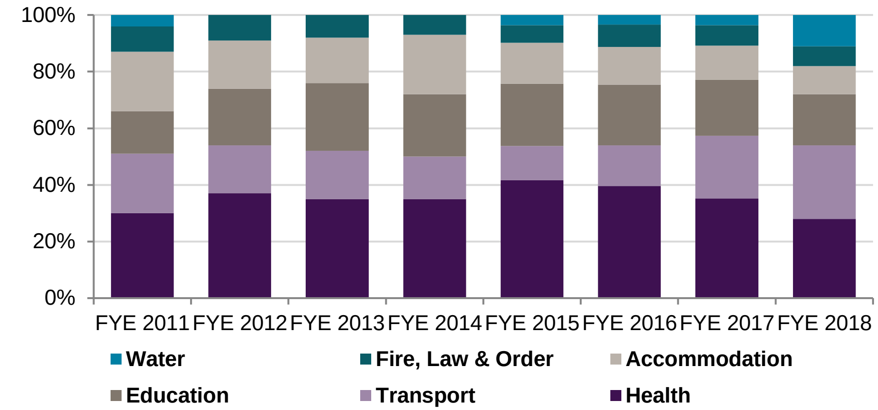
Evolution of the Group's portfolio

HICL Infrastructure

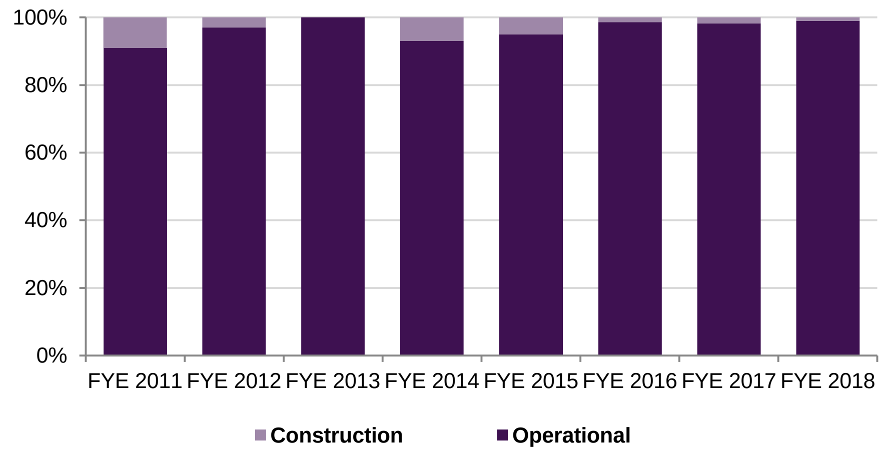
## Geographically Spread Portfolio



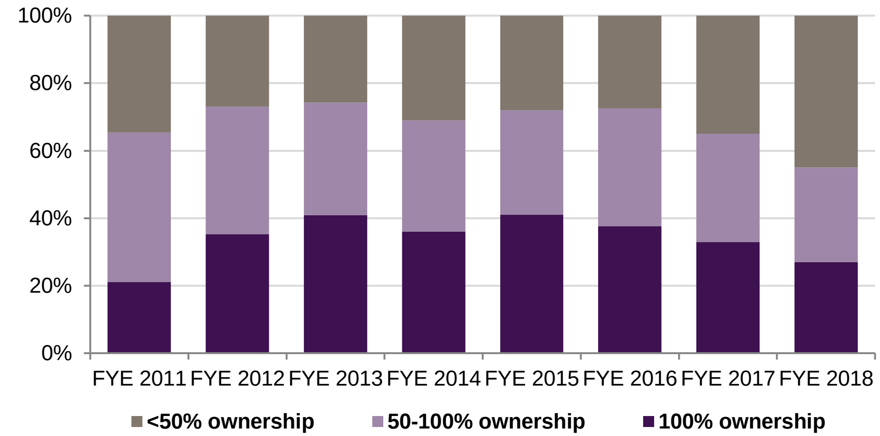

## Good Sector Spread




## Predominantly Operational Assets




## Opportunities to Increase Ownership Stakes




By value, using Directors' Valuation at 31 March each year

# Appendix IV

## Valuation Methodology

# Valuation Methodology

## The Company's valuation methodology is consistent with industry standard

### Semi-annual valuation and NAV reporting:

- Carried out by Investment Adviser
- Independent opinion for Directors from third-party valuation expert
- Approved by Directors

