HICL Infrastructure Company Limited Annual Report 2019

Delivering Real Value.

Contents

HICL Infrastructure Company Limited ("HICL Guernsey") announced on 21 November 2018 that, following consultation with investors, the Board was of the view that it would be in the best interests of shareholders as a whole to move the domicile of the investment business from Guernsey to the United Kingdom. This and related proposals were put to shareholders at an Extraordinary General Meeting ("EGM") of HICL Guernsey. The change of domicile was approved by shareholders and subsequently effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019. As a result of the Scheme, HICL Guernsey transferred its assets to HICL Infrastructure PLC ("HICL UK"). HICL UK will continue the investment activities of HICL Guernsey, as it has an identical investment policy to that of HICL Guernsey. HICL Guernsey has subsequently entered voluntary liquidation. "HICL" means HICL Infrastructure Company Limited prior to 31 March 2019 and HICL Infrastructure PLC from 1 April 2019.

2019 Highlights
Key Investments

MARKET SEGMENT

March 2019

March 2018

	2019	2018
▲ PPP projects	71%	74%
▲ Demand-based assets	21%	18%
▲ Regulated assets	8%	8%

GEOGRAPHIC LOCATION

March 2019

March 2018

	2019	2018
▲ UK	77%	80%
▲ Europe (exc UK)	15%	10%
▲ Australia	–	3%
▲ North America	8%	7%

Top ten investments

High Speed 1

7%

Affinity Water

7%

A63 Motorway (France)

6%

Northwest Parkway (USA)

6%

Southmead Hospital

4%

Home Office

4%

Pinderfields & Pontefract Hospitals

4%

Dutch High Speed Rail Link (The Netherlands)

3%

Allenby & Connaught

2%

Queen Alexandra Hospital

2%

By value using Directors' Valuation of £2,998.9m.

157.5p
NAV per share
Up 7.9p from 149.6p at 31 March 2018

£2,998.9m
Directors' Valuation[1]
Up from £2,836.5m at 31 March 2018

10.8%
Total shareholder return
5.7% for the year to 31 March 2018 based on interim dividends paid plus uplift in NAV per share in the year

8.05p
2019 Dividend

8.25p & 8.45p
Dividend guidance[2] **reaffirmed for 2020 and 2021**

£167m
Acquisitions in the year[3]

£148m
Two strategic disposals

1.27x
Dividend cash cover[4]
1.10x for the year to 31 March 2018

Delivering Real Value

ACCOMMODATION
20,000
Capacity to house over 20,000 military personnel

EDUCATION
120,000
Over 120,000 student places across the school, college and university facilities in the portfolio

HEALTH
10 million
Over 10 million people with direct access to the healthcare facilities in the portfolio

Differentiated Investment Proposition

RELATIVELY LOW SINGLE ASSET CONCENTRATION RISK
45%
Ten largest assets as a proportion of the portfolio as at 31 March 2019

STRONG INFLATION CORRELATION
0.8
Correlation of portfolio returns to inflation[5] as at 31 March 2019

GOOD CASH FLOW LONGEVITY
29.5 years
Weighted average asset life as at 31 March 2019

[1] On an Investment Basis and includes £89.3m of future commitments. The portfolio of investments at fair value through profit or loss on an IFRS basis was £2,821.1m. A reconciliation of the Directors' Valuation to investments at fair value as per the balance sheet and on an Investment Basis is provided in Note 13 to the financial statements.
[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.
[3] Including four new and two incremental investments.
[4] Including profits on disposals of £34.0m. Excluding this, dividend cash cover would have been 1.03x.
[5] 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 Corporate Group expenses) would increase by 0.8%.

01 Overview

1.1
Chairman's Statement

Ian Russell, CBE
Chairman

"I am pleased to announce that HICL delivered another excellent set of results over the twelve months to 31 March 2019."

157.5p
NAV per share

10.8%
total return for the year[1]

[1] NAV per share appreciation plus dividends paid.

HICL Infrastructure Company Limited ("HICL Guernsey") has enjoyed a successful heritage as a Guernsey-based investment company since its launch in 2006.

However, shareholders recently approved proposals for HICL's[2] investment business to be moved from Guernsey to the UK, meaning that this represents the final set of accounts to be produced under the name of HICL Infrastructure Company Limited. Following the financial year end, the investment business of HICL Guernsey has transferred to HICL Infrastructure PLC ("HICL UK"). Due to the subsequent voluntary liquidation of HICL Guernsey, these accounts are presented on a non-going concern basis, nevertheless the investment business itself continues as a going concern in HICL UK.

I am pleased to announce that HICL delivered another excellent set of results over the twelve months to 31 March 2019, achieving an uplift in NAV of 7.9 pence per Ordinary Share, and a total return[3] of 10.8%, demonstrating outperformance from the portfolio (see Section 3.1 – Operating & Financial Review for details).

Responsible Investment Proposition

HICL seeks to deliver long-term, stable income from a well-diversified portfolio of infrastructure investments. HICL invests in projects and companies that provide physical assets, often supporting essential public services in the communities in which they are located. Acknowledging the importance of this infrastructure, HICL is committed to a sustainable and proactive approach to asset management and stakeholder relationships, which the Board believes is fundamental to the fulfilment of the investment proposition for shareholders. HICL's commitment to balancing the needs of all key stakeholders is exemplified by its proactive management of the impact of the liquidation of Carillion PLC, where we deliberately placed our priorities towards achieving the successful maintenance of full and uninterrupted services to our public sector partners and to the end users of our facilities (see Case Study – page 26).

Demonstrating financial discipline, HICL Guernsey pursued a portfolio optimisation strategy over the course of the financial year, making both selective acquisitions and strategic disposals which were accretive to the portfolio. Shareholder value was enhanced by both taking advantage of favourable market conditions and improving the portfolio composition. During the year, HICL Guernsey invested £167m in six assets[4], and made two strategic disposals totalling £148m.

The Board and the Investment Adviser, InfraRed Capital Partners Limited ("InfraRed"), are united in taking a long-term perspective of HICL's strategy, governance and the management of the portfolio, which is aligned to the life of the investments themselves, and underpins the long-term cash flows that deliver the annual dividends.

Corporate Governance

The Directors believe that strong governance supports strategic thinking, which in turn builds and protects value for all HICL's stakeholders. Clients and communities benefit from well-run and well-maintained infrastructure, while shareholder value is protected and enhanced by prioritising long-term decision-making.

Differentiated governance approach

Good governance encourages strong, proactive management which produces tangible results and provides reassurance to HICL shareholders. HICL has a diversified portfolio, and gives careful consideration to single asset exposure. The Board is fully independent of the Investment Adviser. The dedicated Risk Committee is separate from the Audit Committee, meeting at least four times a year to consider known and emerging risks and associated mitigation strategies. An independent valuation expert provides the Board with an external view on valuation of the portfolio twice a year, to benchmark the valuation undertaken by InfraRed. HICL has a relatively low Ongoing Charges Ratio[5]; adopts a transparent management fee taper which has been periodically revisited and further reduced to reflect economies of scale; and, since 1 April 2019, pays no acquisition fee on new investments[6].

[2] "HICL" meaning HICL Infrastructure Company Limited ("HICL Guernsey") prior to 31 March 2019 and HICL Infrastructure PLC ("HICL UK") from 1 April 2019.
[3] NAV per share appreciation plus dividends paid.
[4] Including a commitment to the Blankenburg Connection, which had not completed by the year end.
[5] Ongoing charges, in accordance with Association of Investment Companies ("AIC") guidance, is defined 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 period.
[6] Previously a 1.0% fee on acquisitions made from third parties.

1.1 Chairman's Statement (continued)

Communication

The Board and Investment Adviser are committed to transparency in HICL's communications with shareholders. Both InfraRed and members of the Board regularly meet with shareholders. Annual and Interim Reports are supplemented with case studies to provide additional colour (see Case Studies on pages 16 and 26). Importantly, where external events might have a negative impact on HICL, the Board acknowledges this and communicates to shareholders the potential consequences for cash flows and valuation. This applies not only for significant events such as the liquidation of Carillion, but also in the case of less material but similar circumstances, such as the administration of Interserve PLC, where it is important to provide the requisite reassurance and clarity to investors and other stakeholders.

Board composition

Chris Russell has reached the end of his nine-year tenure on the Board, and therefore stepped down on 31 March 2019. Chris brought invaluable insight and experience to the HICL Board, and I would like to express the thanks of the Directors for his significant contribution.

> "Good governance encourages strong, proactive management which produces tangible results and provides reassurance to HICL shareholders."

The Board takes diversity and succession planning very seriously. We are conscious that investors benefit from all forms of diversity: of gender, and also of background, experience and skills; and this makes for a stronger Board and a better decision-making process. I am therefore delighted that Frances Davies has joined HICL UK as a non-executive Director. Frances has more than 30 years of experience across various roles within the banking and asset management industries.

We acknowledge the combined efforts of the Investment Association and the Hampton-Alexander Review (the "Review") team to improve gender diversity. The Board of HICL UK comprises two women and five men, which represents tangible progress towards achieving the aims of the Review.

EGM and move of corporate domicile

As announced on 21 November 2018, the Board believed that it would be in the best interests of both HICL and its shareholders as a whole to move the corporate domicile and tax residency of HICL's investment business to the UK.

At an Extraordinary General Meeting ("EGM") on 26 March 2019, HICL Guernsey's shareholders approved this proposal. This is an important milestone in HICL's evolution, aligning HICL's corporate domicile and tax residency with the location of the majority of both its shareholders and its investments, putting HICL on a stronger footing with regards to future cross border taxation changes and foregoing the high degree of scrutiny to which offshore funds are increasingly subject.

In line with HICL's commitment to good corporate governance, the Directors also put a resolution to shareholders at the EGM relating to a change in notice period for InfraRed. Despite a substantial majority voting in favour of the proposal as it stood, both the Board and InfraRed were keen to demonstrate a tangible commitment to heeding shareholder feedback and so, following the result, the two parties agreed to further adjust the management arrangements by removing the 1% Acquisition Fee altogether.

Dividends and Guidance

Although cash flow from the portfolio was impacted by the Carillion liquidation, HICL Guernsey's target dividend guidance remained unchanged, and was extended to March 2021 at the time of the Interim Results in November 2018. This consistency of income is testament to the quality of the underlying portfolio construction, its diversification and its ability to withstand external shocks and maintain a cash covered dividend.

As usual, the Directors have carefully considered the forecast future cash flows and I am pleased to report that the Board of HICL UK has adopted the previous target dividend guidance of 8.25 pence per Ordinary Share to 31 March 2020 and 8.45 pence per Ordinary Share to 31 March 2021.

01 / OVERVIEW

Key Risks

Politics and Regulation

The political landscape in the UK continues to evolve. Particularly pertinent for HICL is the development of thinking on infrastructure financing: on the one hand, the Treasury is looking at new ways to fund essential investment in national infrastructure; and on the other hand, the Labour Party has raised the prospect of nationalisation of certain infrastructure. Addressing both themes, the Investment Adviser will provide input to HM Treasury and the Infrastructure and Projects Authority's joint Infrastructure Finance Review Consultation and is engaged in constructive discussions with policy-makers who are interested in forming a balanced perspective of the private sector's involvement in infrastructure delivery. HICL is thus represented in the UK national dialogue around the future of infrastructure investment.

Setting aside the practical barriers to nationalisation, such as the necessary compensation that would be payable to infrastructure owners including UK pensioners and savers, the narrative around nationalisation ignores the many benefits of private capital invested in the infrastructure that facilitates the delivery of public services. For example, since 1990, service indicators across the water sector in England and Wales have outperformed those in France, Ireland, Italy and Spain[1]. The water sector in England and Wales is also the top performer for customer service and compares well for bill levels[1]. It is also estimated that a greater increase in productivity rates in the private sector compared to the public sector is worth at least £3.2bn in cost savings, which is reflected in customer bills[2]. As these statistics illustrate, the true picture of private sector participation in the management of public infrastructure does not fit easily into a headline.

Research by the Global Infrastructure Investor Association has found that in the UK 8.7m individual pensions, of which 59% belong to serving or former public sector employees, across 118 UK pension funds are invested in UK infrastructure[3]. This does not take into account individual UK savers who have invested in infrastructure funds, including c. 50% of HICL's shareholders, through their private pensions, savings products and direct shareholdings. Future discussions on the merits and consequences of nationalisation must recognise and address the impact on end investors in infrastructure.

HICL is a long-term owner, and custodian, of public infrastructure and takes seriously its responsibilities to all stakeholders, including end users. The Board and InfraRed will continue to engage constructively with the UK government, policy-makers and politicians across the spectrum in relation to the private sector's role in infrastructure investment.

Counterparties

InfraRed's work to deal with the implications for HICL of the liquidation of Carillion has delivered seamless service continuity for HICL's public sector clients and successfully mitigated the financial impact on shareholders (see further detail in the Investment Adviser's Report in Section 2.6). However, over the course of the year, the market has witnessed weakness on the part of a number of other UK contractors and facilities management companies. The Board and InfraRed closely monitor counterparty risk and take precautionary action if the credit quality of a specific counterparty deteriorates. This vigilance has been successful; the PPP procurement model has ensured public sector clients have not been impacted by counterparty failures.

> "…the Directors are confident that the strategic, long-term approach taken by HICL and InfraRed will continue to deliver value for shareholders."

Outlook

The Board and InfraRed regularly assess the pipeline and market conditions: asset pricing continues to be elevated due to the strong demand for assets, the limited supply of core infrastructure investments and the low interest rate environment. Nonetheless, InfraRed continues to source attractive opportunities in each of HICL's key market segments, albeit discipline around asset pricing remains critical to delivering accretive investments to shareholders.

While the UK infrastructure market remains subject to elevated political and regulatory uncertainty, the Board believes in HICL's business model, and the Directors are confident that the strategic, long-term approach taken by HICL and InfraRed will continue to deliver value for shareholders.

Ian Russell
Chairman
21 May 2019

[1] www.water.org.uk/wp-content/uploads/2018/12/GWI-International-sector-performance-comparisons.pdf
[2] www.ofwat.gov.uk/wp-content/uploads/2016/01/prs_inf_afford.pdf
[3] www.giia.net/millions-of-uk-pension-savers-supporting-regional-and-national-infrastructure/

02
Strategic Report

2.1 The Infrastructure Market

The infrastructure asset class covers investments in assets that support local communities and essential public services, comprising a variety of sectors and risk profiles.

Illustrative Infrastructure Market Map
HICL segments the market using revenue risk categories, as revenue is a key driver of the long-term, stable and predictable cash flows that infrastructure investors are typically seeking.

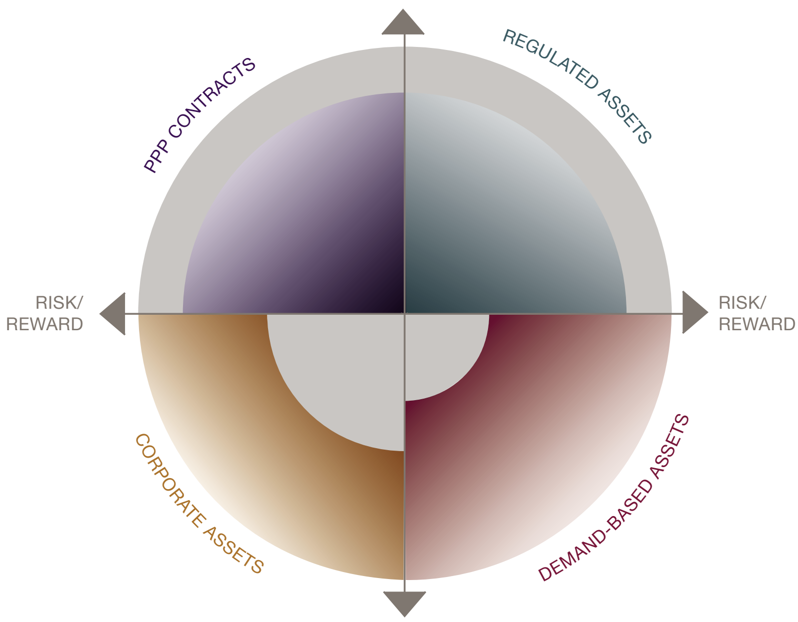
The spectrum of risk associated with infrastructure assets varies within each market segment – and not all market segments offer the lowest categories of risk. The risk profiles of the market segments overlap depending on the characteristics of the assets themselves and the relevant contractual or regulatory arrangements.

HICL selectively targets opportunities within each market segment, with a focus on PPP projects, regulated assets, demand-based assets and, selectively, certain types of corporate asset – which are often collectively referred to as "core infrastructure". These market segments have different, but complementary risk profiles, and HICL seeks to balance these through responsible, planned portfolio construction.

PPP projects can offer some of the lowest risk investment opportunities in the infrastructure market, due to the contractual nature of revenues and costs and limited residual risks borne by equity investors. However, if a PPP project is under construction, has financially weak counterparties, or has not been structured to pass down appropriately key delivery risks to subcontractors, its risk profile can be incrementally higher than a well-structured operational PPP project, a regulated asset or an operational toll road.

Regulated assets support the delivery of services to end users, including customers and businesses. Their monopolistic positioning means that they are subject to regulatory regimes that balance performance standards and affordable pricing for households with the financial viability of the companies.

Illustrative Infrastructure Market Map



The relevant regulator has significant influence over their business plans, often through price controls. These assets add balance to the PPP project portfolio as the regulatory regimes, in the long term, provide protection for industry-wide movements in costs, including the cost of capital, operations, maintenance and investment. Regulated assets will typically self-perform operations and maintenance activities or outsource to a wider array of counterparties than individual PPP projects, thereby reducing counterparty risk, which is achieved for PPP projects through counterparty diversity on a portfolio-wide basis.

Balancing PPP projects and regulated assets, 'user-pays' demand-based assets are generally less sensitive to political and regulatory risks. They are more exposed to volume (traffic/usage) risk and often have investment returns that are correlated to the rate of economic growth. Those at the lower end of the risk spectrum will typically have strong usage history or limited uncertainty in forecast demand.

Active asset management can drive the mitigation of risk, which is inherent in the scope of the activities performed by the underlying portfolio companies. More detail on the key risks faced by portfolio companies can be found in Section 3.5 – Risk & Risk Management.

The diagram below shows an illustration of the Infrastructure Market; grey areas indicate that opportunities do not typically exist in the relevant segment across the entire risk spectrum.

HICL's positioning within the infrastructure market is discussed in more detail in Section 2.2 – Investment Proposition.

PPP Projects	**Regulated Assets**	**Demand-based Assets**	**Corporate Assets**
Social infrastructure, transportation	Water utilities, electricity and gas transmission and distribution	Toll roads, student accommodation	Rolling stock leasing
– Long-term contracts, e.g. 20–30 year concessions – Public sector counterparties, typically with strong covenants – Availability-based payments offering stable, contracted revenues, often with inflation linkage	– Owners of infrastructure assets with monopolistic traits, subject to regulatory price controls – Regulator agrees investment requirements and determines cost of equity – Long-term assets; low correlation with economic activity and good inflation linkage	– Typically concessions, sometimes owners of assets with monopolistic traits – Revenues linked to usage of the underlying assets – Usually have good inflation linkage; may have returns correlated to GDP	– Can cover delivery of services, not just provision of assets – Contracted revenues with corporate counterparties – Often shorter-term contracts

2.2 Investment Proposition

HICL's investment proposition is to deliver long-term, stable income to shareholders from a diversified portfolio of infrastructure investments positioned at the lower end of the risk spectrum.

HICL's Investment Policy Scope

The schematic on the next page overlays HICL's Investment Policy onto the infrastructure market map (see Section 2.1 – The Infrastructure Market).

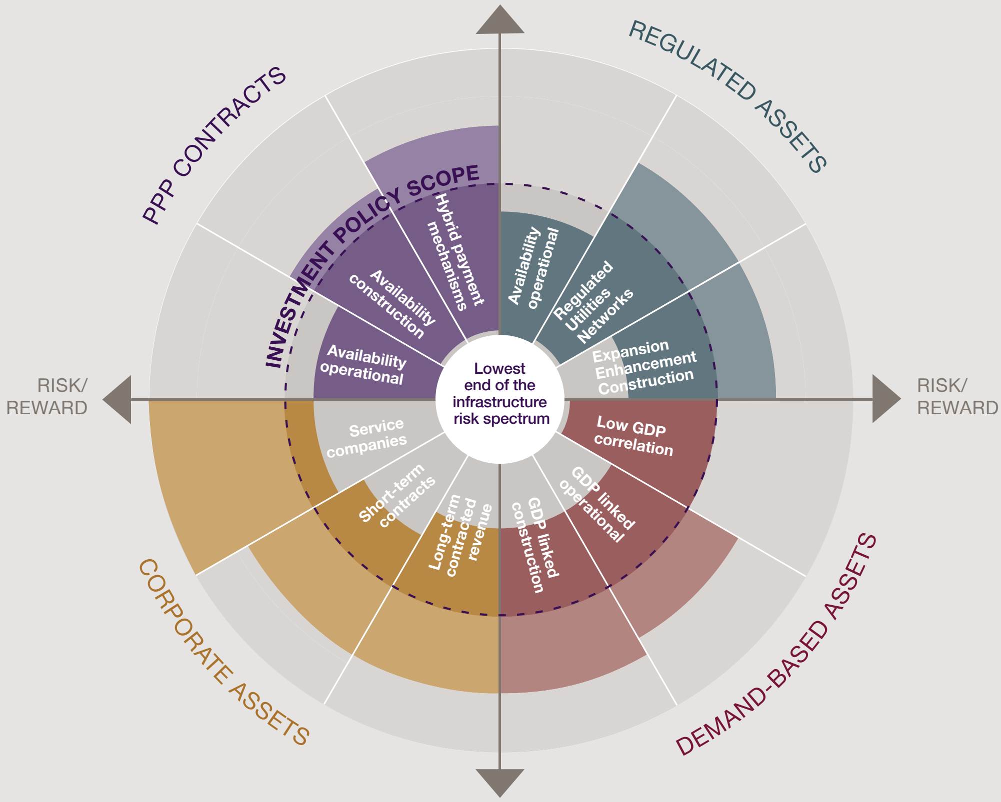
HICL invests in assets positioned at the lower end of the infrastructure risk spectrum, as shown by the illustration opposite. These types of assets are sometimes collectively referred to as core infrastructure.