### Non traded - DCF methodology on investment cash flows

- Discount rate reflects market pricing for the investments and comprises the yield for government bonds plus an investment-specific premium (balancing item)
  - For bond yield, average of 20 and 30 year government bonds (matching concession lengths)

### Affinity Water

- DCF methodology with a terminal value assumed and a market discount rate applied to cash flows which incorporates forecast future regulatory outcomes as well as operational performance
- Regulated Capital Value multiple measures a company's Enterprise Value considered against comparable transaction data from the market and forms a useful cross-check to the DCF-derived valuation

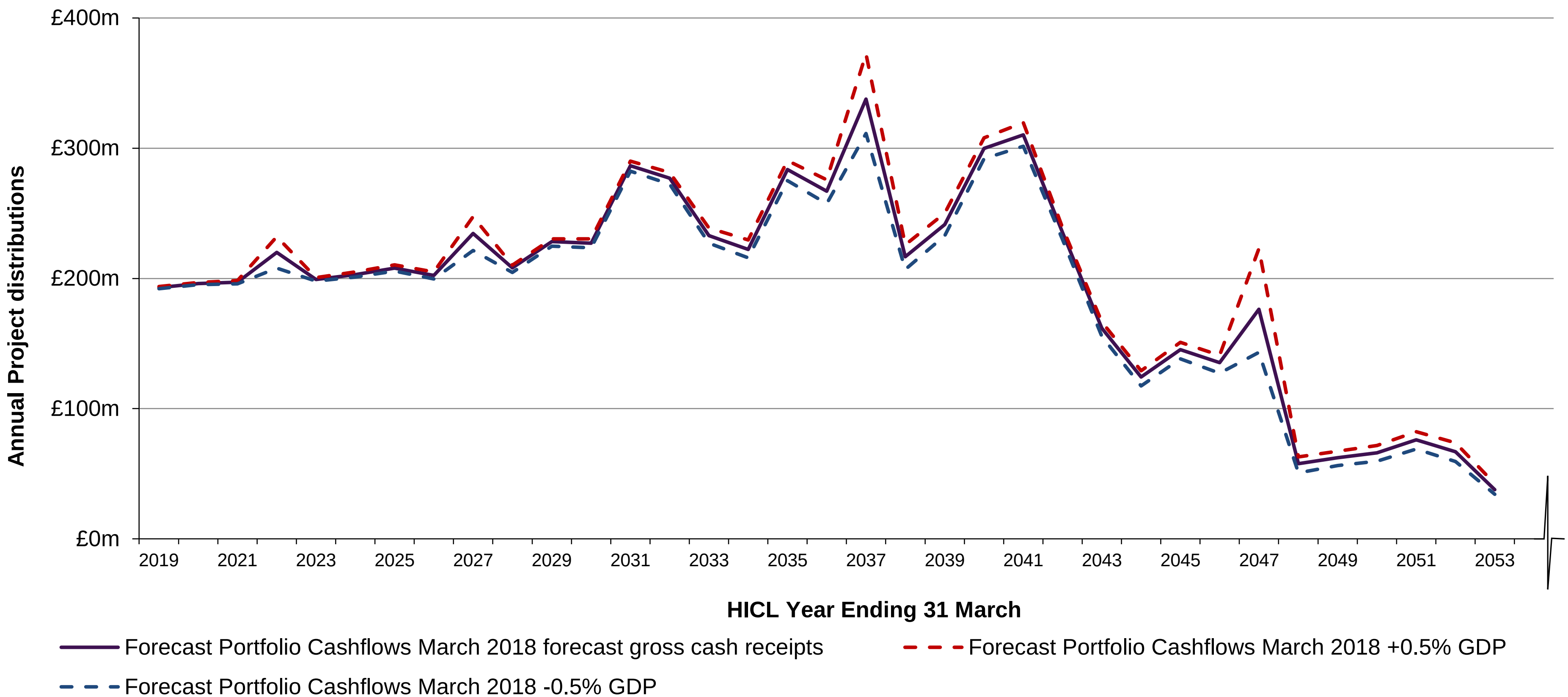
### Traded

- Traded securities are valued at the quoted market price (as is the case with the listed senior debt in the A13 Road project)

# Portfolio Cash flow Sensitivity III

Gross Domestic Product[1,2]

- If GDP assumptions were 0.5% p.a. higher for all future periods, expected return from the portfolio (before Group expenses) increases 0.2% from 7.4% to 7.6%
- Sensitivity based on forecast gross portfolio cash flows as at 31 March 2018




1. The illustration represents a target only and is not a profit forecast. There can be no assurance that this target will be met
2. Expected return is the expected gross internal rate of return

# Hedging Foreign Exchange Risk

**HICL hedges foreign exchange ("FX") risk in relation to assets it owns where cash flows are denominated in currencies other than British Pounds**

**Hedging provides confidence in the near term yield and helps mitigate the impact on NAV per share of FX movements**

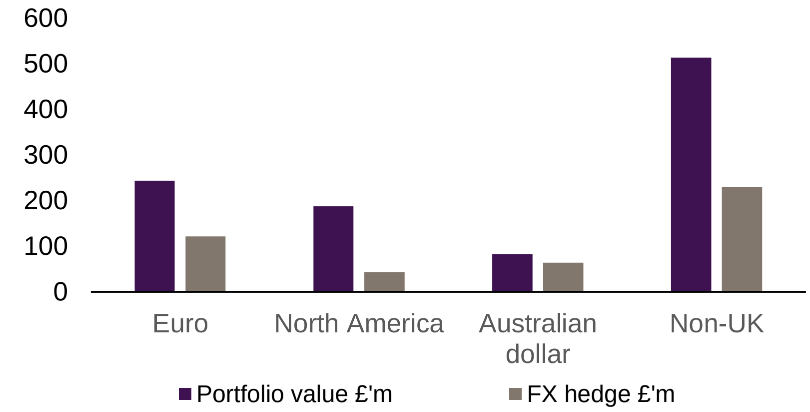
## Objective

- Manage FX risk as part of aim to provide sustainable long-term income
- Balancing FX risk and opportunity with cost of hedging

## How

- Hedging investment income forecast for up to 24 months and portion of portfolio value through forward sales
- Borrowing in foreign currencies from revolving credit facility
- Regularly reviewing non-Sterling exposure and adjusting level of hedging