The diagram shows a representation of HICL's Investment Policy scope in the context of the wider infrastructure market.

In considering this illustration, the following should be taken into account:

- lower risk investments are towards the centre of the schematic, with higher risk investments towards the outside;
- each sector is broken down into sub-sectors which also cover overlapping risk profiles, ranging from, for example, low risk payment mechanisms (availability-based, long-term contracts) and/or fully operational assets at the lower end to higher risk propositions for example, those under construction, hybrid payment mechanisms and/or those with less predictable revenue streams; not all sub-sectors are shown, in particular some higher risk sub-sectors that are not relevant to HICL have been excluded; and
- grey indicates that opportunities do not typically exist in the relevant sub-sector across the entire risk spectrum.

Investment Policy Scope



2.3
The Infrastructure Market Case Study: Regulated Assets

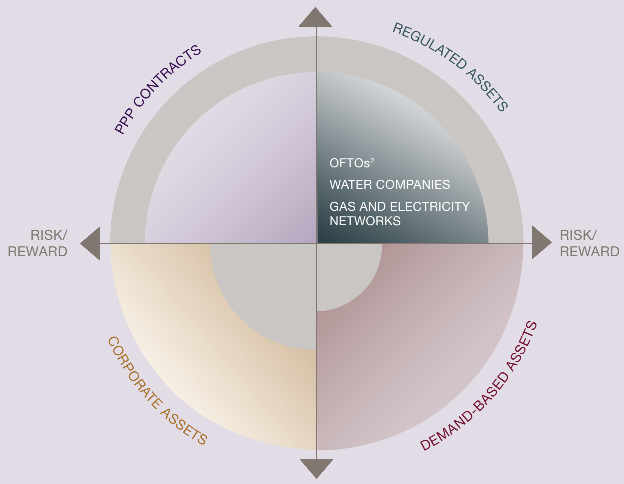
Regulated assets are accretive to the HICL portfolio

7.5% weighted average discount rate[1] (portfolio: 7.2%)

79 years weighted average remaining asset life[1,2] (portfolio: 30 years)

1.3 inflation correlation[1,3] (portfolio: 0.8)

Illustrative Infrastructure Market Map



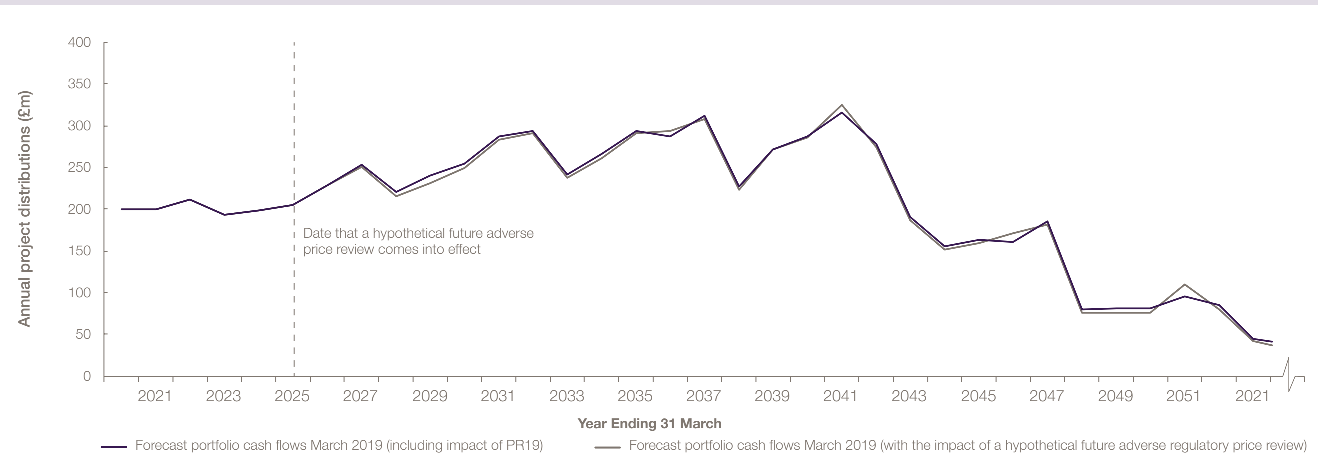
Investment characteristics

- Essential assets regulated due to monopoly market positions
- Assets subject to licence periods[4]
- Regulatory reviews provide some protection from changes to operating costs and cost of capital
- Operational delivery risk often retained by portfolio companies, reducing single counterparty exposure

A balanced portfolio can withstand regulatory risk

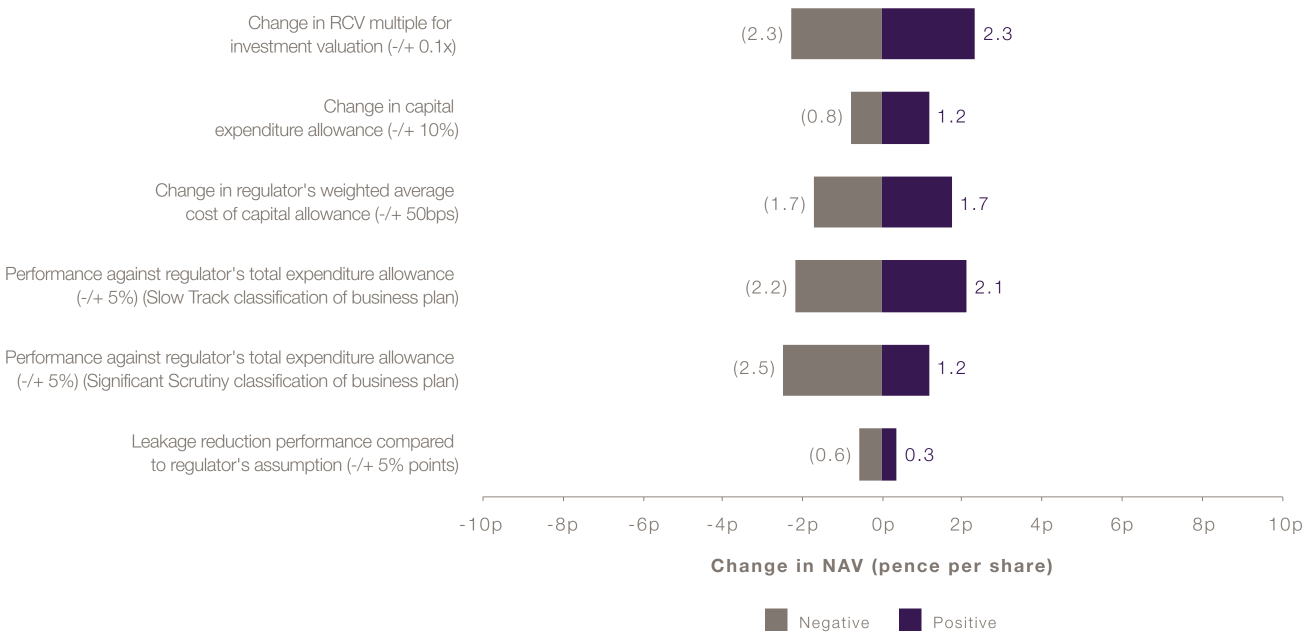
Regulators are expected to balance performance standards and affordable pricing for households with the financial viability of the companies. The chart below shows that the impact of a hypothetical adverse regulatory price review in the future (using the impact of Ofwat's PR19[5] as a proxy) can be minimised if single asset concentration risk within the portfolio is managed[6].

Different sub-sectors have different regulatory cycles. For example, PR19 is nearing its end, whereas Ofgem's RIIO-2[7] is just commencing.



02 / STRATEGIC REPORT

Demonstrating the potential impact of a hypothetical future adverse regulatory price review



The sensitivity chart above illustrates the impact on HICL's net asset value today of scenarios derived from a hypothetical future adverse regulatory price review arising from certain political, regulatory and operational risks faced by assets subject to regulatory price controls, in this case using Affinity Water as a proxy.

Political risk could manifest itself in different ways

Post-licence period assumptions (residual value assumptions), particularly in relation to the RCV[8], can be affected by changes in policy:

- some are growth assets (growing RCV and perpetual capital e.g. water and electricity) and some are yield assets (shrinking or flat RCV and redundancy/obsolescence risk e.g. gas);
- emphasis towards renewable energy should help to preserve OFTO residual valuation assumptions; or
- a focus on reducing the impact of water companies on climate change is an opportunity to invest in the network to improve its sustainability, thereby adding to RCV growth.

The risk of nationalisation and political interference in UK regulatory processes exists; however a permanent adverse impact on regulated assets is not a foregone conclusion, and the debate will need to consider:

- 90% of the British public trust their water supplier to provide reliable service and good quality[9];
- it is estimated that the increase in productivity since privatisation is equivalent to a saving of £3.2bn for customers[10]; and
- there has been no real-terms increase in water bills for 20 years[11], which are approximately £1.13 a day[12].

Regulatory determinations can work both ways

The chart at the top of this page shows that policy and regulatory changes, and operational performance, can have a positive or negative impact on value.

Recently a change in methodology relating to debt assumptions in PR19 (compared to PR14) resulted in the use of short-term debt in the allowance calculations and imposing gearing restrictions encourages companies to take on refinancing risk and does not allow for prudent companies who fixed much of their cost of debt under a different framework. This approach may reverse in the future. For example, Ofwat's assumed real-terms cost of equity increased from PR99 to PR04.

As is often referenced by the Environment Agency[13], investment is needed in the water network in South East England. Future regulatory price reviews that prioritise this need would likely result in an increase in RCV.

Some regulated assets are more akin to PPP contracts in the medium term. OFTOs receive a revenue stream based on asset availability, with a licence period of 20 years. However, OFTOs offer some potential residual value upside as the asset is retained by the concessionaire at the end of the licence period.

1 Including three OFTOs at preferred bidder stage.
2 Assumes 100-year asset life for Affinity Water.
3 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% and from the regulated assets 'mini-portfolio' (before Group expenses) would increase by 1.3%.
4 Offshore Transmission Owners ("OFTOs").
5 Ofwat's Price Review 19 determines water companies' business plans for Asset Management Period 7, from 2020 to 2025.
6 Affinity Water was 7% of HICL's portfolio, by value, at 31 March 2019.
7 Ofgem's Revenue Incentives Innovation Outputs 2 determines electricity and gas network companies' business plans from 2021.
8 Regulated capital value ("RCV") is the total unamortised capital invested in a regulated asset which is used to measure the capital base of the company in a regulatory price review.
9 www.water.org.uk/news-item/new-survey-reveals-a-big-fall-in-support-for-water-nationalisation-and-shows-high-levels-of-trust-in-water-companies/
10 www.first-economics.com/privatepublicwater.pdf
11 www.researchbriefings.files.parliament.uk/documents/SN06596/SN06596.pdf
12 www.discoverwater.co.uk/annual-bill
13 www.gov.uk/government/speeches/escaping-the-jaws-of-death-ensuring-enough-water-in-2050

2.4
HICL's Business Model & Strategy

HICL's strategy to deliver the Investment Proposition is through successful execution of HICL's Business Model. The Board delegates the majority of the day-to-day activities required to deliver the business model to the Investment Adviser, InfraRed Capital Partners ("InfraRed"). More information on the InfraRed business can be found at Section 2.6 – The Investment Adviser's Report.

Value Preservation

InfraRed's Asset Management and Portfolio Management teams work closely together, in partnership with the management teams in HICL's portfolio companies, to deliver HICL's Investment Proposition by preserving the value of investments for shareholders and stakeholders. The objective is to ensure portfolio companies perform in line with the relevant contractual obligations and/or regulatory framework; and deliver the forecast base case investment return.

This is achieved through:

- Providing oversight and governance of portfolio companies, usually through Board representation.
- Building relationships with key portfolio company counterparties, in particular public sector clients/regulators.
- Facilitating and/or driving resolution of operational issues, including disputes.
- Promoting Environmental, Social and Governance ("ESG") awareness within portfolio company management teams, encouraging the pursuit of specific initiatives to comply with regulation and support sustainable, responsible business operations (see Section 4 – Responsible Investment).
- Monitoring financial performance of each investment against HICL forecasts.
- Improving cash efficiency by managing cash flow from HICL investments and minimising cash drag on returns.
- Managing the process and analysis required for valuations of HICL's portfolio.
- Following prudent financial management practices (e.g. accounting and tax policies; treasury processes).

Value Enhancement

The Asset Management and Portfolio Management teams seek opportunities to deliver outperformance from the portfolio through value enhancements. This upside is often shared, between HICL's shareholders and public sector clients for PPP projects, or with the customers of regulated assets through periodic regulatory price reviews.

This is achieved through:

- Sponsoring the implementation of initiatives within portfolio companies to reduce ongoing costs, but not to the detriment of service delivery (for example, refinancing existing senior debt facilities).
- Developing and implementing procurement efficiencies across HICL's portfolio, in particular by leveraging economies of scale (for example, management services and insurances for PPP projects).
- Exploring opportunities to add new revenues within existing portfolio companies (for example, undertaking contract variations on PPP projects that add to the scope of services).
- Driving efficient financial management of HICL, seeking opportunities to reduce ongoing charges.
- Considering where value can be improved, or portfolio risk profile improved, through selective disposals.

Accretive Investment

HICL has a clearly defined Investment Policy, which can be found on HICL's website. This sets the over-arching framework within which HICL aims to build a portfolio that delivers the Investment Proposition and is consistent with HICL's overall risk appetite.

Working within delegated parameters approved by the HICL Board, InfraRed is responsible for the selection and pricing of new investments and, from time-to-time, disposals. The Acquisition Strategy is periodically reviewed by the Board and agreed with InfraRed.

InfraRed uses a variety of channels to source accretive transactions for HICL. These include:

- soliciting off-market transactions through relationships within InfraRed's extensive network of investment partners and advisors;
- acquiring further equity interests from co-shareholders of existing portfolio companies;
- participating selectively in primary investment activity, as part of procurement processes sponsored by the public sector;
- participating in competitive auctions of investments in the secondary market; and
- making selective disposals that support HICL's overall Investment Proposition.

The table below summarises HICL's Acquisition Strategy:

Geography
Located in target markets

- Europe/UK
- North America
- Australia/NZ

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

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

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

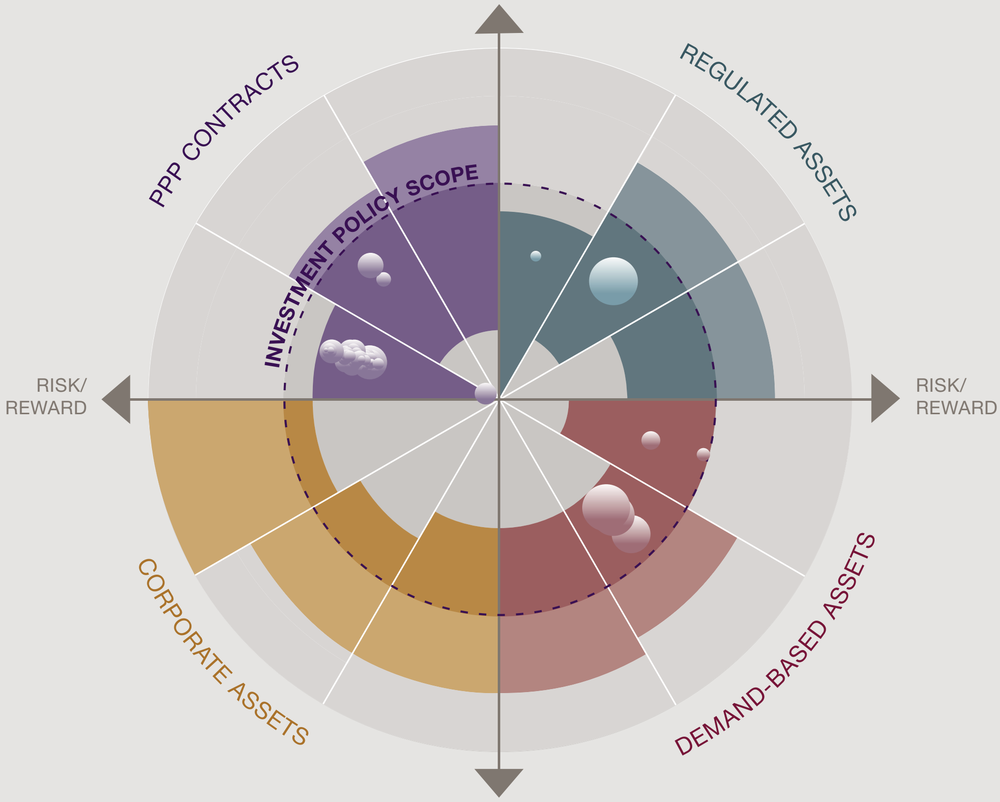
▲ Sustains prudent portfolio construction and diversification

2.4 HICL's Business Model & Strategy (continued)

Responsible and Balanced Portfolio Construction
The schematic below shows an illustration of the overlay of HICL's portfolio of assets onto the infrastructure market map and within the boundaries of HICL's Investment Policy scope, as detailed in the previous sections.

PPP projects, 71% of the portfolio by value, remain the largest market segment in HICL's portfolio (top left segment of the schematic, as shown). Transactions must contribute to a prudent, balanced portfolio and are assessed on this basis. In recent years, HICL has diversified its portfolio through making investments in regulated and demand-based market segments.

As illustrated in the Market Map, these have overlapping, complementary risk/reward profiles and fall within the scope of the Investment Policy, which contributes to the construction of a balanced and resilient portfolio for HICL.



Not to scale

The relative valuations attributed to the investments are illustrated in the size of the bubbles, and these are positioned relative to each other, within the relevant market segment, along an increasing risk/reward scale by reference to their prevailing discount rates as at 31 March 2019 with the risk/reward axis denoting increasing discount rates as one moves further from the centre of the diagram.

2.5
Key Performance & Quality Indicators

The Board has identified metrics against which to measure clearly HICL's performance against its strategic objectives. The results for the year ended 31 March 2019 are set out below.

KPI	Measure	Objective	Commentary	31 March 2019	31 March 2018
Dividends	Aggregate interim dividends declared per share for the year	An annual distribution of at least that achieved in the prior year	**Achieved**	8.05p	7.85p
Total Shareholder Return	NAV growth and dividends paid per share since IPO	A long-term IRR target of 7% to 8% as set out at IPO[1]	**Achieved**	9.4% p.a.	9.3% p.a.
Cash-covered Dividends	Operational cash flow/dividends paid to shareholders	Cash covered dividends	**Achieved**	1.27x[2]	1.10x
Positive Inflation Correlation	Changes in the expected portfolio return for 1% p.a. inflation change	Maintain positive correlation	**Achieved**	0.8%	0.8%
Competitive Cost Proposition	Annualised ongoing charges/ average undiluted NAV[3]	Efficient gross (portfolio level) to net (investor level) returns, with the intention to reduce ongoing charges where possible	**Market competitive cost proposition**	1.08%	1.08%

[1] Set by reference to the issue price of 100p/share, at the time of HICL's IPO in February 2006. Previously reported on a dividends declared basis.
[2] Including profits on disposals of £34.0m. Excluding this, dividend cash cover would have been 1.03x.
[3] Calculated in accordance with Association of Investment Companies guidelines. Ongoing charges excluding non-recurring items such as acquisition costs.

KQI	Measure	Objective	Commentary	31 March 2019	31 March 2018
Investment Concentration Risk	Percentage of portfolio value represented by the ten largest investments[1] Percentage of portfolio value represented by the single largest investment[1]	Maintain a diversified portfolio of investments (thereby mitigating concentration risk) and, at all times, remain compliant with HICL's Investment Policy	**Within acceptable tolerances**	45% 7%	45% 8%
Risk/Reward Characteristics	Percentage of portfolio value represented by the aggregate value of projects with construction and/or demand-based risk[2]	Compliance with HICL's Investment Policy	**Achieved[5]**	24%	19%
Unexpired Concession Length	Portfolio's weighted-average unexpired concession length	Seek where possible investments that maintain or extend the portfolio concession life	**Achieved**	29.5 years	29.5 years
Treasury Management	FX gain/(loss)[3] as a percentage of the NAV Cash less current liabilities on an Investment Basis as a percentage of the NAV	Maintain effective treasury management processes, notably: – Appropriate FX management (confidence in near-term yield and managing NAV gain/(loss) within Hedging Policy limits) – Efficient cash management (low net cash position)	**Achieved**	0.3% (0.3%)	(0.4%) 0.3%
Refinancing Risk	Investments with refinancing risk[4] as a percentage of portfolio value	Manage exposure to refinancing risk	**Improved**	13%	16%

[1] HICL's Investment Policy stipulates that any single investment (being, for this purpose, the sum of all incremental interests acquired by HICL in the same project) must be less than 20% (by value) of the gross assets of HICL, 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 HICL's Investment Policy – namely pre-operational projects, demand-based assets and/or other vehicles making infrastructure investments. Further details are set out in the Investment Policy, available from HICL's website. In the year ended 31 March 2019, 3% of portfolio value was in construction and 21% was demand-based assets (24% total); in the year ended 31 March 2018, 1% of portfolio value was in construction and 18% was demand-based assets (19% total).
[3] Impact of foreign exchange after hedging on NAV.
[4] There are two projects with refinancing risk – Affinity Water and Northwest Parkway (USA) – and their future refinancing requirements are reflective of the fact that their respective debt markets do not offer debt for the concession term, or that the company is a corporate entity with an unlimited life.
[5] Substantially lower than the aggregate limit of 35% for such investments.

2.6
Investment Adviser's Report

Harry Seekings
Co-Head, Infrastructure

Keith Pickard
Director, Infrastructure

An independent investment management firm:

- ▲ headquartered in London with offices in New York, Hong Kong, Mexico City, Seoul and Sydney;
- ▲ 20-year track record of successful investment in infrastructure;
- ▲ 80+ infrastructure professionals with in-depth technical, operational and investment knowledge; and
- ▲ authorised and regulated by the Financial Conduct Authority.

InfraRed has day-to-day responsibility for HICL and interfaces with HICL's key stakeholders.

InfraRed's activities include:

- ▲ the development of HICL's strategy;
- ▲ investment due diligence and execution; and
- ▲ capital raising, investor relations and preparation of key external communications.