**Hedging at 31 March 2018**



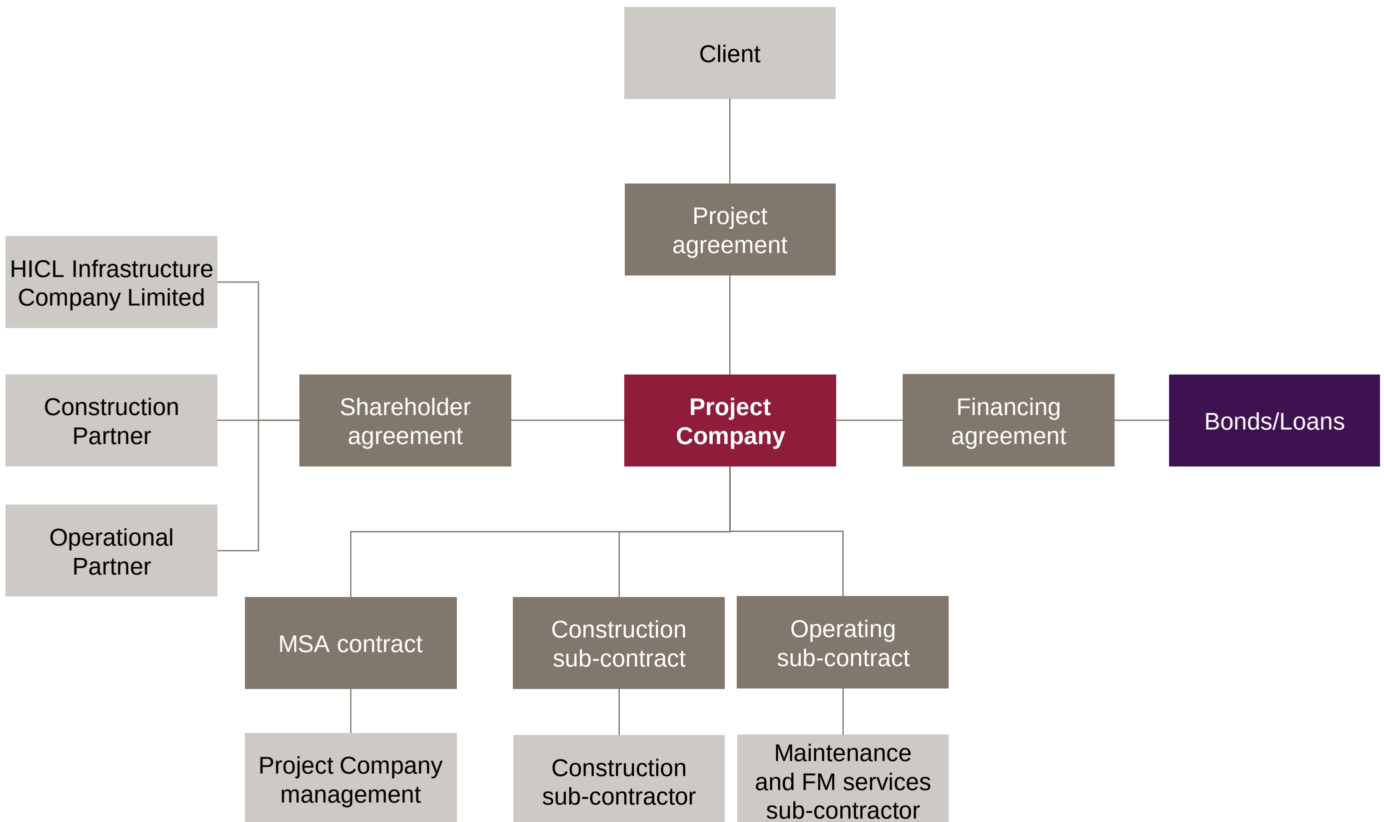

## HICL's hedging policy

- Limit volatility of NAV per share to no more than 2% for a 10% movement in FX rates
- (0.4%) net FX loss as percentage of NAV for year ended March 2018
- Board and Investment Adviser reviewing cost/benefit of current policy

# Appendix V

## The Infrastructure Asset Class

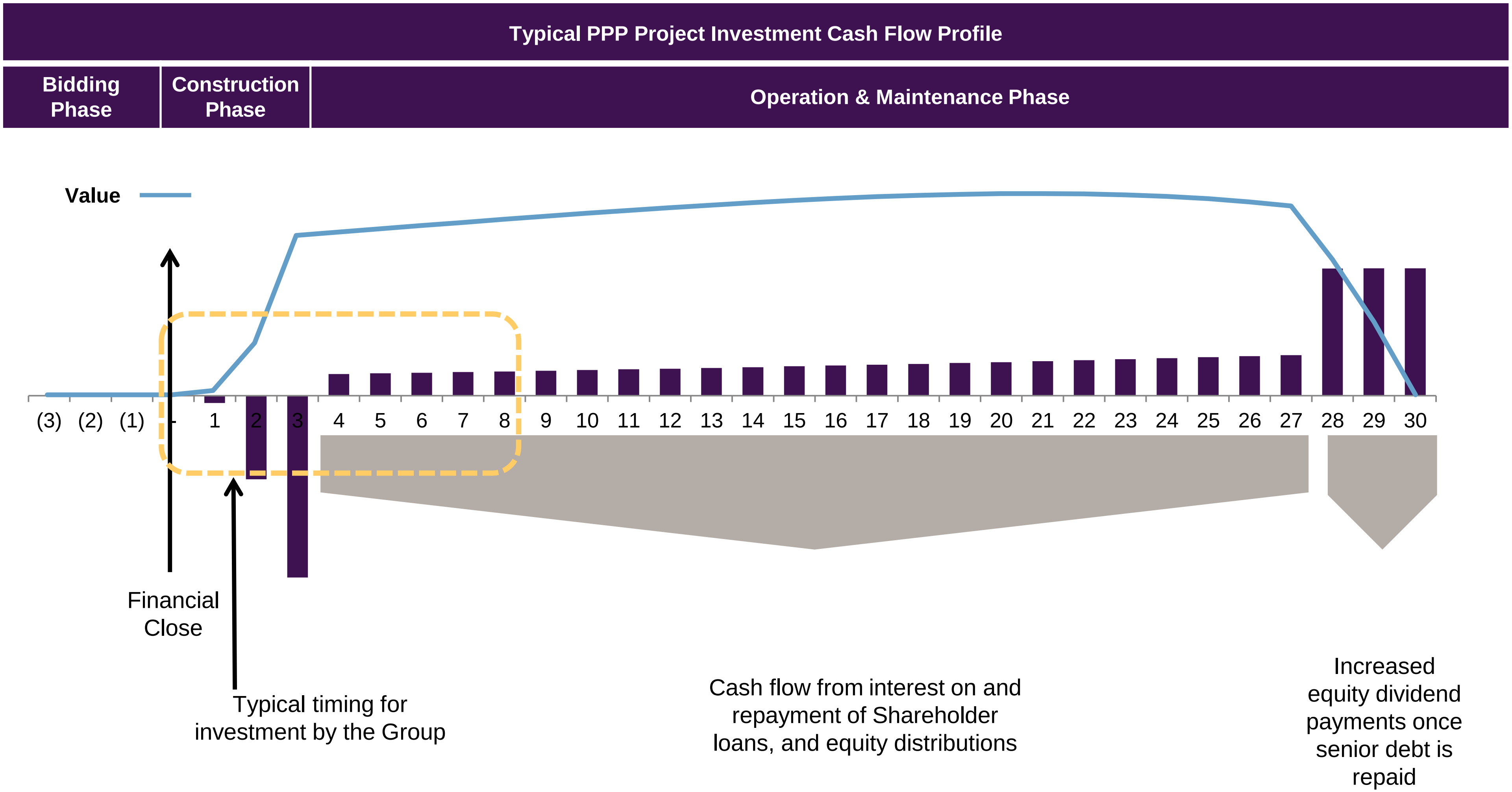
# Typical PPP project structure




Source: InfraRed

# Illustrative Investment Cash Flow Profile – PPP Project

Example: Social infrastructure return derived from an ‘availability’ revenue stream