HICL – a diversified investment proposition

- ▲ Relatively low single asset concentration risk.
- ▲ Strong inflation correlation.
- ▲ Good cash flow longevity.

The Investment Adviser

At 31 March 2019, InfraRed Capital Partners Limited ("InfraRed") acted as Investment Adviser to HICL and acted as Operator of HICL Guernsey's investment portfolio. Following the transfer of the investment business to HICL Infrastructure PLC ("HICL UK") on 1 April 2019, InfraRed has been appointed as the alternative investment fund manager ("AIFM") and Investment Manager to HICL UK and has continued as Operator of the portfolio.

As Operator of HICL's portfolio, InfraRed's Asset Management and Portfolio Management teams are responsible for preserving and, where possible, enhancing value for stakeholders and shareholders, with a heavy focus on client engagement. Following the transfer of HICL Guernsey's portfolio to HICL UK on 1 April 2019, InfraRed has continued in the role of Operator.

InfraRed takes its responsibilities to all stakeholders in public infrastructure seriously. It acknowledges its role in demonstrating responsible management of key public assets, furthering dialogue on the benefits of private investment and restoring trust in partnerships between the public and private sectors as a valid model to deliver services to taxpayers and other stakeholders. InfraRed has been, since 2011, a signatory to the Principles for Responsible Investment ("PRI"), an investor initiative in partnership with UNEP Finance Initiative and UN Global Compact. The infrastructure business line achieved an A+ rating, the highest attainable, for the fourth successive year in its 2018 PRI assessment.

Operational Highlights

PPP projects

Public-private partnerships ("PPPs"), where project companies maintain infrastructure to support the delivery of public services, remain at the heart of HICL's investment portfolio, representing 71% of the portfolio by value.

During the year, HICL invested £29m in three PPP investments, and entered into an agreement to acquire certain rights to make an investment in the Blankenburg Connection, a greenfield PPP project. The acquisitions are consistent with the strategy set out by HICL, with a focus on greenfield and operational PPPs in North America and Europe. The Blankenburg Connection represents the second investment sourced from a strategic partnership in the Netherlands focused on greenfield PPPs.

Carillion plc ("Carillion")

The work to deal with the implications for HICL of the liquidation of Carillion has been successful and has progressed in line with expectations built into the portfolio valuation at 31 March 2018.

InfraRed's Asset Management team has led discussions with multiple stakeholders to deliver new long-term arrangements for the affected projects, while co-ordinating with high-quality replacement contractors to ensure that services continued to be delivered. We are pleased that the critical infrastructure delivered by the projects has remained available at all times for safe use by HICL's public sector clients and end-users.

As part of the valuation of the portfolio at 31 March 2019, we have made a final estimate of the cost to HICL of Carillion's liquidation. The valuation of affected projects has been written back by £27m compared to the original impact communicated to the market in January 2018, leaving a net cost to HICL of £33m. These costs primarily relate to post-completion external works and remediating construction defects that were previously the responsibility of Carillion. They are being entirely funded from each affected project company's cash flows, without the need for additional capital from HICL.

Importantly, there have been no additional costs to HICL's public sector clients under the PPP contracts. A key difference between a PPP and a more typical outsourcing contract is the degree of risk transfer and responsibility to the private sector. In this case, PPP contracts have worked as intended and the outcome, while not welcome for HICL, is a direct example of how public-private partnerships benefit taxpayers – a narrative that has been missed in many of the headlines surrounding the fall-out from Carillion's collapse.

Demand-based Assets

HICL's investments in assets where returns depend on underlying usage (or demand) performed well over the year, despite a small number of challenges caused by external factors. The operational performance of the A63 Motorway (France) was impacted by the 'gilets jaunes' protests, particularly in November and December 2018. Traffic for the year was consistent with the previous financial year and performance overall was in line with expectations. In June 2018, a €62m incremental stake was purchased in the concessionaire, bringing HICL's ownership to 21%. The investment was accretive across key measures (total return, asset life and inflation-correlated returns). This demonstrates the value that can be found by increasing ownership stakes in existing assets, which can often be achieved through bilateral transactions with well-known counterparties, facilitated by InfraRed's strong network of industry relationships.

On Northwest Parkway, traffic has been 5.3% higher over the financial year than had been assumed in the valuation of the investment as at 31 March 2018.

On High Speed 1, demand for train paths has been lower than expected. While this meant that train path revenues were less than expected for the financial year, this has been offset by outperformance of revenue from retail and station-related services.

Regulated Assets

We have continued to grow HICL's investments in the regulated asset market segment during the year, with three further preferred bidder positions on OFTOs in the UK. Our partnership with Diamond Transmission (a subsidiary of Mitsubishi Corporation) has been highly successful, with approximately £75m of capital expected to be invested across four separate projects in Tender Rounds 4 & 5. Within the electricity transmission sector, OFTOs are attractive due to their availability payment regimes, which produce stable cash flows and hence income to HICL. The latest successes will take the number of regulated asset investments in the HICL portfolio to five.

A case study on investments on Regulated Assets can be found on page 16.

Affinity Water

In January 2019, Affinity Water ("Affinity") received initial feedback from the UK water regulator, Ofwat, on its business plan for Asset Management Period 7 ("AMP7"). After a period of constructive discussions with Ofwat, and detailed review and refinement of the plan, a revised submission was made on 1 April 2019. Affinity expects to receive further feedback from Ofwat in July 2019. The final AMP7 determination for the sector as a whole will be announced in December 2019, confirming Affinity's expenditure allowances and also sector-wide metrics, such as cost of capital.

We believe that Affinity's revised business plan addresses the regulator's objectives: balancing investment in treatment facilities and the network with the delivery of value for money for households. Implicit in the business plan is an expectation that Affinity's regulated asset base will grow significantly over AMP7, which is encouraging for the long-term value of HICL's investment.

Value Enhancement

As in every year, there has been a focus on enhancing portfolio value during the financial year. Approximately £29m of value (1.6p) has been delivered through enhancement actions on PPP assets in the year to 31 March 2019.

Consistent with the optimisation strategy outlined in May 2018, this included the strategic disposals of the Highland Schools PPP (UK) and the AquaSure Desalination PPP (Australia), with disposal proceeds in excess of their book value – HICL's investment IRRs were 14.3% and 9.4% respectively. Other activities included achieving significant construction milestones on greenfield projects and delivering lifecycle efficiencies.

Value enhancements, where portfolio performance has exceeded expectations, have underpinned the good financial performance for the year. Operational challenges elsewhere in the portfolio have been more than offset by the partial write-back of the

[1] Offshore Transmission Owner.

2.6 Investment Adviser's Report (continued)

valuation impact of the Carillion liquidation on certain projects combined with operational outperformance across various cost saving and efficiency initiatives.

Construction completion

InfraRed has a strong track record in enhancing the value to HICL's portfolio from greenfield PPP projects by successfully de-risking projects through their construction phase. In the first half of the financial year, HICL made an investment of €21m in the Biology, Pharmacy and Chemistry Department of the Paris-Sud University PPP Project which is expected to be in construction for approximately four years. During the year, the completion of major construction milestones delivered additional value from the A9 Road and Breda Court PPP projects, both in the Netherlands, and from the Irish Primary Care Project in the Republic of Ireland.

Further detail on Value Enhancement work can be found in Section 3.1 – Operating & Financial Review.

> "Approximately £29m of value has been delivered through enhancement actions on PPP assets in the year to 31 March 2019."

Domicile Change

Moving the domicile of the investment business of HICL to the UK was a significant milestone in HICL's history, positioning the business for the future and helping to mitigate potential taxation and political risks.

This has been a unique endeavour for an infrastructure investment company. Significant expertise and resource from InfraRed and HICL's other advisers has been deployed on behalf of HICL and its shareholders, from early research and planning work, through project management and shareholder communication, ahead of the final decision-making.

Following the change, InfraRed has been appointed as the Investment Manager of HICL Infrastructure UK.

Financial Highlights

Overall, Net Asset Value ("NAV") per share has increased by 7.9p to 157.5p at 31 March 2019 (2018: 149.6p). HICL's annualised Total Shareholder Return ("TSR"), based on growth in NAV per share plus dividends paid, was 10.8% for the year (2018: 5.7%). Excluding the impact of the reduction in discount rates due to market conditions, the TSR was 8.5%.

Cash flow receipts on an Investment Basis were £212.8m (2018: £179.1m). After finance and operating costs, net operating cash flows on an Investment Basis were £178.9m (2018: £142.9m), which covered the dividends paid in the year 1.27 times[1] (2018: 1.10 times), or 1.03 times excluding the impact of disposals.

Profit before tax was £285.4m for the year to 31 March 2019 (2018: £121.8m). This was principally due to the partial write-back of forecast costs in relation to the liquidation of Carillion, a reduction in discount rates and more favourable foreign exchange movements than in the prior year.

HICL uses the Association of Investment Companies' methodology to assess the ongoing charges percentage, which for the financial year to 31 March 2019 was 1.08% (2018: 1.08%), which compares well with other investment companies in the London-listed infrastructure sector.

Funding and Capital

HICL's traditional model of funding investments is by drawing on its Revolving Credit Facility ("RCF") and then repaying this through subsequent capital raising. However, taking advantage of favourable market conditions, during the year InfraRed has actively managed HICL's funding position through a strategy of portfolio optimisation, specifically disposing of assets where the value on offer exceeded that which HICL could deliver by continuing to own the investments. The proceeds were used to make selective acquisitions in HICL's core market segments and also to keep drawings on HICL's RCF at a moderate level.

This strategy was exemplified in the strategic disposals of the Highland Schools PPP (UK) and the AquaSure Desalination PPP (Australia) where the proceeds were redeployed into the incremental stake in the A63 Motorway (France) and into partially paying down the RCF respectively. Both these transactions achieved greater value for shareholders than could have been delivered by holding the investments for the longer term.

As at 31 March 2019, HICL had cash drawings under the RCF of £90m. The Board and Investment Adviser continue to assess market conditions when considering the timing of activities to manage HICL's funding position, which could include additional strategic disposals and/or capital raising.

Key Risks

Politics and Regulation

The political landscape in the UK remains uncertain, and political risk remains a key risk faced by HICL.

Cross border taxation is always on the political agenda, and while no changes have yet been announced which would directly impact HICL's business, the possibility of tightening of cross border taxation regulations remains. The transfer of the domicile of the investment business of HICL from Guernsey to the UK, assists in mitigating this risk.

[1] Including profits on disposal of £34.0m.

At the date of writing, the final outcome of the process of the UK leaving the EU ("Brexit") is unknown and thus continues to create unhelpful political uncertainty. This uncertainty contributes to the perception of an increased likelihood of an early UK general election and a potential change of government. The Labour Party continues to table policies regarding nationalisation of public infrastructure. While we believe a wholesale nationalisation programme faces considerable hurdles to implementation, the perception of this risk and the adverse impact of it on investor and stakeholder sentiment is understandable.

We are contributing to consultations launched by the current government on the future of funding UK infrastructure. As such we will be responding to the Infrastructure Finance Review Consultation, which is a joint project between HM Treasury and the Infrastructure and Projects Authority.

Counterparties

This year has seen continuing weakness of UK-based facilities management counterparties, including the administration of Interserve PLC, a sub-contractor to which HICL had a small exposure. The experience of the liquidation of Carillion meant that when required, we were able to activate primed contingency plans at affected projects to ensure smooth and continuous service provision for clients and the community.

HICL's facilities management counterparty exposure is well-diversified, and therefore resilient enough to withstand default of a subcontractor and maintain service levels.

Market

We continue to see reasonable deal flow across all three of HICL's target market segments, although it is concentrated in specific countries, rather than being consistent across all geographies. In the PPP market segment, the year saw opportunities in Europe (notably greenfield projects in the Netherlands and Germany) and North America (greenfield activity in the US and secondary market activity in Canada). The UK and Australian markets have seen limited deal flow in the period. There has been acquisition activity in UK regulated assets, ranging from large utility-scale networks to OFTOs and smaller, 'last mile' independent networks. A number of fibre-related initiatives are being pursued by governments in European markets (including the UK), although we note that these often rely on roll-out assumptions to deliver scale and/or returns.

For high-quality assets there continues to be evidence of elevated pricing, driven by strong demand from unlisted investors – something we have witnessed in all geographies for several years. For example, recent deal activity around rolling stock for railway networks has seen relatively high prices paid for assets that are subject to a period of contracted revenues, but with a significant proportion of returns derived from residual value (cash flow assumed after contracted periods expire). In most cases this blend of risk and return has not been suitable for HICL.

This theme (returns appropriately compensating for underlying risks) also underlies HICL's decision to step back from OFTO Tender Round 6, although in this particular sector we will continue to monitor the progress of the auctions closely and retain appetite to participate if the situation evolves.

In summary, the core infrastructure markets in which InfraRed seeks opportunities for HICL have continued to see investors prepared to pay full prices as they seek yield in the continuing low interest rate environment. Against this backdrop we have proceeded cautiously with acquisition activity.

Outlook

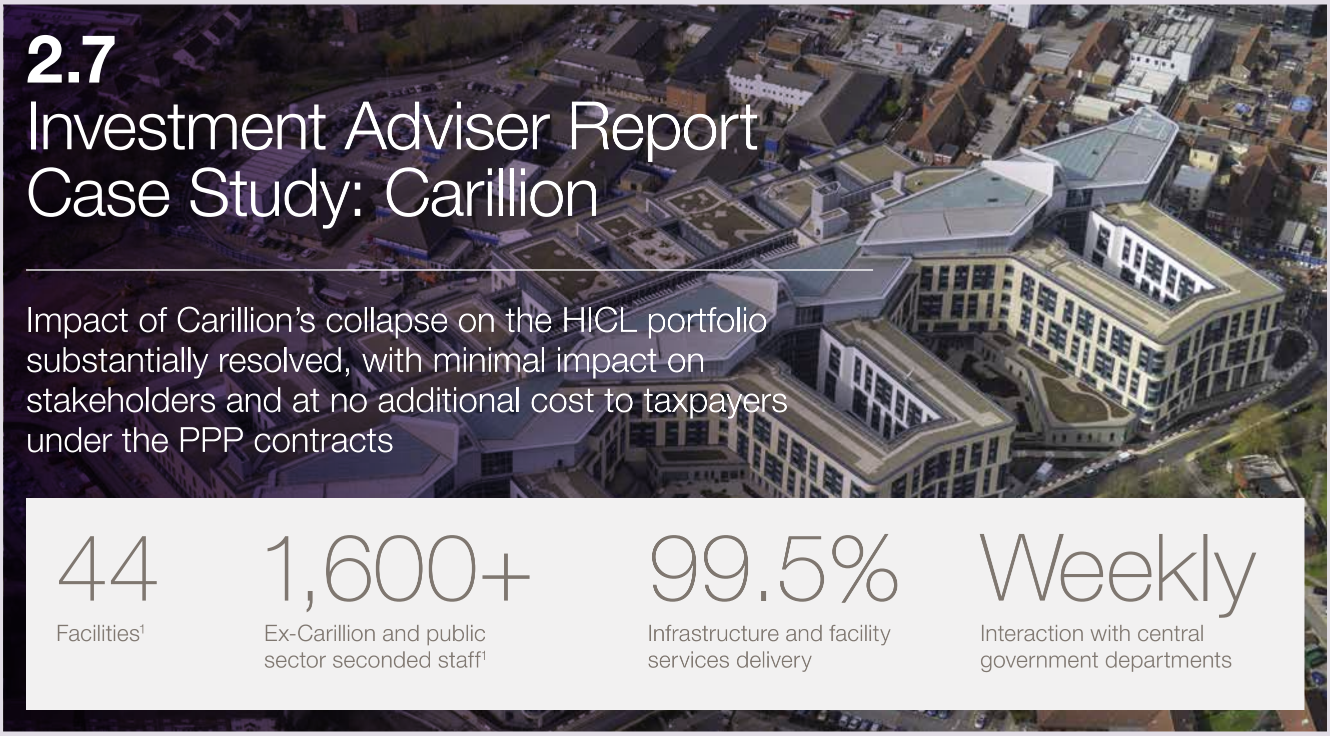
The Board and InfraRed continue to focus HICL's acquisition strategy on core infrastructure market segments: PPP projects, demand-based assets and regulated assets. Our balanced approach to portfolio construction requires a continued focus on diversification, by both market segment and geography. Acquiring assets which in combination meet HICL's accretion tests, while investing in sufficient size so as to make a material contribution to improving portfolio diversification, remains challenging.

In the financial year to 31 March 2019, InfraRed reviewed over 65 opportunities on behalf of HICL. These were from across HICL's target geographies (UK, Europe, North America and Australia/New Zealand) and across all HICL's target market segments. Detailed due diligence was conducted on 11 of these. HICL Guernsey ultimately made five investments in the year, of which three were the product of bilateral discussions with vendors, with a further four projects where rights to invest have been agreed or the projects are at preferred bidder stage.

Within the core infrastructure market, InfraRed's Origination & Execution team is pursuing operational and greenfield PPP projects, particularly in Europe and North America. Pricing discipline remains key in this market segment due to competition from unlisted investors for high quality assets: HICL Guernsey benefited from this when disposing of investments in two PPP projects during the financial year; however, the reverse of this is that finding value is challenging. We are also tracking several opportunities in the regulated asset market segment and see this as an area with real potential for HICL to achieve greater diversification.

If portfolio growth leads to increased capacity to invest in demand-based assets with GDP correlated returns, while staying within the 20% limit previously communicated to shareholders, we will consider, very selectively, further investments in this market segment.

While there can be no certainty that this activity will convert into deployed capital, at the time of writing, deal flow in HICL's target markets remains reasonable and the pipeline is healthy.



2.7 Investment Adviser Report Case Study: Carillion

Impact of Carillion's collapse on the HICL portfolio substantially resolved, with minimal impact on stakeholders and at no additional cost to taxpayers under the PPP contracts

44	1,600+	99.5%	Weekly
Facilities[1]	Ex-Carillion and public sector seconded staff[1]	Infrastructure and facility services delivery	Interaction with central government departments

Key Drivers

Responsible Approach

- Safety was, and is, the number one priority.
- Ensuring replacement contractors were on site, from the day of Carillion's liquidation reassured staff and the supply chain.
- Transparency, of the good and the bad, was key to maintaining trust.

Alignment of Interests

- "Business-as-usual" expectations of clients consistent with delivering value preservation for investors.
- Awareness of stakeholder needs helped prioritise action.
- Service provision improved by setting clear expectations of replacement contractors.

The Partnership Model

- Final financial impact: £33m (£27m released from original valuation impact).
- Impact mitigated at no additional cost to public sector clients under these PPP contracts.
- Demonstrates the sustainability of the partnership model, underpinned by expert, private-sector asset management.

Counterparty Risk Management

- Bouygues, Engie, Intergral and Skanska secured as replacement contractors.
- These were chosen with client endorsement, and on the basis of financial stability, relevant experience and performance track record.
- Replacement long-term contracts restores risk transfer to the supply chain.

[1] Across the ten projects where Carillion was previously the sole facilities management contractor.

> "I assumed command of Northwood Headquarters in April 2018. What was immediately clear to me was that a potentially highly disruptive situation had been dealt with in an exceptionally skilful and professional manner, with the seamless transition to a new contractor going largely unnoticed by the wider Joint Headquarters population. At the heart of this was the project team, whose proactive, determined and above all calm approach ensured that the crisis of Carillion's collapse never became a drama."
> **Group Captain J. P. Sutton, Commanding Officer, Northwood Headquarters**

3
Acute hospitals

11
Primary care facilities

1
Defence headquarters

20
Police stations

6
Fire stations

3
Police and fire administrative and training facilities

Preparation

2016 – 2017
Carillion's involvement in projects reduced where possible:

- Maintenance of A249 Road transferred from Carillion to FM Conway in August 2016
- Facilities management of Lewisham Hospital transferred from Carillion to Bouygues in February 2017
- Management services arrangements transferred to new providers meant that HICL was not reliant on Carillion to manage the fallout from its financial difficulties

H2 2017
Carillion's profit warnings started in H2 2017. InfraRed's Asset Management team was in discussions with key stakeholders and formalising contingency plans. Public sector clients introduced by InfraRed to potential replacement contractors

Immediate Response

15 January 2018
Carillion collapsed on 15 January 2018. InfraRed's asset managers and representatives of replacement subcontractors were on site that morning to reassure staff

26 January 2018
Valuation impact to HICL announced, which included:

- £40m for cash costs, including an early recognition that project companies were responsible for completing any residual construction works and remediating construction defects
- £19m relating to discount rate adjustments to reflect an assessment of the market value of the investments given the liquidation of a principal contractor is a default event until a replacement is in place. The Board and InfraRed felt that this should be reflected in asset valuations

Resolution

2018 – 2019
Focus on ensuring project safety, stability and infrastructure availability through interim arrangements with chosen replacement contractors

InfraRed has led negotiations with public sector clients, lenders and replacement contractors to deliver new, long-term and stable arrangements that restore risk transfer to the supply chain – nine of ten projects now transferred

May 2019
Final financial impact: £33m (£27m released from original valuation impact), primarily relating to completing construction works and remediating construction defects. The associated costs are being funded from each affected project company's own cash flows without the need for additional capital from the Group

03 Performance & Risk

3.1 Operating & Financial Review

Operating Review

Portfolio statistics

During the financial year to 31 March 2019, the number of investments in the portfolio increased from 116 to 118[1]:

- three new investments in the Biology, Pharmacy and Chemistry Department of the Paris-Sud University PPP (France), Belfast Metropolitan College PPP, and the Burbo Bank Extension Offshore Transmission Owner ("OFTO");
- two incremental investments in the A63 Motorway and the N17/18 Road PPP; and
- the sale of HICL Guernsey's 100% interest in Highlands Schools PPP, 9.7% interest in the AquaSure Desalination PPP and a partial sale of a 15% interest in Oldham Library PPP.

HICL agreed to acquire certain rights to make an investment in the Blankenburg Connection PPP (the Netherlands) in the year. This transaction had not completed by the year end.

HICL was also announced as preferred bidder for the Race Bank OFTO, Galloper OFTO and the Walney Extension OFTO, all of which are expected to reach financial close over the next 12 months.