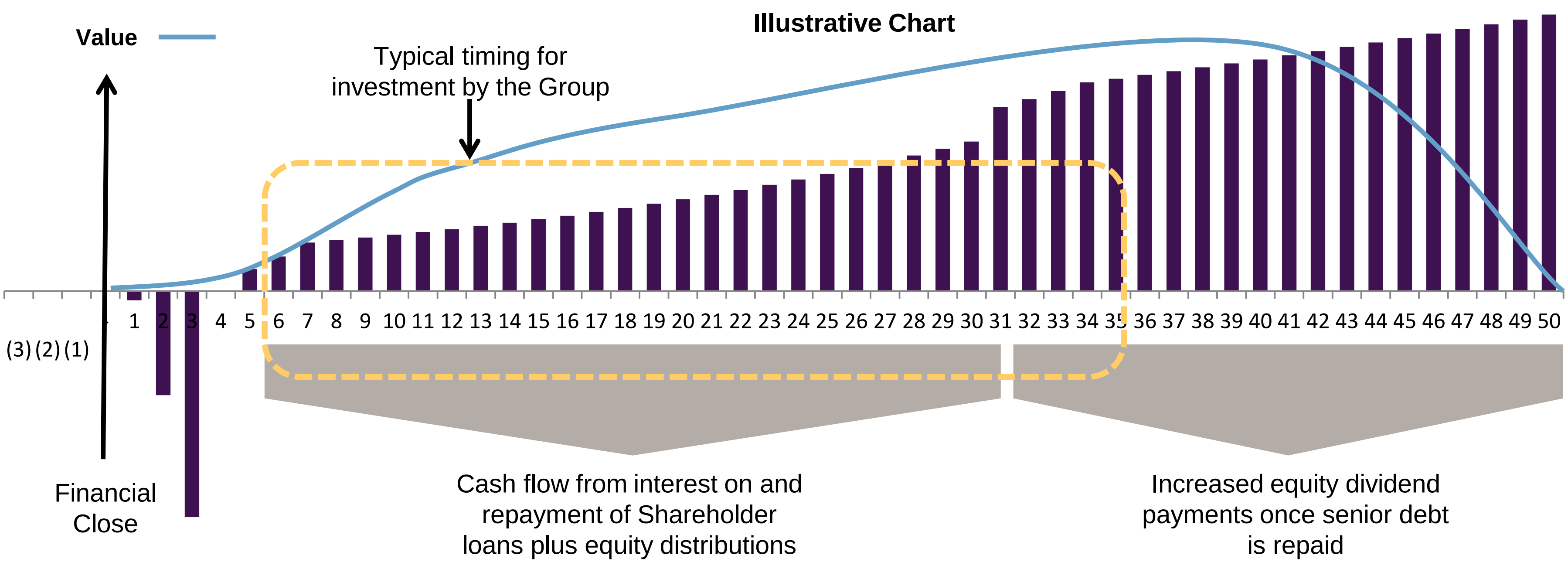



Source: InfraRed

# Illustrative Investment Cash Flow Profile – Demand-based Asset

Example: Toll road return derived from a demand-based asset revenue stream

| Typical Toll Road Investment Cash Flow Profile | | | |
|---|---|---|---|
| **Bidding Phase** | **Construction Phase** | Ramp-Up | **Operation & Maintenance (Steady State)** |