Overall, investment activity has reduced HICL's exposure to PPP projects; although at 71% of portfolio value at 31 March 2019 (74% at 31 March 2018), PPP projects remains HICL's largest market segment.

At 31 March 2019, six assets were exposed to demand risk, representing 21% of portfolio value (2018: six investments, 18% of portfolio value). Four of the six demand-based assets generate returns that are correlated to the rate of economic growth, representing 20% of portfolio value (2018: four investments, 17% of portfolio value).

HICL's two regulated assets represented 8% of portfolio value at 31 March 2019 (31 March 2018: one investment; 8%).

The proportion of the portfolio invested in the UK decreased from 80% at 31 March 2018 to 77% at 31 March 2019. The Investment Adviser continues to expect a long-term trend towards an increase in exposure to investments located outside the UK.

More portfolio metrics as at 31 March 2019 can be found in Section 3.4 – Portfolio Analysis.

Business model

HICL's Business Model comprises three key pillars:

- Value Preservation through active management of the underlying investments;
- Value Enhancement by outperforming the base case for the benefit of all stakeholders; and
- Accretive Investment in assets that enhance the delivery of the investment proposition.

HICL delegates the majority of the day-to-day activities required to deliver the business model to InfraRed.

Commentary on Value Preservation and Value Enhancement is provided to give additional texture on activities at asset, portfolio and fund level. Whilst individual initiatives are not material on their own, collectively over the course of the 12 months, value enhancements from the PPP segment of the portfolio contributed approximately £29m (12%) of the £227m portfolio return[2].

Value Preservation

InfraRed's Asset Management and Portfolio Management teams work closely together, in partnership with the management teams in HICL's portfolio companies, to deliver HICL's investment proposition by preserving the value of HICL's investments for shareholders and stakeholders. The objective is to ensure portfolio companies perform in line with the relevant contractual obligations and/or regulatory framework; and deliver the forecast base case investment return.

Counterparties

Counterparty risk is a focus of HICL. In relation to the liquidation of Carillion, ten projects where Carillion was the primary facilities management contractor were affected, plus a further five projects where Carillion was the original construction contractor. Ensuring continuity of infrastructure availability for public sector clients has been a primary focus of the InfraRed Asset Management team this year.

Where Carillion was the facilities management contractor, the Investment Adviser worked to initially stabilise services and subsequently secure new long-term arrangements for all stakeholders, especially staff. In doing so, communication has been vitally important and the Investment Adviser has ensured that clients, staff and government departments have been kept informed of progress and plans.

Bouygues, Engie, Integral and Skanska were sourced by the Investment Adviser to enter new long-term facilities management arrangements for nine projects. Each transfer marked a significant milestone for the relevant project, restored the transfer of risk to the supply chain, and as such the discount rate adjustments made in the days following Carillion's liquidation have been reduced. The final project is expected to transfer to a new long-term arrangement in the six months to 30 September 2019.

[1] Including the acquisition of certain rights to make an investment in the Blankenburg Connection PPP.
[2] "Return" comprises the unwinding of the discount rate and portfolio outperformance, excluding the impact of changes in economic assumptions and discount rates, other than project specific changes such as projects moving from construction to operations.

Post-completion works at Southmead Hospital, relating to demolition and residual road construction, for which Carillion would have been responsible as the original construction contractor, have been procured by the project company and are largely completed, contracting directly with local contractors.

Four of the five projects where Carillion was the original contractor are out of the distribution lock-up (where lenders can prevent distributions to equity until issues are resolved) arising from Carillion's liquidation. The final project is expected to distribute again during the financial year to 31 March 2020.

The transitions of projects where Carillion was the primary facilities management contractor or the original construction contractor have been delivered within the initially envisaged £40m value adjustment[3]. This includes additional cost elements associated with construction defects remediation work discussed in more detail below.

The valuation of the affected projects has been increased by £27m at 31 March 2019, when compared to 31 March 2018, of which £19m relates to reversing discount rate adjustments made at 31 March 2018 and the remaining £8m relates to savings against the value adjustment.

A detailed case study has been provided in the Investment Adviser's Report.

During the year, Interserve was placed into administration, with the group continuing to trade. As previously reported, Interserve PLC provided facilities management services to four of HICL's operational PPP project companies. As with the collapse of Carillion, the priority is to protect the delivery of the services that ensure the availability of infrastructure to stakeholders, including public sector clients and the users of the facilities. The valuation of the affected assets has been reduced by less than £1m, in line with HICL's announcement on 15 March 2019, including adjustments to their discount rates.

Construction defects

Construction defects are in most cases revealed through the regular programme of operations and maintenance activities or as a result of proactive asset surveys commissioned by portfolio companies. Defects detected within the statutory limitations period are lodged with the relevant construction subcontractor for remediation. The cost of remediation is the responsibility of the construction subcontractor and is not borne by the PPP project company. Contractual claim mechanisms, or ultimately a court process, may be used where disputes arise, though the need to escalate matters in this manner has been low historically. Project cash flow forecasts are adjusted where construction subcontractors are being pursued by the Investment Adviser, to allow for, inter alia, legal costs and distribution lock-ups.

Following the expiry of the statutory limitations period or in certain other circumstances, for example if the subcontractor becomes insolvent, the risk of remediation of construction defects when detected typically falls to the PPP project company itself and becomes an equity risk. The lifecycle budget would normally be a source of cost mitigation.

The health and safety of users and people working on the infrastructure is a priority for the Board, the Investment Adviser and the project management teams.

Cladding systems

The Investment Adviser has proactively undertaken a risk-based fire-safety analysis of the portfolio that included an assessment of the materials, the design and method of construction of the cladding systems as a whole. This analysis identified where intrusive surveys were needed, which in turn revealed that the cladding systems at a small number of assets required remediation. Where appropriate, the asset management teams work closely with public sector clients and with the local fire service, who advise and approve the adequacy of fire prevention and protection measures in place whilst the defects are remedied.

One of these assets was affected by the liquidation of Carillion and the current estimate to rectify the construction defect is contained within the valuation of that asset. Costs to remedy the defects at the other assets are expected to be borne by their respective construction contractors.

Affinity Water

The price review process for Asset Management Period 7 ("AMP7") has continued throughout the year, with the company submitting its business plan in September 2018 and receiving feedback from Ofwat in January 2019. The feedback included detail around Ofwat's expectations for Affinity's total expenditure for AMP7. Affinity has engaged in constructive discussions with Ofwat and has undertaken a significant amount of work, supported directly by resources from InfraRed, to address the regulator's views in a revised plan which was submitted on 1 April 2019.

The industry is being challenged to improve efficiency on both capital and operation expenditure together with stretched targets on leakage and consumption. The valuation of HICL's investment in Affinity draws from the revised plan, which meets these challenges, and remains unchanged from 30 September 2018.

[3] The £40m cost element and the £19m discount rate element, as set out in HICL's results for the financial year to 31 March 2018 made up the total value adjustment in that year relating to the consequences of the liquidation of Carillion.

3.1 Operating & Financial Review (continued)

Value Preservation (continued)

High Speed 1

The overall performance of the High Speed 1 concessionaire ("HS1") continues to remain in line with that forecast in the 31 March 2018 and 30 September 2018 valuations. As reported in the Investment Adviser's Report, while Eurostar train paths have been slightly behind budget, affecting the project's revenues, the impact on EBITDA has been offset by outperformance in retail and station related services. A short-term reduction in train path growth has been assumed reflecting the potential consequence of Brexit on international train paths and the deferral of the South East Rail franchise tender.

On 28 February 2019, following informal engagement with a number of stakeholders, HS1 published a consultation document in relation to the regulatory Control Period 3 ("CP3"), which runs from April 2020 to March 2025. The regulatory process is set out in the concession agreement and determines the level of maintenance and renewals expenditure for the company's assets during CP3. The regulatory process seeks to balance the need to fully fund HS1's costs, including pre-funding long-term renewals, with the affordability of charges to operators. At present, the CP3 timetable is not expected to be delayed by Brexit, though some stakeholders have expressed concern about the two processes running concurrently.

HICL is one of a number of equity investors in HS1. The Investment Adviser took the lead from amongst the shareholder consortium to provide guidance to the concession's management team and engaged in discussions with key stakeholders to deliver accountancy-related value enhancement changes.

There was no net impact of the changes set out above to the investment's valuation.

Compensation on termination

Typically, public sector counterparties are entitled to voluntarily terminate a PPP contract and, if this occurs, project companies have a corresponding right to receive compensation. For the majority of HICL's investments in UK PPP projects, this compensation is contractually based on market value which would, in HICL's opinion, be equal to the prevailing value of the asset in the portfolio.

Heads of terms were agreed in the first half of the year with respect to the compensation due to HICL for a school PPP project which was voluntarily terminated by the local authority client during the financial year ended 31 March 2016. This continues to take time to resolve due to the commercial nature of the negotiations and the number of parties involved. Compensation is expected to be received in line with market value.

As at 31 March 2019, the Investment Adviser estimated that the difference between HICL's valuation of its investments in PPP projects and demand-based assets, and the compensation contractually payable in the hypothetical event of voluntary terminations across HICL's portfolio represents approximately 3% of total portfolio value (31 March 2018: 4%). This reduced exposure is a direct consequence of transactions undertaken in the year to optimise the portfolio composition.

Value Enhancement

InfraRed's Asset Management and Portfolio Management teams seek opportunities to deliver outperformance from the portfolio for all stakeholders through value enhancements. Financial upside is often shared, between HICL's shareholders and public sector clients for PPP projects or with the customers of regulated assets through periodic regulatory price reviews. Enhancement of service to, and outcomes for, clients and customers feeds back into supporting value preservation.

The following sections are examples of value enhancement activities in the year.

Construction completion

During the year, the A9 Road and Breda Court (both in the Netherlands), and Irish Primary Care (Ireland), achieved major construction milestones on budget and on time.

HICL is involved in two projects that remain in construction: the Biology, Pharmacy and Chemistry Department of the Paris-Sud University PPP (France), and the Blankenburg Connection PPP (the Netherlands), which together represent 3% of the portfolio by value. Progress in relation to both of these projects remains good and their delivery represents an opportunity for future value enhancement.

De-risking construction projects in the portfolio adds to portfolio value through a reduction in the discount rates used to value those assets.

Lifecycle

Public sector clients to PPP projects typically contract the long-term risk of asset condition to the private sector. Project companies, and therefore equity, have retained this risk on a proportion of HICL's PPP portfolio. The risk has been subcontracted to the operations and maintenance subcontractor(s) on the remainder of the PPP portfolio.

Technical advisors evaluate whether efficiencies can be achieved in lifecycle budgets without compromising maintenance programmes and taking into account the actual condition of the assets and how well they are performing. These efficiencies can result in a combination of the recognition of historic savings and new budget forecasts. Lender consent is sought for revised budgets. New lifecycle forecasts were completed on seven projects, which increased the valuation of the associated assets.

[1] "Return" comprises the unwinding of the discount rate and portfolio outperformance, excluding the impact of changes in economic assumptions and discount rates, other than project specific changes such as projects moving from construction to operations.

The Northwest Anthony Henday (Canada) project company has undertaken an exercise to replace the sodium lights along the road with LED technology. The upgrade is expected to decrease electricity usage costs by up to 50%. This demonstrates how such initiatives can have both an economic and an environmental benefit.

Third party income

The hospitals in the portfolio often include a small number of retail outlets; examples include coffee shops and newsagents. Typically, a base level of rent is assumed, which is indirectly passed on to the public sector through a reduction in the relevant service payments. Outperformance against this assumption may be retained by the project company. Renewal of leases is undertaken by the project company management team and overseen by the Investment Adviser. They will consider qualitative and quantitative factors, and consult with public sector clients, in determining new tenants. Retail leases at two hospital facilities in the portfolio were agreed.

Strategic disposals

The Investment Adviser has sought opportunities to enhance portfolio value by making strategic disposals that take advantage of ongoing favourable market conditions. During the year, HICL Guernsey completed the sales of the Highland Schools PPP2 project and the AquaSure Desalination PPP project (Australia). These sales contributed to the results for the year, which was in addition to gains recognised in relation to these assets in the previous financial year ended 31 March 2018.

Demand based assets

HICL's demand-based toll road assets continue to deliver strong underlying traffic growth. The historic rate of growth has exceeded acquisition projections. The Investment Adviser has not changed the assumed rate of future traffic growth. In the year, traffic outperformance and updated forecasts delivered additional value. A case study was provided in HICL's Interim Report for the six months to 30 September 2018.

Accounting and cash management

During the year, the Investment Adviser has continued its approach to lead a number of accounting and cash management initiatives across the portfolio. Accounting initiatives typically enable projects to release trapped cash and adjust the timing of certain cash flows, whilst maintaining appropriate capitalisation levels as required by company law and project lenders, and help efficient management of the portfolio. Accounting and cash management initiatives are expected to provide additional value enhancement, over base case forecasts, in the medium term.

Accretive Investment

During the year HICL Guernsey made three new investments and two incremental investments for a total consideration of £94m[2].

Further detail can be found in Note 14 to the financial statements.

Date	Amount	Type	Stage	Asset	Market Segment	Stake Acquired	Overall Stake
Apr 2018	€21m	New	Construction	Paris-Sud University (France)	PPP	85%	85%
Apr 2018	£6m	New	Operational	Belfast Metropolitan College (UK)	PPP	75%	75%
Apr 2018	£10m	New	Operational	Burbo Bank OFTO (UK)	Regulated	50%	50%
Jun 2018	€62m	Incremental	Operational	A63 Motorway (France)	Demand-based	7%	21%
Feb 2019	€6m	Incremental	Operational	N17/18 Road (Ireland)	PPP	8%	50%
	£94m						

The acquisition of certain rights to make an investment in the Blankenburg Connection, a greenfield PPP project in the Netherlands was committed but not completed by the year end. Under the arrangement, HICL has committed to invest c. £50m in the form of a deferred equity subscription.

The Biology, Pharmacy and Chemistry Department of the Paris-Sud University PPP (France) and the Blankenburg Connection PPP (the Netherlands) provide the opportunity for future value enhancement if construction of the project is successfully delivered.

The incremental acquisitions made during the year were accretive due to existing insight into the assets and the strength of relationships facilitating off-market transactions.

HICL is also preferred bidder for the Race Bank OFTO, Galloper OFTO and the Walney Extension OFTO. Each is expected to be accretive when added to the portfolio.

[2] In relation to acquisitions completed in the year, excluding the Blankenburg Connection PPP.

03 / PERFORMANCE & RISK

3.1 Operating & Financial Review (continued)

Accretive Investment (continued)

Date	Amount	Type	Stage	Asset	Market Segment	Stake Sold	Remaining Stake
Jun 2018	£56m	Complete	Operational	Highland Schools (UK)	PPP	100%	0%
Jul 2018	£1m	Partial	Operational	Oldham Library (UK)	PPP	15%	75%
Nov 2018	AUD 161m	Complete	Operational	AquaSure Desalination (Australia)	PPP	10%	0%
	£148m						

HICL Guernsey made three disposals in the year, which are set out in the table above. Where appropriate, as part of a strategy to optimise portfolio performance, HICL seeks to responsibly recycle capital into incrementally accretive investments.

Financial Review

Accounting

HICL Guernsey applied IFRS 10 and qualified as an investment entity. IFRS 10 requires that investment entities measure investments, including subsidiaries that are themselves investment entities, at fair value except for subsidiaries that provide investment services which are required to be consolidated. HICL's immediate subsidiary, HICL Infrastructure S.a.r.l. 1, which is the ultimate holding company for all HICL's investments, is, itself, an investment entity and is, therefore, measured at fair value.

During the year, as part of its domicile move to the UK as detailed in the EGM Circular dated 4 March 2019, HICL Guernsey incorporated HICL Infrastructure PLC ("HICL UK"). HICL Guernsey subscribed for 2 £0.0001 Ordinary shares and 50,000 £1 Redeemable shares in HICL UK for a total premium of £2.0bn, which remained payable at 31 March 2019. On completion of the Scheme, on 1 April 2019, HICL UK acquired HICL Guernsey's investment business in its entirety, by acquiring HICL Infrastructure S.a.r.l. 1, and HICL Guernsey's £2.0bn investment in HICL UK and equivalent obligation to HICL UK were settled. On 1 April 2019, HICL Guernsey was placed into voluntary liquidation and therefore the IFRS Basis financial statements have not been prepared on a going concern basis, which has impacted a number of disclosures however neither NAV per share nor Earnings per share have been affected as a result of this. At 31 March 2019, HICL UK was not deemed to provide investment services. Accordingly, it has not been consolidated but measured at fair value and it has been shown separately in HICL Guernsey's balance sheet.

Investment Basis

References to the "Corporate Group" in this section refer to HICL Guernsey, HICL UK and the Corporate Subsidiaries (HICL Infrastructure S.a.r.l. 1, HICL Infrastructure S.a.r.l. 2 and Infrastructure Investments Limited Partnership).

HICL and its advisers have concluded that to report the relevant financial performance and position to stakeholders, it will continue to prepare pro forma summary financial information on the basis that HICL consolidates the results of the Corporate Subsidiaries – this is consistent with the prior year. The current year's pro forma summary financial information also consolidates HICL UK. This basis is designated the Investment Basis and provides shareholders with more information regarding the Corporate Group's gearing and expenses, coupled with greater transparency into HICL's capacity for investment and ability to make distributions. The consolidated Investment Basis numbers have been prepared on a going concern basis because HICL UK is a going concern.

NAV per share and Earnings per share are the same under the Investment Basis and the IFRS Basis.

Summary Financial Statements

Investment Basis Summary Income Statement

	For the year ended 31 March 2019			For the year ended 31 March 2018		
£m	Investment Basis	Consolidation adjustments	IFRS Basis	Investment Basis	Consolidation adjustments	IFRS Basis
Total income[1]	324.1	(33.7)	290.4	161.7	(37.6)	124.1
Expenses & finance costs	(38.4)	33.4	(5.0)	(39.6)	37.3	(2.3)
Profit/(loss) before tax	**285.7**	**(0.3)**	**285.4**	**122.1**	**(0.3)**	**121.8**
Tax	(0.3)	0.3	–	(0.3)	0.3	–
Earnings	**285.4**	**–**	**285.4**	**121.8**	**–**	**121.8**
Earnings per share	**15.9p**	**–**	**15.9p**	**6.9p**	**–**	**6.9p**

[1] Includes net foreign exchange gain of £8.1m (2018: £12.0m loss).

On the Investment Basis, Total income of £324.1m (2018: £161.7m) represents the return from the portfolio recognised as income comprising dividends, sub-debt interest and valuation movements. Total income has doubled reflecting a £26.6m writeback of £59.3m of costs recognised in the prior year in relation to Carillion's liquidation in 2018, combined with a £60.3m valuation uplift from a reduction in discount rates and more favourable foreign exchange movements than in the prior year. Further detail on the valuation movements is given in Section 3.2 Valuation of the Portfolio.

On an IFRS Basis, both Total income and Expenses & finance costs are lower than on the Investment Basis, as costs incurred by the Corporate Subsidiaries are included within Total income (as a reduction in the fair value of the investments) under IFRS, not under Expenses & finance costs. Total income of £290.4m (2018: £124.1m) comprises interest income received by HICL Guernsey and valuation movements in its investments.

The £8.1m net foreign exchange gain (2018: £12.0m loss), which is included with Total income, comprises a £5.6m foreign exchange gain (2018: £20.4m loss) on revaluing the non-UK assets in the portfolio using March 2019 exchange rates, and a £2.5m foreign exchange hedging gain (2018: £8.4m gain). The combination of currencies and hedging levels in HICL's portfolio has resulted in a gain on both the revaluing of non-UK assets and on the foreign exchange hedges for the year ended 31 March 2019. This is because USD has strengthened 8% against GBP with low levels of USD hedging, whereas Euro has weakened 2% against GBP with higher levels of Euro hedging.

On both the Investment Basis and IFRS Basis, Earnings were £285.4m (2018: £121.8m) and Earnings per share were 15.9p (2018: 6.9p). The increase reflects the factors stated above as well as Corporate Group expenses and finance costs being lower at £38.4m (2018: £39.6m), with reduced costs from lower acquisition activity offsetting the costs of the domicile move.

3.1
Operating & Financial Review (continued)

Investment Basis Cost Analysis

£m	For the year ended 31 March 2019	For the year ended 31 March 2018
Finance costs	4.2	5.2
Investment Adviser fees	28.7	30.9
Auditor – KPMG – for the Corporate Group	0.4	0.3
Directors' fees & expenses	0.4	0.4
Acquisition bid costs	0.0	0.6
Professional fees	4.2	1.9
Other expenses	0.5	0.3
Expenses & finance costs	**38.4**	**39.6**

Total fees accruing to the Investment Adviser were £28.7m (2018: £30.9m) for the year, comprising the 1.1% p.a. management fee for assets up to £750m, 1.0% for assets above £750m, 0.9% for assets above £1.5bn, 0.8% for assets above £2.25bn and 0.65% for assets above £3bn, a 1.0% fee on acquisitions made from third parties, and the £0.1m p.a. advisory fee.

The decrease in the Investment Adviser's fees is due to lower acquisition fees of £1.0m (2018: £4.5m) compared to the prior year.

The decrease in acquisition bid costs was due to a higher bid win/lose ratio compared to the prior year alongside a reversal of costs recognised in the prior year on successful bids.

Professional fees have increased due to the £2.7m costs of the Scheme in relation to moving the domicile of HICL's investment business from Guernsey to the UK.

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

On an IFRS Basis, expenses and finance costs were £5.0m (2018: £2.3m) as they exclude those incurred by the Corporate Subsidiaries. The increase reflects the one-off costs incurred in moving HICL's investment business from Guernsey to the UK.

Investment Basis Ongoing Charges

£m	For the year ended 31 March 2019	For the year ended 31 March 2018
Investment Adviser[1]	27.7	26.4
Auditor – KPMG – for HICL	0.3	0.3
Directors' fees and expenses	0.4	0.4
Other ongoing expenses	1.3	1.1
Total expenses	29.7	28.2
Average NAV	2,742.0	2,602.6
Ongoing charges	1.08%	1.08%

[1] Excludes acquisition fees of £1.0m (2018: £4.5m), in line with AIC calculation methodology.

Ongoing charges, in accordance with Association of Investment Companies ("AIC") guidance, is defined 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 period. On this basis, the Ongoing charges percentage is 1.08% (2018: 1.08%). The slight increase in total expenses is commensurate with the increase in average NAV.

Investment Basis Summary Balance Sheet

			31 March 2019			31 March 2018
£m	Investment Basis	Consolidation adjustments	IFRS Basis	Investment Basis	Consolidation adjustments	IFRS Basis
Investments at fair value[1]	**2,909.6**	**1,911.6**	**4,821.2**	**2,794.6**	**(117.4)**	**2,677.2**
Working capital[2]	(3.6)	(1,998.4)	(2,002.0)	(2.3)	1.5	(0.8)
Net (debt)/cash	(84.3)	86.8	2.5	(115.2)	115.9	0.7
Net assets attributable to Ordinary Shares	**2,821.7**	**–**	**2,821.7**	**2,677.1**	**–**	**2,677.1**
NAV per share (before dividend)	157.5p	–	157.5p	149.6	–	149.6
NAV per share (post dividend)	155.5p	–	155.5p	147.6	–	147.6

[1] On the IFRS Basis, includes HICL Guernsey's £2,000.1m investment in HICL UK at 31 March 2019. On the Investment Basis, the investment in HICL UK is eliminated on consolidation as is the obligation to HICL UK – see Note 2 below.
[2] Working capital on the IFRS Basis includes a £2,000.1m investment obligation to HICL UK which was outstanding at 31 March 2019 and was settled on 1 April 2019 on completion of the Scheme. On the Investment Basis, the liability to HICL UK is eliminated on consolidation.

On an Investment Basis, Investments at fair value increased 4% to £2,909.6m (2018: £2,794.6m), being the Directors' valuation of £2,998.9m (2018: £2,836.5m) net of £89.3m of future investment obligations (2018: £41.9m). Further detail on the movement in Investments at fair value is given in Section 3.2 – Valuation of the Portfolio.

The Corporate Group had net debt, on an Investment Basis, at 31 March 2019 of £84.3m (2018: £115.2m); the movement in the year reflecting the use of proceeds from the disposal of investments to partially repay the debt facility offset in part by cash drawn for acquisitions. Cash drawings from the Corporate Group's Revolving Credit Facility ("RCF") at the end of the year were £90.0m (2018: £134.6m).

An analysis of net (debt)/cash movement is shown in the summary cash flow on the following page.

On an IFRS Basis, Investments at fair value increased to £4,821.2m (2018: £2,677.2m), reflecting HICL Guernsey's £2,000.1m investment in HICL UK and the Investment Basis movements including a £28.9m increase in the fair value of the Corporate Subsidiaries as a result of a reduction in net debt held by the Corporate Subsidiaries. The increased in working capital requirement on an IFRS Basis reflects HICL Guernsey's £2,000.1m investment obligation to HICL UK which was outstanding at 31 March 2019 and was subsequently settled on 1 April 2019 on completion of the Scheme. On an IFRS Basis, cash and cash equivalents increased to £2.5m (2018: £0.7m) in order to fund costs of the domicile move.

NAV per share was 157.5p (2018: 149.6p) before the 2.02p fourth quarterly distribution. NAV per share has increased by 7.9p, reflecting the increase in earnings in excess of dividends paid. The expected NAV growth, being the budgeted return attributable to the unwinding of the discount rate, less Corporate Group costs and the dividends paid, was 0.9p.

Analysis of the Growth in NAV per Share

Pence per share			
NAV per share at 31 March 2018			**149.6p**
Valuation movements			
Reduction in discount rates	3.4p		
Change in economic assumptions	0.1p		
Forex gain	0.5p		
		4.0p	
Portfolio performance			
Project outperformance[1]	1.5p		
Carillion writeback	1.5p		
Expected NAV growth[2]	0.9p		
		3.9p	
Total		**7.9p**	
NAV per share at 31 March 2019			**157.5p**

[1] Includes the impact of lower discount rates on projects moving from construction to operations.
[2] Expected NAV growth is HICL's budgeted EPS less target dividend.

3.1 Operating & Financial Review (continued)

Investment Basis Summary Cash Flow

£m	For the year ended 31 March 2019 Investment Basis	Consolidation adjustment	IFRS Basis	For the year ended 31 March 2018 Investment Basis	Consolidation adjustment	IFRS Basis
Cash from investments[1]	212.8	(63.7)	149.1	179.1	(46.1)	133.0
Operating and finance costs outflow	(33.9)	31.6	(2.3)	(36.2)	33.8	(2.4)
Net cash inflow before acquisitions/financing	**178.9**	**(32.1)**	**146.8**	**142.9**	**(12.3)**	**130.6**
Net cost of new investments and divestments[2]	(6.7)	4.1	(2.6)	(480.3)	213.6	(266.7)
Share capital raised net of costs	(0.2)	–	(0.2)	265.8	–	265.8
Forex hedging movements and other items[3]	(0.5)	(1.1)	(1.6)	4.1	(4.1)	–
Distributions paid	(140.6)	–	(140.6)	(129.9)	–	(129.9)
Movement in the year	30.9	(29.1)	1.8	(197.4)	197.2	(0.2)
Net cash/(debt) at start of year	(115.2)	115.9	0.7	82.2	(81.3)	0.9
Net cash/(debt) at end of year	**(84.3)**	**86.8**	**2.5**	**(115.2)**	**115.9**	**0.7**

[1] Includes £34.0m profit on disposals (2018: £Nil) based on historic cost.
[2] Divestments includes historic cost of £113.5m and profit on disposals of £34.0m giving disposal proceeds of £147.5m.
[3] Other items are £1.6m (2018: £Nil) of domicile move costs paid and amortisation of capitalised debt issue costs of £0.5m (2018: £0.5m).

Cash inflows from the portfolio on an Investment Basis were £212.8m (2018: £179.1m). Growth in underlying cash generation was driven by £34.0m recognition of profit on disposals of Highlands Schools and AquaSure based on the historic cost of these divestments.

The Net cost of new investments and disinvestments by the Corporate Group on an Investment Basis of £6.7m (2018: £480.3m) represents the cash cost of three new investments, two incremental acquisitions, loan note subscriptions, two disposals, one part-disposal and acquisition costs of £1.4m (2018: £7.0m).

On an IFRS Basis, HICL Guernsey received £149.1m from its direct Corporate Subsidiary (2018: £133.0m). These payments are sized by HICL to pay a) shareholder dividends, assuming no scrip dividend take up and b) operating costs. On an IFRS Basis, costs of new investments of £2.6m (2018: £266.7m) reflected loans extended by HICL Guernsey to its direct Corporate Subsidiary in the year in relation to scrip dividend take up. The cost of new investments for the prior year also includes share capital raised net of costs which was used to fund the Corporate Subsidiaries.

Hedging and borrowing for the Corporate Group is undertaken by a Corporate Subsidiary and therefore HICL Guernsey had no cash flows for this on an IFRS Basis. The £1.6m recognised as an other item is the one-off costs paid in the year on the domicile move to the UK. On an Investment Basis, the net £0.5m cash outflow (2018: £4.1m cash inflow) is net of £1.1m cash receipt from forex hedging with the strengthening of Sterling against the Euro during the year, partly offset by the weakening of US Dollar and Canadian Dollar against Sterling. The Corporate Group enters into forward sales to hedge foreign exchange exposure in line with HICL's hedging policy set out on the next page (see 'Foreign Exchange Hedging').

Dividends paid in the year increased £10.7m to £140.6m (2018: £129.9m). Dividend cash cover, which compares operational cash flow excluding profits on disposal of £140.6m (2018: £142.9m) to dividends paid, was 1.03 times[1] (2018: 1.10 times). The reduced dividend cash cover arose from the distribution lock-ups resulting from Carillion's liquidation in 2018 and the impact on distributions from operational challenges at Affinity Water.

The scrip dividend alternatives for the quarterly interim dividends for the financial year resulted in an aggregate of 2.6m (2018: 4.0m) new shares being issued in the year.

The Board does not intend to offer a scrip dividend alternative in respect of HICL UK dividends because the principal advantages of scrip dividends for UK shareholders are not applicable in respect of UK-incorporated investment trusts such as HICL UK. Therefore, no scrip alternative is due to be offered for the fourth quarterly interim dividend in respect of the year ended 31 March 2019.

[1] Including profits on disposal of £34.0m, dividend cash cover was 1.27 times.

Corporate Group Drawings and Gearing Levels

As at 31 March 2019, the Corporate Group's drawings under its RCF were £90.0m by way of cash (2018: £134.6m) and £17.8m (2018: £26.6m) by way of letters of credit.

The RCF was renewed on 31 January 2019 on improved terms and has an expiry date of 31 May 2022. Following completion of the Scheme, HICL UK replaced HICL Guernsey as guarantor of the RCF. The Corporate Group is therefore able to confirm that sufficient working capital is available for the financial year ending 31 March 2020, without needing to refinance. InfraRed will, however, consider refinancing options periodically aligned to the pipeline of potential transactions.

Foreign Exchange Hedging

The Corporate Group's hedging policy targets NAV per share volatility of no more than 2% for a 10% movement in foreign exchange rates. The policy balances the cost/benefit of hedging activity whilst retaining the key objective of materially mitigating the impact of foreign exchange movements on HICL's financial results.

Hedging as at 31 March 2019 compared to non-Sterling portfolio values were:

	Non-UK assets £m	FX Hedge £m	FX Hedge as % of non-UK assets
Europe (exc UK)	369	222	60%
North America	227	100	44%
Total	**596**	**322**	**54%**

3.2
Valuation of the Portfolio

Valuation Methodology and Approach Overview

InfraRed, as the Investment Adviser, is responsible for carrying out the fair market valuation of HICL'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) published in the annual and interim results.

HICL's investments are predominantly non-market traded investments, such that these investments are valued using a discounted cash flow analysis of the forecast investment cash flows from each project. The exception to this is the listed senior debt in the A13 Road project which is valued using the quoted market price of the bonds. This valuation methodology is the same as that used at the time of the HICL's launch and in each subsequent six-month reporting period (further details can be found in the March 2019 Prospectus for HICL Infrastructure PLC).

The key external (macro-economic and fiscal) factors affecting the forecast of each portfolio company's cash flows in local currency are inflation rates, interest rates, rates of gross domestic product growth and local corporation tax rates. The Investment Adviser makes forecast assumptions for each of these external metrics, based on market data and economic forecasts. The Investment Adviser exercises its judgement in assessing the expected future cash flows from each investment based on the detailed financial models produced by each portfolio company and adjusting where necessary to reflect HICL's economic assumptions as well as any specific operating assumptions.

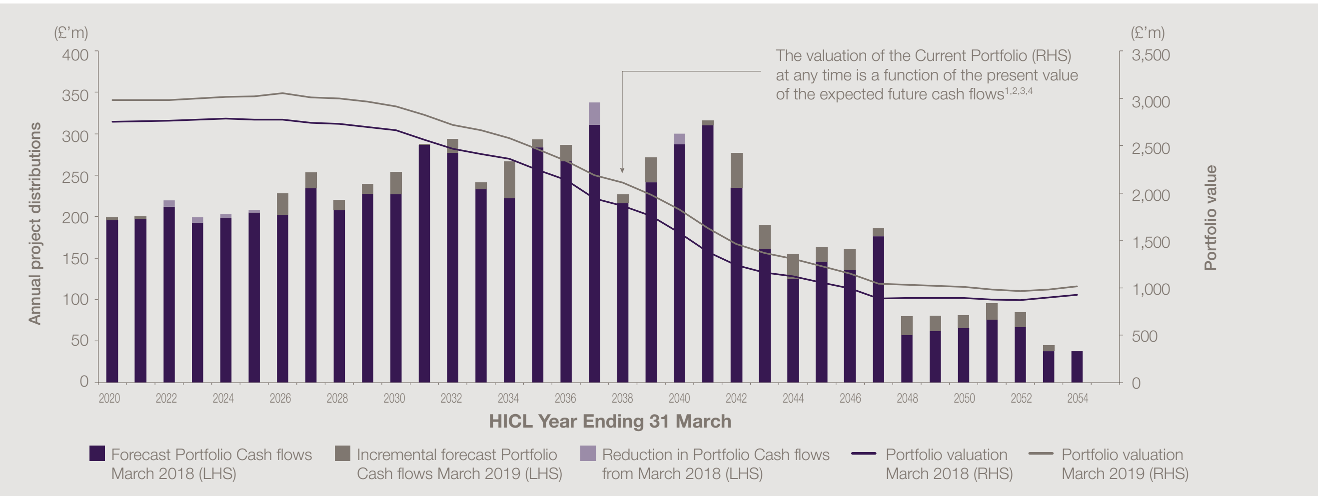
The fair value for each investment is then derived from the application of an appropriate market discount rate and year end currency exchange rate. The discount rate takes into account risks associated with the financing of an investment such as investment risks (e.g. liquidity, currency risks, market appetite) and any risks to the investment's earnings (e.g. predictability and covenant of the revenues), all of which may be differentiated by the phase of the investment's life (e.g. in construction or in operation). The Investment Adviser uses its judgement in arriving at the appropriate discount rate. This is based on its knowledge of the market, taking into account intelligence gained from its bidding activities, discussions with financial advisers in the appropriate market and publicly available information on relevant transactions.

The Directors' Valuation is the key component in determining HICL'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. The Directors' Valuation is the preferred valuation measure of the portfolio because it is the total value at risk for HICL, as compared to investments at fair value through profit or loss which excludes future commitments. A reconciliation of the Directors' Valuation to investments at fair value as per the balance sheet and on an Investment Basis is provided in Note 13 to the financial statements.

Investment Portfolio: Cash Flow Profile

The chart below shows the expected future cash flows to be received by HICL from the portfolio as at 31 March 2019 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 HICL from the Current Portfolio[1 2 3 4]



[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] The cash flows and the valuation are based on a number of assumptions, including discount rates, inflation rates, interest rates, rates of gross domestic product growth, tax rates and foreign exchange rates. 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 118 investments at 31 March 2019 (including a commitment to the Blankenburg Connection) and do not include other assets or liabilities of HICL, and assumes that during the period illustrated above, (i) no new investments are purchased, (ii) no existing investments are sold and (iii) HICL suffers no material liability to withholding taxes, or taxation on income or gains.
[4] Valuation considers cash flows beyond 2054, for example for Northwest Parkway (USA) 88 years of cash flows, are assumed.

3.2 Valuation of the Portfolio (continued)

The chart on the prior page also shows the steady long-term nature of the cash flows from the portfolio, coupled with a stable portfolio valuation in the medium term. Acquisitions and disposals in the year have increased forecast cash flows in eight of the next ten years and 31 of the next 35 years. Where cash flows have reduced, as signified by the hollow boxes in the chart above, this is largely due to the disposal of investments in Highland Schools PPP project and the AquaSure Desalination PPP Project (Australia). The valuation over time is also shown. Based on current forecasts over the long term, the portfolio will move into a repayment phase when cash receipts from the portfolio will be paid to HICL'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.

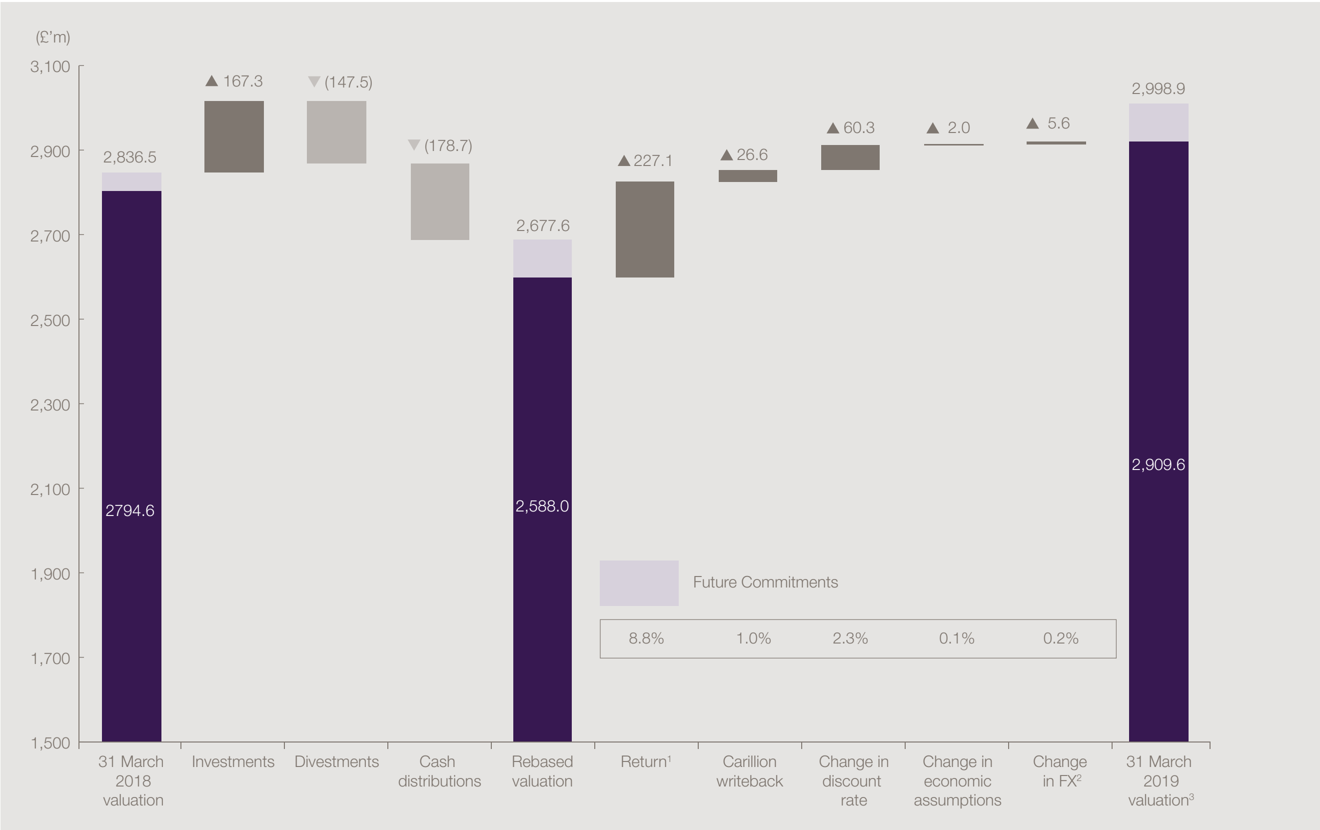
It is these forecast cash flows from HICL's current portfolio of investments that give the Board the comfort that there should be sufficient cash cover for the target dividends of HICL Infrastructure PLC of 8.25p per share for the year to 31 March 2020 and of 8.45p per share for the year to 31 March 2021.

Directors' Valuation at 31 March 2019

The Directors' Valuation of the portfolio at 31 March 2019 was £2,998.9m – an increase of 5.7% compared to the valuation of £2,836.5m at 31 March 2018. A reconciliation between the Directors' Valuation at 31 March 2019 and that shown in the financial statements is given in Note 13 to the financial statements, the principal differences being £86.8m net debt in the Corporate Subsidiaries and that the Directors' Valuation includes the £89.3m outstanding equity commitments in respect of the Blankenburg Connection PPP (the Netherlands), A9 Road (the Netherlands), the Biology, Pharmacy and Chemistry Department of the Paris-Sud University (France) and Willesden Hospital.

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

A Breakdown of the Movement in the Directors' Valuation in the Year



[1] "Return" comprises the unwinding of the discount rate and project outperformance.
[2] FX movement net of hedging is a gain of £8.1m.
[3] £2,998.9m reconciles, on an Investment Basis, to £2,909.6m Investments at fair value through profit or loss through £89.3m of future commitments.

Rebased Net Valuation

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 of £2,588.0m as this reflects the returns on the capital employed in the year.

Valuation Movements During the Year to 31 March 2019 (£m)

			% Change
Directors' Valuation at 31 March 2018		**2,836.5**	
Investments	167.3		
Divestments	(147.5)		
Net Investments		19.8	
Cash receipts from investments		(178.7)	
Less future commitments		(89.6)	
Rebased valuation of the portfolio		**2,588.0**	
Return from the portfolio	227.1		8.8%
Carillion writeback	26.6		1.0%
Change in discount rate[1]	60.3		2.3%
Economic assumptions	2.0		0.1%
Forex movement on non-UK investments	5.6		0.2%
		321.6	12.4%
Future commitments		89.3	
Directors' Valuation at 31 March 2019[2]		**2,998.9**	

[1] Excludes the impact of the liquidation of Carillion.
[2] A reconciliation between the Directors' Valuation and the financial statements is given in Note 13 to the financial statements.

Allowing for the investments during the year of £167.3m, divestments of £147.5m and investment receipts of £178.7m, the rebased net valuation was £2,588.0m. The growth in the valuation of the portfolio at 31 March 2019 over the rebased value was 12.4%.

The increase arises from a £227.1m return from the portfolio, a £26.6m writeback of previously recognised costs arising from the liquidation of Carillion, £60.3m from a reduction in reference discount rates, £2.0m from certain economic assumptions and a positive impact of movement in foreign exchange rates of £5.6m. The positive movement in economic assumptions includes lower effective tax rates in the Netherlands and USA partially offset by changes in deposit interest rates.

Return from the Portfolio

The return from the portfolio of £227.1m (2018: £210.3m) represents an 8.8% (2018: 7.9%) increase in the rebased value of the portfolio versus the discount rate, or expected annualised return, of 7.4%. This demonstrates outperformance of the portfolio.

Incremental value was generated from operational outperformance across various cost savings, efficiency initiatives, successful construction completions and a valuation uplift on the disposal for the AquaSure Desalination PPP project (Australia) as well as actual UK inflation on average running above the 2.75% p.a. assumed in the Directors' Valuation.

As the date of this report, nine of the ten projects where Carillion was the facilities management provider had signed up replacement contractors following the Carillion liquidation and HICL was able to writeback £26.6m of the £59.3m costs it had recognised in March 2018 (net £32.7m residual exposure). More information on Carillion can be found in the Case Study on page 26.

[1] On an Investment Basis.

3.2 Valuation of the Portfolio (continued)

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 yields 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, jurisdiction and market participants' appetite for these risks.