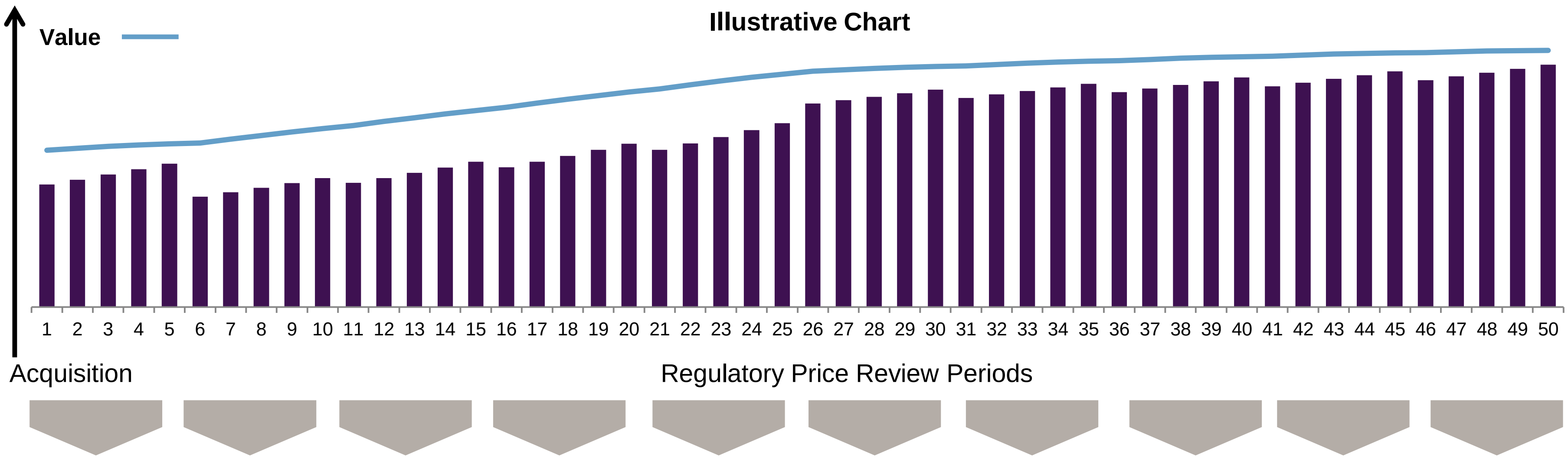

Source: InfraRed

# Illustrative Investment Cash Flow Profile – Regulated Asset

Example: Utility company return derived from a regulated revenue stream

**Typical Regulated Asset Investment Cash Flow Profile**

**Operational Network**



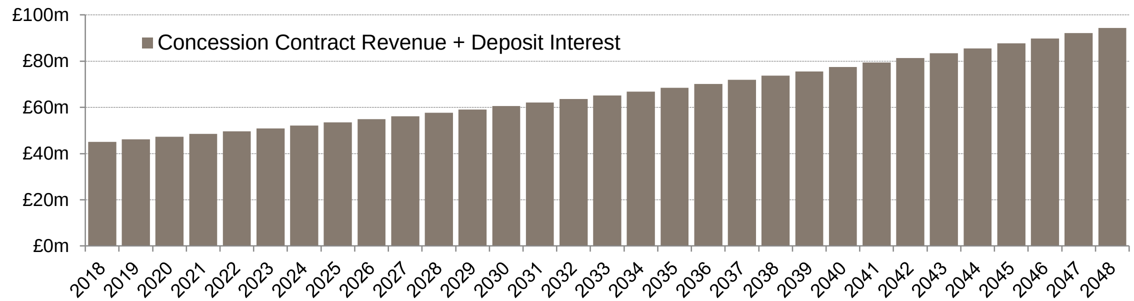

Source: InfraRed

# Valuation – Methodology

Determining the net asset value of the portfolio and the Group (PPP project example)

HICL Infrastructure

**Forecast Project Inflows**

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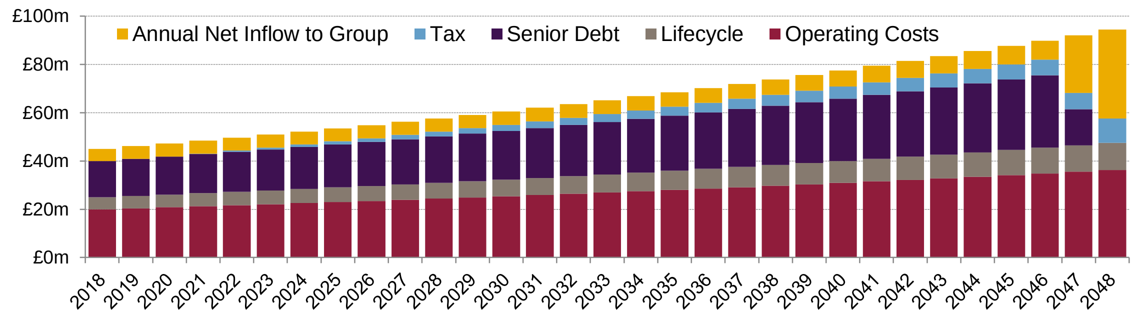
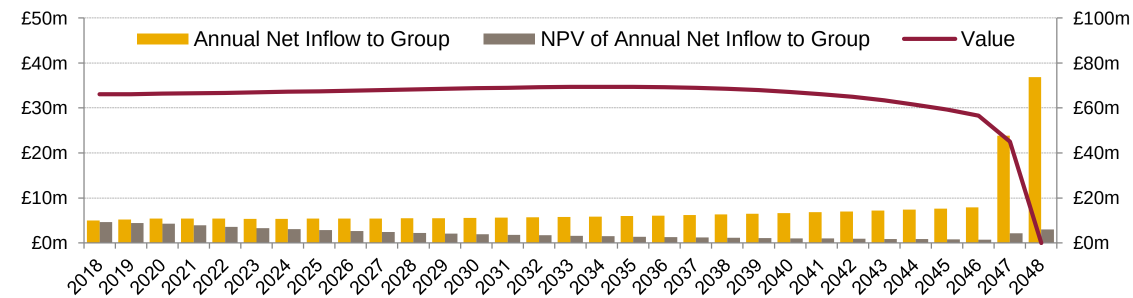
**Forecast Project Outflows**




equals

**Net Inflow from Project to HICL**




**Key Variables / Assumptions**

▲ Long-term Inflation Rate

▲ Interest Rate

- Whole-of-life concession revenue linked to inflation
- Interest income from cash reserves at individual project level

▲ Tax Rates

- Whole-of-life operating contracts fixed or linked to inflation
- Whole-of-life debt is fixed or inflation-linked
- Net Inflows to HICL in form of dividends, shareholder loan service & project co. directors' fees

▲ Discount Rate

▲ FX

- Net cash flows discounted to derive project valuation
- All project cash flows aggregated to give overall portfolio valuation
- Adjust for other Group net assets/liabilities to get Group NAV

Source: InfraRed