In the portfolio there were two projects in construction at 31 March 2019, both which are located in the Eurozone. 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.

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:

	31 March 2019				
	Long-term government bond yield	Risk premium	Discount rate	31 March 2018 Discount rate	Movement
UK	1.5%	5.5%	7.0%	7.4%	(0.4%)
Eurozone	0.9%	6.4%	7.3%	7.6%	(0.3%)
North America	2.6%	5.4%	8.0%	8.2%	(0.2%)
Portfolio	**1.5%**	**5.7%**	**7.2%**	**7.4%**	**(0.2%)**

Generally, 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. The Directors discuss the proposed valuation with a Board-appointed, third party valuation expert to ensure that the valuation of HICL's portfolio is appropriate.

As long-term government bond yields in the UK, North America 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 do not rigidly 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 directly adversely impacting discount rates.

The 0.4% decrease in the average discount rate in the UK is attributable to two factors: the competitive dynamics we have observed relating to the marketplace for transaction pricing including the takeover of John Laing Infrastructure Fund ("JLIF") by a consortium of private infrastructure investors at a premium to JLIF's NAV; and the reversal of discount rate increases in the prior year on assets affected by Carillion's liquidation.

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 2019	31 March 2018
Inflation Rates	UK (RPI and RPIx)[1]	2.75% p.a.	2.75% p.a.
	CPIH[2]	2.0% p.a.	2.0% p.a.
	Eurozone (CPI)	1.0% p.a. to 2019, 2.0% p.a. thereafter	1.0% p.a. to 2019, 2.0% p.a. thereafter
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	USA (CPI)	2.0% p.a.	2.0% p.a.
Interest Rates	UK	1.0% p.a. to March 2022, 2.0% p.a. thereafter	1.0% p.a. to March 2021, 2.0% p.a. thereafter
	Eurozone	0.5% p.a. to March 2022, 1.5% p.a. thereafter	0.5% p.a. to March 2021, 1.5% p.a. thereafter
	Canada	2.0% p.a. to March 2021, 2.5% p.a. thereafter	2.0% p.a. to March 2021, 3.0% p.a. thereafter
	USA	2.0% p.a. to March 2021, 2.5% p.a. thereafter	2.0% p.a. to March 2021, 3.0% p.a. thereafter
Foreign Exchange Rates	CAD/GBP	0.57	0.55
	EUR/GBP	0.86	0.88
	USD/GBP	0.77	0.71
Tax Rates	UK	19% to March 2020, 17% thereafter	19% to March 2020, 17% thereafter
	Eurozone	Ireland 12.5% France 25% – 33.3% Netherlands 20.5% by 2025	Ireland 12.5% France 25% – 33.3% Netherlands 20% – 25%
	USA	21% Federal & 4.6% Colorado State	21% Federal & 4.6% Colorado State
	Canada	26% and 27%	26% and 27%
GDP Growth	UK	2.0% p.a.	2.0% p.a.
	Eurozone	1.8% p.a.	1.8% p.a.
	USA	2.5% p.a.	2.5% p.a.

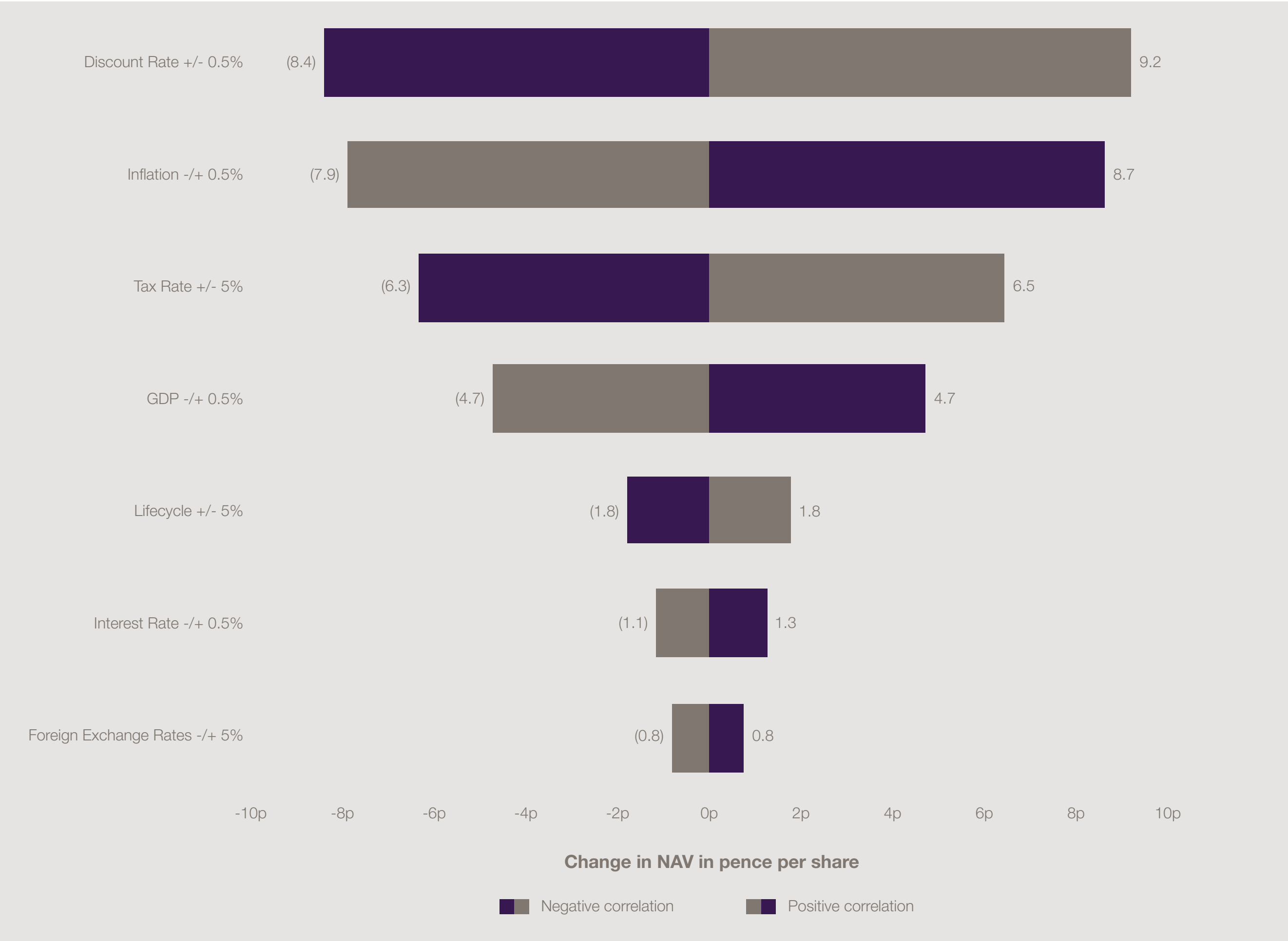
[1] Retail Price Index and Retail Price Index excluding mortgage interest payments.
[2] Consumer Prices Index including owner occupiers' housing costs.

3.2 Valuation of the Portfolio (continued)

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[1 2 3]. The sensitivities are also contained in Note 4 to the financial statements.

Valuation Sensitivities



Discount Rate Sensitivity

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

Inflation Rate Sensitivity

PPP 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 or RPIx (RPI excluding mortgage payments) while non-UK projects use CPI (Consumer Price Index), and revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing). Facilities management and operating subcontracts have similar indexation arrangements.

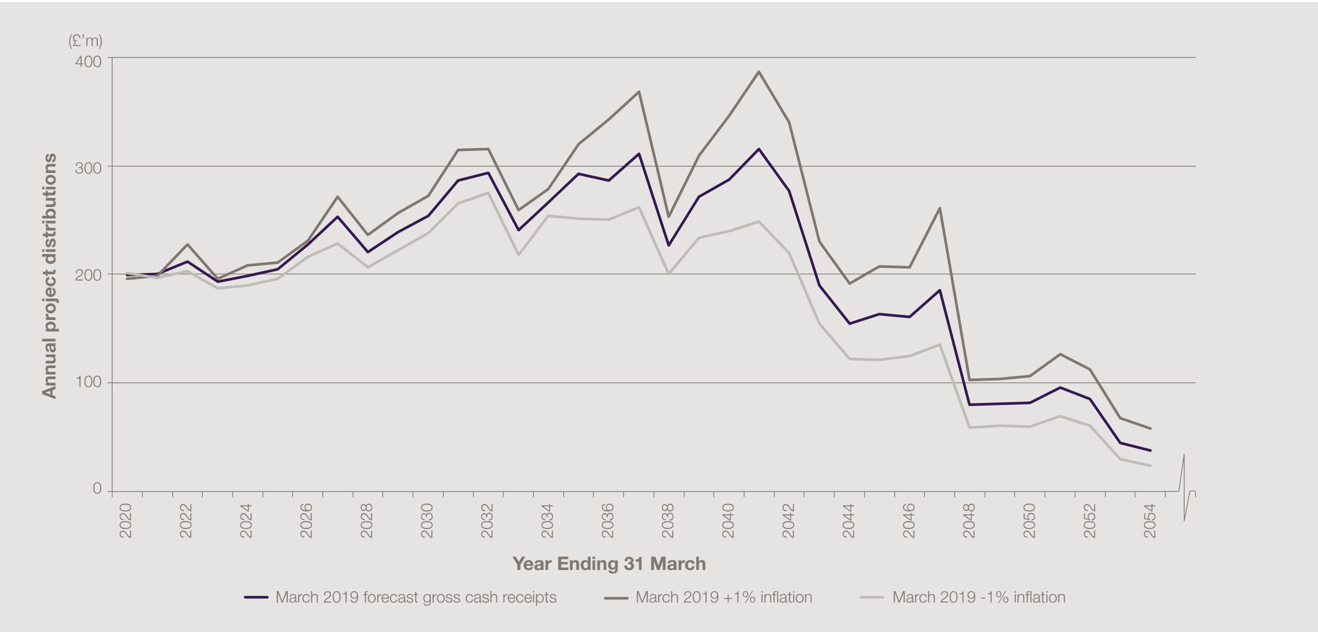
[1] NAV per share based on 1,790m Ordinary Shares as at 31 March 2019.
[2] Sensitivities for inflation, interest rates, tax rates and lifecycle are based on the 35 largest investments extrapolated for the whole portfolio.
[3] Foreign exchange rate sensitivity is net of Corporate Group hedging at 31 March 2019.

For the demand-based assets, the concession agreement usually prescribes how user fees are set, which is generally reset annually for inflation. Similarly to PPP projects in the UK, this is typically RPI, while non-UK projects use CPI. On Affinity Water, HICL's regulated asset, revenues are regulated by Ofwat in a five-yearly cycle with the pricing of water bills set with the aim of providing an agreed return for equity that is constant in real terms for the five-year period by reference to RPI currently and CPIH in the next regulatory period.

The chart shows that the Directors' Valuation and NAV per share are both positively correlated to inflation. The portfolio's inflation correlation at 31 March 2019 was 0.8 (2018: 0.8) such that should inflation be 1% p.a. higher than the valuation assumption for all future periods the expected return from the portfolio would increase 0.8% from 7.2% to 8.0%.

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 2019 forecasts for RPI out to December 2019 range from 2.2% to 3.8% from 19 independent forecasters as compiled by HM Treasury, with an average forecast of 2.8%.

Cash Flow Sensitivity to Inflation



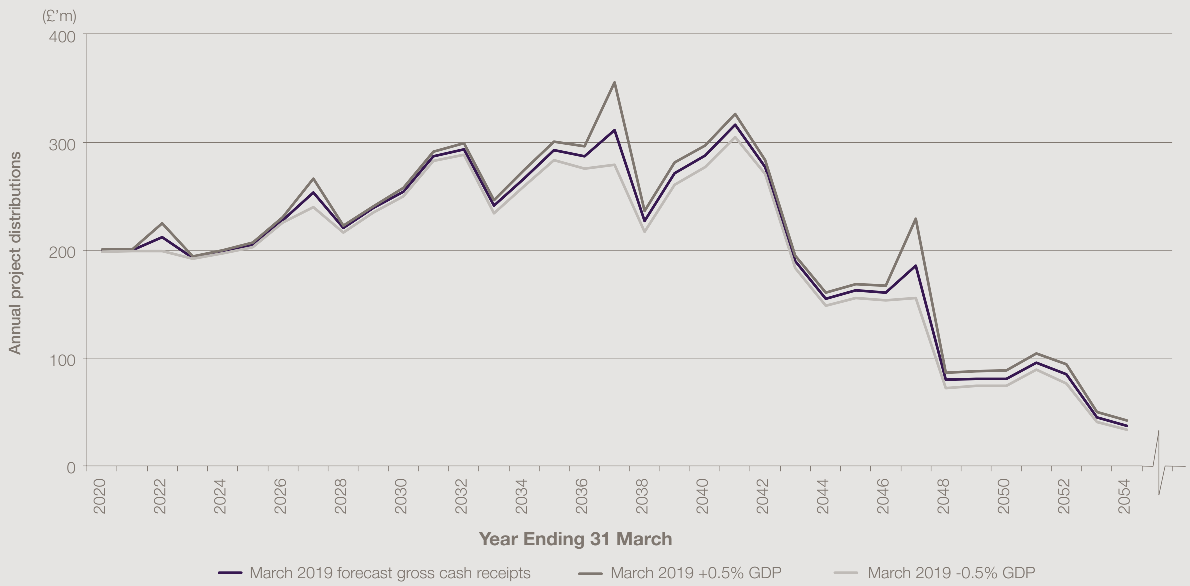
Gross Domestic Product ('GDP') Sensitivity

At 31 March 2019, the portfolio had four investments which are considered sensitive to GDP, comprising 21% of the portfolio value (17% at 31 March 2018) namely the A63 Motorway (France), M1-A1 Road, Northwest Parkway (USA) and High Speed 1. At times of higher economic activity there will be greater traffic volumes using these roads and railways generating increased revenues for the projects than compared to periods of lower economic activity and therefore we assess these as GDP sensitive investments.

If outturn GDP growth was 0.5% p.a. lower for all future periods than those in the valuation assumptions set out on page 45 for all future periods, expected return from the portfolio (before Corporate Group expenses) would decrease 0.2% from 7.2% to 7.0%.

3.2
Valuation of the Portfolio (continued)

Cash Flow Sensitivity to GDP



Interest Rate Sensitivity

Each portfolio company's interest costs are at fixed rates, either through fixed rate bonds, bank debt which is hedged with an interest rate swap or linked to inflation through index-linked bonds. However, there are two investments – Affinity Water and Northwest Parkway (USA), which have refinancing requirements, exposing these investments to interest rate risk. In the case of other investments, sensitivity to interest rates predominantly relates to the cash deposits which the portfolio company is required to maintain as part of its senior debt funding. For example, most PPP projects would have a debt service reserve account in which six months of debt service payments are held.

At 31 March 2019, cash deposits for the portfolio were earning interest at a rate of 0.9% per annum on average. There is a consensus that UK base rates will remain low for an extended period, with a current median forecast for UK base rates in December 2019 of 0.97% p.a.

The portfolio valuation assumes UK deposit interest rates are 1.0% p.a. to March 2022 and 2.0% p.a. thereafter and for the Eurozone 0.5% p.a. to March 2022 and 1.5% thereafter. This has extended by one year the period assumed for low interest rates in these jurisdictions. For assets in Canada and USA the assumption is 2.0% p.a. rising to 2.5% p.a. long term which has reduced from a 3% long-term assumption in the prior year. These changes have reduced the portfolio valuation and are included within the £2m aggregate increase in portfolio value attributable to changes in economic assumptions.

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 118 investments, 53 have lifecycle as a project company risk (i.e. not subcontracted to the supply chain).

Corporation Tax Rate Sensitivity

The profits of each portfolio company are subject to corporation tax in the country where the project is located. The sensitivity considers a 5% movement in tax rates in all jurisdictions.

There has been a suggestion that a future UK government could consider raising UK corporation tax rates. To the extent there was a 5% increase in UK corporation tax rates, there would be a NAV per share reduction of 4.8p based on the Directors' Valuation as at 31 March 2019.

The UK corporation tax assumption for the portfolio valuation is 19% to March 2020 and 17% thereafter, which is unchanged from March 2018. There have been reductions in the corporation tax rate assumptions in the Netherlands which are detailed on page 45. These changes have resulted in an increase to the portfolio valuation of £1.0m which is included within the £2.0m aggregate increase in portfolio value attributable to changes in economic assumptions.

Discounted Cash Flow Key Assumptions and Principles

As described opposite, HICL's investments are predominantly valued using a discounted cash flow ("DCF") analysis of the forecast investment cash flows from each portfolio company. The following is an overview of the key assumptions and principles applied in the valuation and forecasting of future cash flows:

- Discount rates and other key valuation assumptions (as outlined above) continue to be applicable.
- Contracts for PPP projects and demand-based assets are not terminated before their contractual expiry date.
- A reasonable assessment is made of operational performance, including in relation to PPP projects, payment deductions and the ability to pass these down to subcontractors.
- Distributions from each portfolio company reflect reasonable expectations, including consideration of financial covenant restrictions from senior lenders.
- Lifecycle and capital maintenance risks are either not borne by the portfolio company because they are passed down to a subcontractor or, where borne by the portfolio company, are incurred per current forecasts.
- For demand-based assets a reasonable assessment is made of future revenue growth, typically supported by forecasts made by an independent third party.
- Where assets are in construction, a reasonable assessment is made as to the timing of completion and the ability to pass down any costs of delay to subcontractors.
- Where a portfolio company expects to receive residual value from an asset, that the projected amount for this value is realised.
- Non-UK investments are valued in local currency and converted to Sterling at the period end exchange rates.
- A reasonable assessment is made of regulatory changes in the future which may impact cash flow forecasts.
- Perpetual investments are assumed to have a finite life (e.g. Affinity Water is valued using a terminal value assumption).

In forming the above assessments, the Investment Adviser works with portfolio companies' management teams, as well as engaging with suitably qualified third parties such as technical advisers, traffic consultants, legal advisers and regulatory experts.

Regulated Assets

Following the feedback from Ofwat on the PR19 Business Plan submission, Affinity Water has made a resubmission to Ofwat in the period. The valuation of HICL's investment in Affinity Water is based on the revised plan which we believe addresses Ofwat's expectations for the business's operational efficiency. The valuation represents a 1.29x multiple of Regulatory Capital Value. More information can be found in Section 3.1 – Operating & Financial Review.

3.3 The Investment Portfolio

118[1] assets as at 31 March 2019

Education 15%[2]

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

Health 28%

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

Fire, Law & Order 7%

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

Key

- New investment since 31 March 2018
- Commitment after the period end 31 March 2019
- Incremental investment since 31 March 2018
- Disposal since 31 March 2018
- Partial disposal since 31 March 2018

[1] Which includes the Blankenburg Connection PPP which had not completed by the year end.
[2] By value, at 31 March 2019, using the Directors' Valuation of £2,998.9m.

Transport 31%

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

Accommodation 11%

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

Electricity, Gas & Water 8%

- Affinity Water
- AquaSure Desalination PPP (Australia)
- Burbo Bank OFTO

New Asset Spotlight

Burbo Bank Extension OFTO

The transmission assets associated with the Burbo Bank Extension Windfarm located in Liverpool Bay. The portfolio company receives contractual, availability-based revenues over a 20-year period, meaning no exposure to construction risk, electricity production or power price risk. Renewable Energy Systems is providing operations and maintenance services under a long-term subcontract.

Paris-Sud University (France)

The design, construction, financing and maintenance of new facilities for the Biology, Pharmacy and Chemistry Department of the Paris-Sud University. The facilities will take approximately four years to construct followed by a 25-year operational period. Construction, facilities management services and lifecycle responsibilities are subcontracted to entities in the Bouygues Construction group.

A63 Motorway (France)

A 40-year toll-road concession of a 104km section of the existing A63 in southwest France, which has been operational since 2013. The A63 forms part of the Atlantic Corridor, one of the Core Network Corridors identified by the European Commission as part of the Trans-European Networks transportation policy initiative.

3.4
Portfolio Analysis

as at 31 March 2019

MARKET SEGMENT

March 2019

March 2018

	2019	2018
▲ PPP projects	71%	74%
▲ Demand-based assets	21%	18%
▲ Regulated assets	8%	8%

GEOGRAPHIC LOCATION

March 2019

March 2018

	2019	2018
▲ UK	77%	80%
▲ Europe (exc UK)	15%	10%
▲ Australia	–	3%
▲ North America	8%	7%

OWNERSHIP STAKE

March 2019

March 2018

	2019	2018
▲ 100% ownership	25%	27%
▲ 50%–100% ownership	32%	28%
▲ Less than 50% ownership	43%	45%

SECTOR

March 2019

March 2018

	2019	2018
▲ Accommodation	11%	10%
▲ Education	15%	18%
▲ Electricity, Gas & Water	8%	11%
▲ Health	28%	28%
▲ Fire, Law & Order	7%	7%
▲ Transport	31%	26%

INVESTMENT STATUS

March 2019

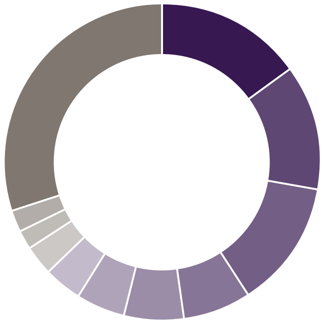
March 2018

	2019	2018
▲ Fully operational	97%	99%
▲ Construction	3%	1%

TEN LARGEST INVESTMENTS

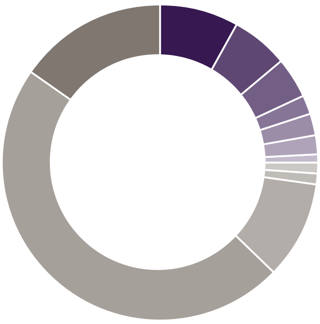
High Speed 1	7%
Affinity Water	7%
A63 Motorway	6%
Northwest Parkway	6%
Southmead Hospital	4%
Home Office	4%
Pinderfields & Pontefract Hospitals	4%
Dutch High Speed Rail Link	3%
Allenby & Connaught	2%
Queen Alexandra Hospital	2%
Remaining Investments	55%

TEN LARGEST FACILITIES MANAGEMENT AND OPERATIONS COUNTERPARTY EXPOSURES[1]



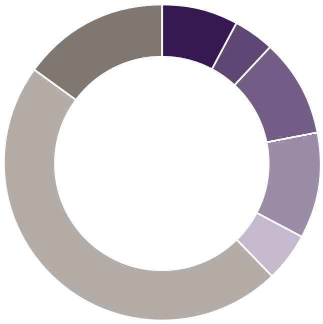
Bouygues	15%
In House	13%
Engie	13%
Network Rail	7%
EGIS	6%
Mitie	5%
Sodexo	4%
Siemens	3%
KBR	2%
Integral	2%
Other	30%

TEN LARGEST CONSTRUCTION COUNTERPARTY EXPOSURES[1 2]



Balfour Beatty	8%
Colas	6%
Laing O'Rourke	4%
KBR	3%
DEME	2%
Bouygues	2%
Hochtief	1%
Bilfinger	1%
Morgan Sindall	1%
Other contractors	10%
Latent defects limitation/ warranty period expired	47%
Affinity Water and High Speed 1	15%

LATENT DEFECTS LIMITATIONS/ WARRANTY PERIODS REMAINING[1 2]



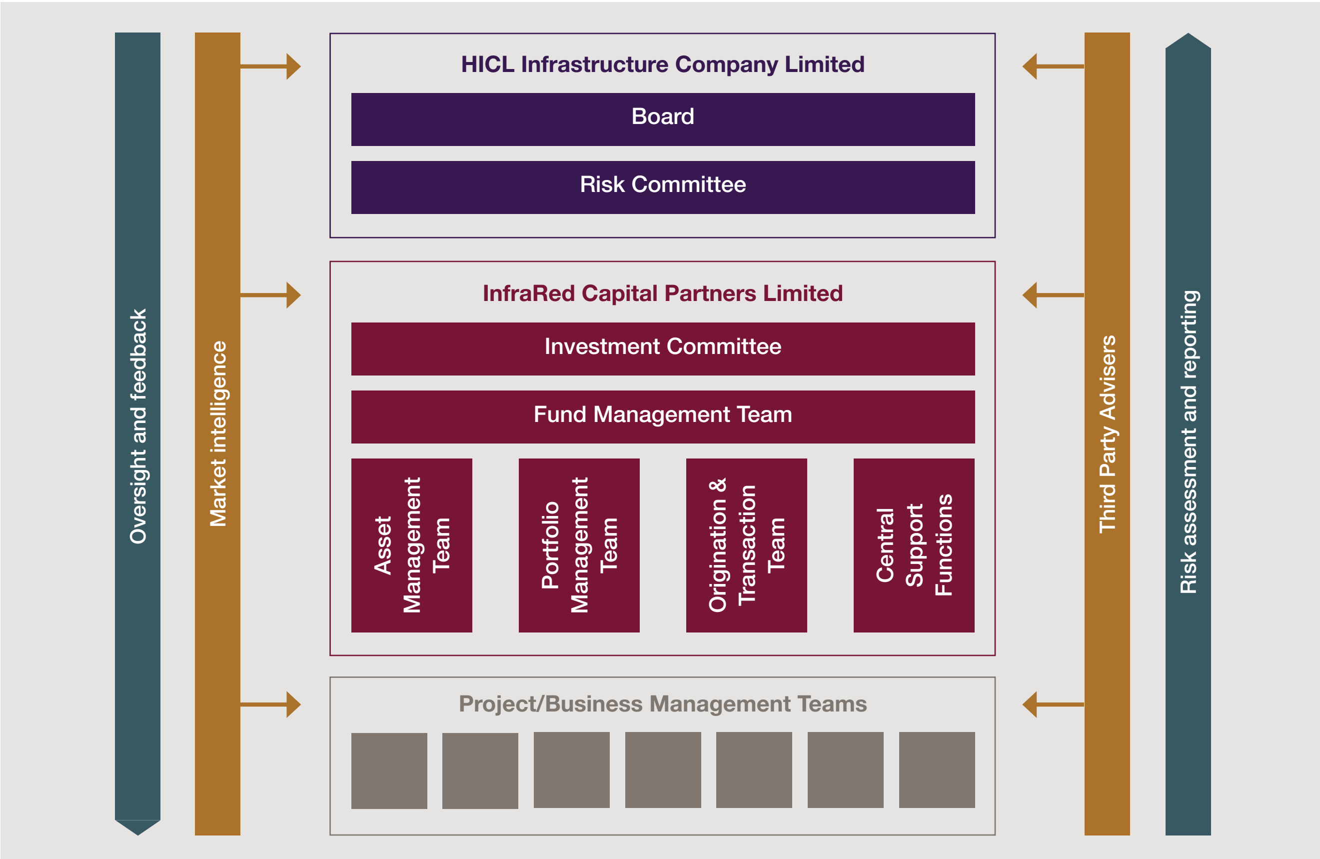
Within 1 year	8%
1–2 years	4%
2–5 years	10%
5–10 years	11%
10+ years	5%
Latent defects limitation/ warranty period expired	47%
Affinity Water and High Speed 1	15%

[1] By value, at 31 March 2019, 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] Assets subject to regulatory regimes that help mitigate the potential impact of defects on equity.

3.5
Risk & Risk Management

Risk management framework
HICL's risk management framework covers all aspects of HICL's business. The Board monitors, evaluates and manages risk through the consideration of scenarios and situations that, should they occur, could materially impact the operational or financial performance of HICL. Having considered and analysed key risks, mitigating action may be undertaken to reduce the likelihood of manifestation or the impact if the risk has materialised.

The schematic below sets out the different bodies involved in the management of risk.



The Board has ultimate responsibility for setting HICL's Risk Policy and Risk Appetite. It has convened a Risk Committee to assist the Board by assessing HICL's overall risk profile, recommending a risk appetite, and ensuring its framework is adequately designed and effective in operation. The terms of reference for HICL Guernsey's Risk Committee are substantially identical to those of HICL UK, which have been approved by the Board of HICL UK and are available on the Investor Relations section of HICL's website.

Day-to-day monitoring, evaluation and management of risk is delegated by the Board to InfraRed as HICL's Investment Adviser. The Investment Adviser reports to, supports and advises the Risk Committee, thus enabling the Risk Committee to make informed decisions on behalf of HICL and recommendations to the Board.

The Investment Adviser uses its experience, insight from investments within HICL's portfolio and the wider infrastructure market, and third-party advisers, to proactively consider future risks. Mitigation strategies are then developed. It utilises its systems and policies, oversight and third-party assurance to ensure effective risk management. The Investment Adviser oversees the deployment of these strategies and directs portfolio company management teams as required.

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. No issues were identified in the latest review. 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.

Risk classes

Risk is evaluated across seven risk classes. These are set out in the table below along with the Investment Adviser's assessment of:

- ▲ The potential financial impact of 12-month prudent downside scenarios, which are developed by the Investment Adviser and reviewed by the Risk Committee. They represent the estimated impact of severe but plausible scenarios meaning they are not worst-case. Each scenario is presented before (inherent) and after (residual) the effect of mitigation strategies is considered.
- ▲ A residual risk rating based on the likelihood and mitigated impact of the prudent downside scenario for each risk class.

The Investment Adviser uses the table below as the basis of the risk dashboard that forms the summary of its reporting to the Risk Committee. The Investment Adviser regularly presents stress scenarios and associated mitigation strategies to the Risk Committee to assist its assessment of severe low-probability downside scenarios.

The year to 31 March 2019 was characterised by increased political uncertainty arising as a consequence of Brexit negotiations with the European Union and within political parties, and the associated increase in likelihood of a UK general election in the short term. In light of this, the Investment Adviser increased the political risk residual rating[1] from 'medium' to 'high' and refreshed the associated low-probability, yet possible, downside scenario.

Detail of the material components of each risk class together with the mitigation strategies are described in the tables that follow.

Primary Risk Class	Residual Risk Rating	NAV/share Impact Residual vs Inherent	Cash Flow Impact 12 months Residual vs Inherent
Political risk	High		
Portfolio performance risk	Medium		
Financial/market risk	Low		
Operational risk – execution	Low		
Operational risk – portfolio administration, asset management	Very Low		
HICL central management risk	Very Low		
Operational risk – regulation and compliance	Very Low		

Key

▲ Inherent

▲ Residual

[1] There are five residual risk ratings: the lowest being 'Very Low', then 'Low', 'Medium', 'High' and finally the highest being 'Very High'.

03 / PERFORMANCE & RISK

3.5
Risk & Risk Management (continued)

Principal Risk	Risk Description	Risk Mitigation
Political risk		
Policy changes	With a wide range of public sector counterparties, political risk is inherent in HICL's business model and consistently has been a key risk faced by HICL. There is a risk that clients of HICL's portfolio companies or national governments choose to terminate contracts. There is a risk that they may potentially act outside the terms of the project agreements, for example through nationalisation of assets without the payment of fair compensation. There have also been suggestions that a future UK government may consider taking utilities, including water companies, back into public ownership.	Typically, public sector counterparties are entitled to voluntarily terminate a PPP contract and, if this occurs, project companies have a corresponding right to receive compensation. For the majority of HICL's investments in UK PPP projects, this compensation is contractually based on market value which would, we believe, be equal to the prevailing value of the asset in the portfolio. More detail on compensation on voluntary client termination provisions is set out in Section 3.1 – Operating & Financial Review. In the case of a breach of contract, HICL may consider legal options. The legal processes and means for redress would involve expending time and money. This may impact the value of HICL's investment portfolio and could affect HICL's ability to meet its target distributions. It is incumbent on the private utilities to demonstrate through performance and service quality the benefits of private investment in infrastructure. The Investment Adviser is an active member of various industry bodies, including the Global Infrastructure Investor Association and The Infrastructure Forum, which, on behalf of the infrastructure sector, engage with politicians, civil servants, other policy shapers, such as the National Infrastructure Commission, and regulators. The Investment Adviser engages directly with stakeholders of the portfolio's projects, and with policy shapers through dialogue and by responding to relevant consultations and calls-for-evidence.
Legal or regulatory changes	Various legal and regulatory changes may adversely impact HICL and the portfolio companies in which HICL invests. This could take the form of legislation impacting the supply chain or contractual costs or obligations to which portfolio companies (and therefore the equity investor) are exposed. Certain investments in HICL's portfolio are subject to regulatory oversight. Regular price control reviews by the regulator determine levels of investment and service that the portfolio company must deliver and revenue that may be generated. Particularly severe reviews may result in poor financial performance of the affected investment.	HICL, the Investment Adviser and their advisers continually monitor any potential or actual changes to regulations to ensure both HICL and its service providers remain compliant. Most social and transportation infrastructure concessions provide a degree of protection, through their contractual structures, in relation to changes in legislation which affect either the project asset or the way the services are provided. Regulators seek to balance protecting customer interests with making sure that each company has enough money to finance its functions. The Investment Adviser participates in relevant consultation processes, to ensure that the legislature and regulators hear the concerns and views of HICL, in its capacity as a private sector investor.

Principal Risk	Risk Description	Risk Mitigation
Political risk (continued)		
Taxation changes	Taxation legislation or treaty changes may adversely impact HICL and the portfolio's value. This may include changes to: ▲ corporation tax rates; ▲ cross-border tax rules; and ▲ other taxation legislation such as changes to the deductibility of interest costs of debt used to finance projects arising from the implementation of the OECD's recommendations in relation to Base Erosion and Profit Shifting ("BEPS").	Certain risks, such as changes to corporation tax rates, cannot be prevented or mitigated. HICL 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 3.2 – Valuation of the Portfolio. Relevant cross-border tax rules are closely monitored for any potentially adverse changes to HICL. On 1 April 2019, after receiving approval from shareholders, HICL Infrastructure Company Limited moved its investment business to HICL Infrastructure PLC, a new UK-incorporated company. Having a simplified UK-domiciled investment trust structure for a portfolio of predominantly UK-based investments reduces the potential impact of future changes in the cross-border tax regimes. The Board and the Investment Adviser actively monitor broader taxation legislation developments.
Portfolio performance risk		
Revenue adjustments	Poor operational performance and the failure to meet the prescribed contractual or regulatory service standards, or the appearance of construction defects, may reduce the income of the portfolio company concerned, e.g. through the application of availability deductions or regulatory penalties. In addition to the financial cost of these deductions, there is the potential for an adverse reputational impact to the private sector consortium (including HICL) from any material operational issues.	Operational issues Operational issues can be caused by a number of factors, e.g. for PPP projects the most likely cause is the underperformance of a service delivery partner. The Investment Adviser's 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 Adviser will work on the corrective steps and relevant actions in order to preserve good working relations with the client and thereby minimise any potential financial and reputational damage. Payment deductions for periods of unavailability or poor service delivery are typically contractually passed-down to the subcontractor who is at fault. In a severe case, the project company can terminate a subcontractor 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. Penalties levied against regulated assets could result in lower investment returns. Some mitigation is achieved through the regulatory price control process through setting reasonable targets that are both stretching and achievable. The compensation of the portfolio company's management team is linked to near-term financial performance and long-term performance against regulatory plan outcomes.

3.5 Risk & Risk Management (continued)

Principal Risk	Risk Description	Risk Mitigation
Portfolio performance risk (continued)		
Revenue adjustments (continued)		Construction defects Typically, PPP project companies have a right (either in law, or expressly under the terms of a construction subcontract) to make claims against the relevant construction subcontractor in relation to defects in the design, construction or commissioning of the project assets. This right persists for a defined period of time following the completion of construction (the 'statutory limitations period'). In England and Wales, for example, the statutory limitations period is typically 12 years. Construction defects are in most cases revealed through the regular programme of operations and maintenance activities or as a result of surveys that are commissioned. Defects detected within the statutory limitations period are lodged with the relevant construction subcontractor for remediation. The cost of remediation is the responsibility of the construction subcontractor and not borne by the PPP project company. An arbitration or court process may be used where disputes arise, though the need to escalate matters in this manner has been historically remote. Following the expiry of the statutory limitations period, the risk of remediation of construction defects that are subsequently detected typically falls to the PPP project company itself and is an equity risk (for which the lifecycle budget can in some cases be a source of mitigation). In addition, there are certain other circumstances, for example if a subcontractor becomes insolvent, where construction counterparty may no longer be able to fulfil its obligations to correct construction defects. Management of counterparty credit risk is discussed below.
Demand	The revenue generated by demand-based assets is dependent on the usage of the associated infrastructure. For some of these demand-based assets, usage may be correlated to the rate of economic growth. Usage below acquisition assumptions could lead to adverse financial performance of the portfolio company, with significant underperformance potentially resulting in default of the financing arrangements.	Demand risk is extensively considered by the Investment Adviser as part of the due diligence process at the time of acquisition. Usage history is considered and, where appropriate, third party experts are used to assess demand projections. HICL publishes an analysis of the portfolio's sensitivity to changes in demand as a result of changes in GDP in Section 3.2 – Valuation of the Portfolio. A case study on demand-based assets was presented in HICL's September 2018 Interim Report.

Principal Risk	Risk Description	Risk Mitigation
Portfolio performance risk (continued)		
Construction, operations and maintenance counterparties	The PPP project companies and demand-based asset concessionaires in which HICL invests typically subcontract the provision of the services to specialist providers (construction, operations or maintenance companies). The failure of a supply chain provider could negatively impact the project company's ability to fulfil its contractual obligations with the client. Availability-based payment deductions could be made which may impact HICL's cash flow and therefore the valuation of HICL's portfolio.	As one of its key objectives HICL 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. HICL publishes an analysis of the portfolio's counterparty exposure in the Operating & Financial Review in Section 3.1. In addition, counterparty credit risk is considered at regular intervals by the Investment Adviser's internal credit risk team. If a key subcontractor was to fail, HICL's priority is the continuation of services to public sector clients and the users of the affected infrastructure. HICL has developed contingency plans that specifically contemplate a scenario in which a key subcontractor enters administration or liquidation, and the Investment Adviser's wide network provides a number of potential replacement service providers. The Investment Adviser maintains a lessons learned database, which includes those associated with contractor failure, to improve information sharing across its asset and portfolio management teams.
Operational costs	The budget, and therefore the risk, of certain key operational costs associated with a project lies with the portfolio company. For PPP project companies and demand-based asset concessionaires this generally relates to the management services contract, the lifecycle costs and the insurance premium. There is a risk that the budget could prove to be insufficient. For regulated assets, the regulatory price control process sets a total expenditure (capital and operational) allowance for the associated portfolio company to achieve its targets. Overspend against this allowance does not necessarily result in additional revenue, which may reduce the returns generated.	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. The adequacy of lifecycle budgets of regularly assessed where the risk sits with the project companies. HICL publishes an analysis of the portfolio's sensitivity to lifecycle costs, is set out in Section 3.2 – Valuation of the Portfolio. The management teams of regulated assets, with oversight from the Investment Adviser, prepare detailed business plans as part of each price control process. These take inputs from in-house and third-party experts and are scrutinised by the regulator. Mitigation is achieved through setting reasonable expenditure allowances that are both stretching and achievable. The compensation of the portfolio company's management team is linked to near-term financial performance and long-term performance against regulatory plan outcomes.
Clients	Reductions in revenue arising from clients facing financial difficulties and therefore failing to meet their payment obligations could have a material adverse impact on that portfolio company's cash flows.	The impact of any single client default to the overall Group is considered small, as HICL has low concentration risk associated with any individual client.

3.5
Risk & Risk Management (continued)

Principal Risk	Risk Description	Risk Mitigation
Portfolio performance risk (continued)		
Cyber security	Failure to protect data appropriately could have negative legal, operational and reputational repercussions. A breach of data security could occur by accident or as a result of a deliberate cyber attack. A cyber attack could affect the IT systems of HICL, the Investment Adviser or a portfolio company, causing theft or loss of data, or damage to the infrastructure's control systems and equipment.	HICL has no IT systems as it relies on those of its services providers. The Investment Adviser has data management policies and its staff receive regular training to reduce the risk of an accidental data breach. 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. Portfolio companies that operate through a subcontracted management structure, such as PPP projects, tend not to have their own IT systems and rely on those subcontractors. Data is normally backed up and the risk, should data be corrupted or stolen, is considered low. Regulated assets, and those demand-based asset concessionaires that are operating companies, typically will have their own IT systems. These companies have data management policies and their staff receive regular training to reduce the risk of an accidental data breach. Typically, these companies also undergo cyber penetration testing or use the separation of critical operational systems from the internet through bespoke procedures and firewalls to support the implementation of IT systems designed to withstand a cyber attack. Data held by subcontractors or by portfolio companies themselves is normally backed up. The subcontractors or portfolio companies will also have disaster recovery plans. This reduces the potential impact of business interruption.
Financial and market risk		
Investor sentiment	Prolonged periods where the prevailing share price trades below HICL's Net Asset Value inhibits HICL's ability to issue new equity capital.	The need to issue new equity capital primarily relates to the repayment of drawings under HICL's Revolving Credit Facility ("RCF"). HICL has a number of alternative options available. Inter alia, these include: ▲ Refinancing the RCF to extend its maturity reduces the near-term urgency to repay drawings, though it is not HICL's policy to be drawn for substantial periods of time. Details on the recent refinancing of the RCF can be found in Section 3.1 – Operating & Financial Review. ▲ Strategic management of the portfolio composition through accretive disposals to pay down drawings under the RCF and facilitate opportunistic acquisitions without substantially increasing HICL's gearing. Three such disposals were made in the year.

Principal Risk	Risk Description	Risk Mitigation
Financial and market risk (continued)		
Inflation	Investment returns from portfolio companies typically have positive inflation correlation. Inflation levels below HICL's long-term assumptions would result in the valuation of the portfolio being adversely impacted, and sustained periods of deflation could result in defaults under loan arrangements.	The Board and Investment Adviser consider a number of factors in determining HICL's long-term inflation assumptions, which have been largely unchanged since launch in 2006. The Board and the Investment Adviser believe HICL's assumptions for inflation remain reasonable. HICL publishes an analysis of the portfolio's sensitivity to inflation in Section 3.2 – Valuation of the Portfolio.
Discount and interest rates	A discounted cash flow methodology is used to value the majority of HICL's investments. Appropriate discount rates are key to deriving a fair and reasonable valuation for the portfolio. The rate is established by reference to comparable market transactions, which is corroborated by considering the yield on long-dated government bonds (as a reference for the risk-free rate) plus an adequate risk premium. All other things being equal, higher discount rates would result in a reduction in the portfolio valuation. HICL benefits from use of HICL's RCF and debt within the portfolio companies. Increases in interest rates would increase the cost of financing these instruments.	Interest rates and inflation are correlated over the long-term, and they exhibit a positive relationship. Therefore, an increase in discount rates due to increased interest rates over the long term is likely to coincide with higher inflation – factors which materially offset one another in the portfolio valuation calculation. An interest rate increase would have a positive impact on cash deposit interest income for portfolio companies. This would partly mitigate a portfolio value reduction arising from increased discount rates. It does not necessarily follow that an increase in long-dated government bond yields would result in an increase in discount rates. As long-dated government bond yields have trended downwards since HICL's launch in 2006, the market discount rate applied to secondary transactions has remained robust. The resulting increase in risk premium may absorb potential increases in government bond yields thereby reducing the impact on the overall discount rate. To manage interest rate risk, HICL may use interest rate swaps to hedge RCF drawings. At portfolio company level, the risk of rising interest rates causing an increase in debt service cost is materially mitigated through the use of fixed-rate or inflation-linked bonds or hedging instruments. HICL publishes an analysis of the portfolio's sensitivity to discount and interest rates in Section 3.2 – Valuation of the Portfolio.
Foreign exchange	HICL is exposed to changes in foreign exchange rates where investment return is received in a currency other than Sterling from investments in jurisdictions outside the UK.	To mitigate the foreign exchange risk, HICL has used a combination of balance sheet hedging and hedging of prospective income on a short-term basis through forward currency sales.

3.5
Risk & Risk Management (continued)

Principal Risk	Risk Description	Risk Mitigation
Operational risk – execution		
Inadequate due diligence	Poor or inadequate due diligence can result in underperformance against acquisition assumptions.	The Investment Adviser's Origination and Execution team has a depth of experience in buying and selling infrastructure assets and has developed a thorough checklist approach to the due diligence phase. The Investment Adviser is supported by specialist advisers (e.g. lawyers, technical consultants, and tax advisers). Oversight is provided by the Investment Adviser's HICL Investment Committee, and by the Board in respect of matters falling outside the Investment Adviser's 'Approved Delegated Parameters'.
Breach of policies	New acquisitions may cause HICL to breach its Investment Policy, its banking covenants, or other internal control policies.	This risk is mitigated by the Investment Adviser's detailed internal sign off procedures involving a team independent of the acquisition reviewing it against all policies and procedures.
Operational risk – portfolio administration, asset management		
The Investment Adviser	HICL is heavily reliant upon the Investment Adviser to implement the strategies and deliver its objectives. The Investment Adviser's team is responsible for fund, portfolio and asset management, as well as investment selection and pricing discipline. A performance deterioration of any of these functions could have a material impact on HICL's performance.	The Investment Adviser has a track record of investing and managing infrastructure investments dating back to the 1990s. It has depth of resource and knowledge in the asset class, as well as appropriate and detailed policies, procedures and compliance systems. The Investment Adviser's team benefits from a group of individuals possessing relevant qualifications, relationships and experience for their roles. The Board is satisfied that there is sufficient depth of expertise within the Investment Adviser's team for HICL not to be reliant on any single 'key person'. Recognising that the long-term performance and management of the portfolio's assets is core to the fulfilment of the investment proposition, the Board recommended to shareholders, as was subsequently approved by shareholders, an extension to the non-fault termination of the investment management arrangements with InfraRed from 12 months to 36 months. This contributes to promoting the alignment and stability of the management of the portfolio and retention of embedded operating knowledge of the assets, in an increasingly challenging environment.
Valuations	The sensitivity analysis presented in Section 3.2 – Valuation of the Portfolio does not show a comprehensive picture of all potential scenarios. Further, variables do not tend to move in isolation, and the analysis does not show the potentially infinite number of permutations, and resultant impacts, that might arise. Financial models, either for HICL or the underlying project companies, may contain errors, or incorrect inputs, resulting in inaccurate outputs. These could adversely impact the assessment of HICL'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 working with them in a manner that seeks to minimise the introduction of errors. In addition to the processes of the Investment Adviser, HICL's portfolio valuation is assessed by HICL's valuation expert.

Principal Risk	Risk Description	Risk Mitigation
HICL central management risk		
Loss of key personnel	HICL relies on the Board of Directors and key service providers, including the Investment Adviser, to manage HICL. Loss of a 'key person' could lead to gaps in the 'corporate knowledge'.	The Board is comfortable that it is not overly reliant on any one director. Similarly, it is comfortable that the teams in all its key service providers, including the Investment Adviser, have a suitable breadth and depth of resources such that if any one individual was to depart, the services can continue to be provided to the required standards by the remaining team members.
Service provider failure	HICL has no employees and relies on service providers to provide management services, the most important of which is the Investment Adviser. Failure of any one service provider would lead to potential operating issues and a possible value impairment.	The Management Engagement Committee reviews the performance of all key service providers annually. Poor performance issues are communicated promptly back to the relevant service provider and, to date, this has had the necessary effect. Changes are made when necessary.
Poor controls	Poor control systems of either HICL or a service provider lead to a loss for HICL.	Detailed operating procedures have been developed and adopted by HICL. These are regularly reviewed including by the compliance team of the Investment Adviser. Service providers also have the own control systems which are reviewed as and when required. Changes to controls are implemented in light of industry experience and changing policies and regulation.
Operational risk – regulation and compliance		
Breach of regulations	HICL's activities may breach regulations in the jurisdictions in which it operates.	When entering new jurisdictions for the first time, specialist technical and legal advice is taken. Once investments are made, the Investment Adviser seeks to remain abreast of changes of regulations and laws to ensure HICL and its portfolio companies remain compliant.

3.6 Viability Statement

The UK Corporate Governance Code requires the Directors to make a statement regarding the viability of HICL Infrastructure Company Limited ("HICL Guernsey") in the Annual Report, explaining how they have assessed the prospects of HICL Guernsey's investment business ("HICL's Investment Business"), the period of time for which they have made the assessment and why they consider that period to be appropriate.

Subsequent to the reporting date, on 1 April 2019, HICL Guernsey entered into the Scheme, as detailed in HICL Guernsey's EGM Circular dated 4 March 2019, in which HICL UK acquired HICL's Investment Business in its entirety, through the acquisition of HICL Guernsey's interests in Luxco 1. Subsequently, HICL Guernsey was placed into voluntary liquidation and therefore on an individual basis, is not a going concern. HICL Guernsey's financial statements have been prepared on a basis other than going concern.

Via the Scheme, HICL Guernsey's shareholders were issued one Ordinary Share in HICL UK for each Ordinary Share held in HICL Guernsey meaning there was no change in ultimate ownership of HICL's Investment Business immediately following the Scheme. Additionally, the expectation is that HICL's Investment Business will continue its activities through HICL UK. As a result, the Directors considered it appropriate to consider HICL's Investment Business in their assessment of viability.

The Directors have determined that the five-year period to March 2024 remains an appropriate period over which to assess viability as this period accords with the business' planning exercises, is appropriate for the investments owned by HICL Guernsey and is consistent with the long-term objective of HICL's Investment Business.

Assessment of the Prospects of HICL's Investment Business

The Directors' primary assessment of the prospects of HICL's Investment Business is achieved through its annual strategic and business planning exercise. The Directors review a five-year budget and business plan, which is prepared by the Investment Adviser and includes cash flow projections to aid strategic planning and provide support for the dividend approval process. The projections consider cash balances, key covenants and limits, dividend cover, investment policy compliance and other key financial indicators over the five-year period. 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.

Typical for investment companies, HICL Guernsey, and subsequently HICL UK, has a low level of expenses relative to forecast receipts from its portfolio investments. The portfolio consists of companies whose underlying assets are predominantly fully constructed and operating PPP or similar projects with public sector counterparties in jurisdictions with established and proven legal systems. As a result, HICL's Investment Business benefits from predictable long-term contracted cash flows and a set of risks that can be identified and assessed (see Section 3.5 – Risk & Risk Management). The projects are each financed on a non-recourse basis to HICL Guernsey, and subsequently HICL UK, and supported by detailed financial models. The Directors believe that the non-recourse financing and diversification within the portfolio of investments helps to withstand and mitigate for the risks it is most likely to meet.

Assessment of Viability

In making this statement the Directors have considered the resilience of HICL UK, taking account of its current position and the principal risks facing the business, in severe but plausible downside scenarios, and the effectiveness of any mitigating actions. In particular, consideration has been given to the current market and political environment of HICL's Investment Business, including the various potential outcomes of Brexit.

The Investment Adviser has prepared sensitivity analysis including various stress scenarios which have been considered previously by the HICL Guernsey's Risk Committee. These include increasing tax rate assumptions by 5%, increasing lifecycle costs by 10% and assuming that 10% of the portfolio is in lock-up. Individually, these scenarios pose little threat to HICL Guernsey's, subsequently HICL UK's, solvency. A severe scenario was also prepared to assess the loss in revenue necessary to cause insolvency. The analysis demonstrated that HICL's Investment Business as transferred to HICL UK should remain viable over the five-year assessment period.

Viability Statement

The Directors have a reasonable expectation that HICL UK, the owner of HICL's Investment Business from 1 April 2019, will be able to continue in operation and meet its liabilities as they fall due over the five-year period to March 2024, on the assumption that there is sufficient liquidity in the debt market to allow it to refinance or repay obligations becoming due under HICL's Revolving Credit Facility and that its investments are not materially affected by retrospective changes to government policy, laws or regulations.

3.7
Risk Committee Report

The following pages set out the Risk Committee's report on its activities in respect of the year ended 31 March 2019. The Risk Committee operates within clearly defined terms of reference. The Risk Committee is comprised of all the Directors and it meets four times a year, coinciding with the quarterly Board meetings.

The duties of the Risk Committee in discharging its responsibilities comprise defining a risk appetite for HICL and a robust assessment and monitoring of all matters relating to the risks to which HICL 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.

Simon Holden
Risk Committee Chairman
21 May 2019

Main Duties and General Approach

The Risk Committee's main duties are, as set out in its Terms of Reference, to consider, and where necessary make recommendations to the Board in respect of:

- HICL's implementation of an effective risk governance structure and control framework which envelops key risk areas with appropriate reporting;
- HICL's risk appetite taking account of the current and prospective macro-economic and financial environment;
- risk limits, tolerances and management;
- ongoing regulatory compliance;
- HICL's risk profile, challenging the assessment and measurement of key risks whilst monitoring the actions taken to manage them;
- scenario assumptions to determine whether proposed mitigation is sufficient to manage the business risk profile within the Board's appetite; and
- the Investment Adviser's advice on material changes to investment and strategy, the treasury policy, the tax policy, the hedging policy and the risk policy.

Statement of the Chairman of the Risk Committee

HICL has a risk management framework covering all aspects of HICL's business. As HICL is an Investment Company, the Directors have delegated responsibility for the majority of HICL's risk management to the Investment Adviser subject to the overall control and supervision of the Directors. The Board therefore places reliance on the Investment Adviser's 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 emerging risks are identified, and the interests of HICL and its shareholders are effectively safeguarded and protected:

- The first line is the development of systems. This is the day-to-day management of risk through effective controls. These are set out in documents such as HICL's and the Investment Adviser's Policies and Controls Manuals. HICL must generally be satisfied that the Investment Adviser has an appropriate risk management framework in place to ensure risk is effectively controlled and that the performance of the portfolio of investments is overseen. The Investment Adviser and the Operator are responsible for the identification, assessment and management of risk for the existing portfolio as well as in seeking new investment opportunities.
- 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 Risk Committee conducts a robust assessment of HICL's emerging and principal risks at each quarterly meeting. This review includes an assessment of potential impact and probability of events related to the identified risks occurring, and the consideration of any new circumstances that could arise creating additional risks for HICL. For each material risk identified, 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 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 HICL, an audit of key controls and guidance as to best practice, with the results reported to the Risk Committee and the Audit Committee where appropriate.

Significant Activities in the Year

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

The ADPs operate within the Investment Policy and are designated thresholds pre-agreed with the Risk Committee (and approved by the Board) from time to time in conjunction with (and with the agreement of) the Investment Adviser, in view of HICL's risk appetite. 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 HICL, whilst reserving Board approval for other matters exceeding the ADP limits. The Investment Adviser may, within the ADPs, make specific investment and asset management decisions.

The Committee's principal tool to oversee HICL's risk profile is a risk dashboard, supported by seven risk class summaries, each including analysis of stress tests and possible downside scenarios, both pre and post mitigating action. This is set out more fully in Section 3.5 on Risk & Risk Management. During the year, the Committee continued its programme of 'deep-dives' to fully debate certain risk classes and mitigation measures in place.

The ongoing programme of various potential stress scenarios for HICL, and the related analyses, was presented to the Committee. Combined stress scenarios were also evaluated, and the results debated.

The key risks faced by HICL and associated mitigants are set out in Section 3.5 on Risk & Risk Management. During the year, the Committee continued to track a number of matters, providing updates to the Board and shareholders as necessary:

- **Health & safety:** The Risk Committee received quarterly reporting from the Investment Adviser in relation to health and safety matters. Health & safety is a paramount concern and is being monitored across the portfolio.

3.7 Risk Committee Report (continued)

- **Political and regulatory risk:** Investments in infrastructure that support the delivery of public services exposes HICL to potential changes in policies, laws and regulations. Unfavourable changes to such legal and regulatory frameworks could materially and adversely impact the performance of affected investments.

  There was increased political uncertainty in the year linked to Brexit negotiations and the associated increase in likelihood of a UK general election in the short term. In response, as reported in Section 3.5 on Risk & Risk Management, the Investment Adviser increased the political risk residual rating from 'medium' to 'high'. The Investment Adviser, with support from specialist third-party advisers, actively monitors, plans for and reacts to emerging political and regulatory risks, and provided updates to the Risk Committee where appropriate. Matters considered in the year included, inter alia:

  – the progress of price reviews and other regulatory processes associated to the investments subject to regulatory oversight;

  – potential consequences arising from negotiations associated with the process for the United Kingdom to leave the European Union; and

  – the potential impact that the policies of future UK governments may have on private-sector delivered infrastructure.

- **Counterparty risk:** The performance of infrastructure investments in the portfolio is dependent on the contractual arrangements with an array of counterparties. Therefore, HICL is exposed to the risk that the counterparty fails to perform its obligations, or the contracts fail to provide the protection or recourse anticipated. The Committee received regular reporting from the Investment Adviser in respect of counterparty exposure management, with intra-quarter updates provided when necessary. In the year, the Investment Adviser progressed the long-term replacement of Carillion as operator of several portfolio projects. At the date of this report, nine of the ten affected projects have successfully transitioned to long-term contracts, in line with contingency plans prepared before Carillion's collapse, at no additional cost to the taxpayer. The Investment Adviser's lessons learned were shared with the Committee and were used in the Investment Adviser's response to Interserve being placed into administration in March 2019. A detailed Carillion case study has been provided in the Operating Review.

- **Construction defects:** The Committee received regular updates from the Investment Adviser on matters of building defects, including fire safety. With regards to fire safety, an independent technical adviser was engaged proactively to perform a risk-based fire safety review of the portfolio. Where defects were identified, the portfolio companies, with oversight from the Investment Adviser through its representation on the boards of the project companies, implemented alternative protection measures, if necessary. The portfolio companies pursued contractors for rectification plans and directed the prioritisation of remediation of work, involving key stakeholders and appropriate specialists. Further detail has been provided in the Operating Review.

- **Cross-border taxation:** On 1 April 2019, after receiving approval from shareholders, HICL completed the change of domicile of its investment business to the United Kingdom. The new structure reduces the risk of changes to the cross-border tax landscape adversely impacting HICL and leaves the investment business well positioned for the future.

The Committee's routine quarterly agenda covered, inter alia, an analysis of counterparty exposure and portfolio concentration, a summary of pertinent fund matters and HICL's financial risk management policies and status, together with commentary on specific project issues warranting discussion with the Board.

The Committee considered, 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.

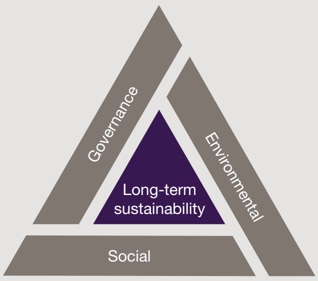
The Committee concluded each meeting with an assessment of whether HICL is, and in each instance in the year confirmed that HICL was, compliant with its risk appetite.

03 / PERFORMANCE & RISK

04 Responsible Investment

4.1 Overview

The Directors believe that Responsible Investment ("RI") principles and practices are essential for HICL to deliver long-term investment performance. Taking account of environmental, social and governance ("ESG") considerations alongside economic factors in the investment process is key to creating and managing a sustainable business.



In managing HICL, the Directors have ensured that procedures and policies have been integrated within the core functions of the Investment Adviser, to manage HICL effectively and responsibly with respect to all HICL's stakeholders. The statistics below demonstrate the reach of the portfolio, and the importance of working in partnership with public sector clients and regulators to deliver infrastructure for local communities and to support the delivery of essential public services.

Principles for Responsible Investment
Recognising the need for ESG considerations to inform the business model of HICL (and HICL's portfolio companies) is core to HICL acting as a responsible investor. InfraRed's commitment to delivering this in its roles as Investment Adviser and Operator is demonstrated through having been a signatory to the Principles for Responsible Investment ("PRI") since 2011. The PRI are widely recognised and regarded around the world and the six principles, which InfraRed has incorporated within its business processes, can be summarised as follows:

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

InfraRed's infrastructure business maintained its A+ rating, as assessed by PRI, for the fourth consecutive year. This is the highest attainable rating and above the peer median. The PRI assessment methodology can be found on the PRI website: www.unpri.org/report/about-reporting-and-assessment.

InfraRed continues to take a leadership role in the implementation of robust responsible investment strategies through its ongoing membership of the PRI Infrastructure Advisory Committee.

20,000
Capacity to house over 20,000 military personnel

120,000
Over 120,000 student places across the school, college and university facilities in the portfolio

50
Over 50 police stations, custody centres, fire stations and training facilities

10 million
Over 10 million people with direct access to the healthcare facilities in the portfolio

500 km
Over 500km of road and high speed railway across the portfolio

3.6 million
Population served by Affinity Water

Implementing RI/ESG Policies

InfraRed, as Operator of HICL's portfolio, applies the PRI's principles through active oversight of the underlying investments. In almost all cases, HICL is entitled to appoint at least one director to the board of each portfolio company and board meetings are not quorate without HICL's nominated director being present.

Robust governance principles are adopted by portfolio company boards, which typically meet quarterly and address current issues. It is normal that RI/ESG is discussed as a standing item on board agendas. The development of new ESG programmes, progress against existing ESG initiatives and issues (including anti-bribery and health & safety) are considered by the boards, reported via the board packs and discussed at board meetings.

Portfolio company management teams and contractors typically develop, often with client input, and implement social and environmental initiatives. Oversight is provided by the Investment Adviser through representation on the portfolio companies' boards, and additional resource provided by the Investment Adviser where appropriate.

Aligned to this, InfraRed also uses HICL's role as a shareholder in each investment to request that each portfolio company reports against HICL's approved RI/ESG policies. RI/ESG is discussed at each HICL Board meeting and HICL monitors RI/ESG activity across its portfolio.

InfraRed has its own an RI/ESG policy and guidelines to enhance RI/ESG performance and improve monitoring on activities at portfolio company level across all of its funds. In addition, InfraRed has an RI/ESG steering committee to promote RI/ESG activities across the InfraRed business, but with the intention of ensuring best practice is widely adopted by the portfolio companies within the funds that it manages, including HICL.

HICL's own approach to the stewardship of its investments, enshrined in HICL's business model, is built on a system of rigorous checks and balances. In accordance with the AIC Code of Corporate Governance (the "AIC Code"), as published in February 2019, the work and conduct of HICL's Board is regularly reviewed and evaluated.

The Board's Risk Committee plays a key role in providing essential challenge mechanisms and oversight of the Board's work, as well as monitoring the wider landscape to identify risks and develop appropriate mitigation strategies.

Reporting RI/ESG Activities

InfraRed seeks to ensure that each of HICL's portfolio company has appropriate RI/ESG policies in place and that these are followed in the delivery of the services to clients and end users. HICL's portfolio companies are surveyed by InfraRed to monitor the RI/ESG initiatives of HICL; and each year the benchmark for what is expected is increased with greater scrutiny placed on the activities of each portfolio company, as reported by the management teams.

The survey response rate for 2018 was 96% (2017: 84%).

The survey uses 28 Key Performance Indicators ("KPIs") that have been developed by the Investment Adviser to measure RI/ESG. These qualitative KPIs were enhanced for 2018. This meant a higher standard was necessary to achieve many of the KPIs. Rankings are assessed on a star system ranging from one star to five stars. At the end of calendar 2018, 56% of HICL's investments that completed the survey were awarded four and five star ratings, which was up from 52% in 2017, despite the more stringent standards.

InfraRed's fund management team used the output of the survey to implement governance policy changes across a number of the portfolio companies. Had these changes been implemented in 2018, 70% of HICL's investments would have been awarded four and five star ratings. A key focus of the Investment Adviser and portfolio company management teams in 2019 is to continue to further improve performance.

Health & Safety

Health & Safety for all stakeholders is of paramount importance in the operation of portfolio companies. The Health & Safety performance of each investment is monitored and each year Health & Safety audits are carried out to ensure appropriate procedures and policies are in place and being adhered to. Many of these audits are supplemented by the support of external Health & Safety consultants.

Information on Health & 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 'RIDDOR' report, which relates to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations and the duties it imposes. The Investment Adviser monitors RIDDORs for evidence of systematic issues and, where appropriate, lessons learned are shared across portfolio companies.

Review of the Year

The Board has reviewed its performance and the performance of its service providers over the last 12 months and confirms compliance with HICL's RI/ESG policies. On the basis of the Investment Adviser's recommendations, the Directors have considered the existing RI/ESG policies and continue to assess these as good, relative to industry practices.

Each individual portfolio company is responsible for developing environmental and social projects aligned with the needs of the client, the users and wider community that benefits from the infrastructure. As a result, there is a wide range of initiatives across the portfolio. Set out below are selected activities that demonstrate typical RI/ESG initiatives carried out by the portfolio.

4.2 Environmental

The Investment Adviser, project management teams and contractors seek innovative approaches to improving the environment around the infrastructure. Environmental initiatives include those that:

- act as a catalyst to develop or promote wider environmental activities or actions within the broader community;
- promote a responsible approach to the environment through the adoption of relevant procedures and working practices;
- help to demonstrate, promote and educate the users of the facilities in relation to environmental issues; and
- support trials and proof of concept tests for environmental improvements or energy efficiency measures that would not otherwise be implemented because there is no proven value-for-money test.

There have been many such initiatives across the portfolio during the financial year. One example was a recycling project where wooden doors from other PPP projects in the infrastructure portfolio managed by InfraRed, which were due to be replaced and discarded as part of regular asset renewal, were sent to the Durham and Cleveland Police Tactical Training Centre to assist with training for forceful, and safe, entry into buildings. Further detail on this initiative is provided on the facing page.

The following are other examples of environmental initiatives that took place across the portfolio in the year:

- Reducing wastage associated with plastic water and coffee cups has been an area of focus for a number of projects in the portfolio:
  - High Speed 1 restored a 140-year-old public drinking water fountain outside St Pancras International station in a measure to encourage the use of refillable bottles; and
  - the Salford & Wigan Schools project company supported an initiative to reduce the number of single use plastic bottles used at one of the schools by converting the water fountains to allow new refillable bottles to be filled, and replaced plastic bottles in the school canteen with recyclable packaging.
- The A63 Motorway concession installed a number of structures with solar panels to provide shade in rest stop areas and to generate electricity.
- The environment is at the heart of the activities of Affinity Water. These considerations are reflected in its 60-year water resource management plan, which sets out how the company plans to provide a reliable, resilient, efficient and affordable water supply to customers from 2020 to 2080, whilst protecting the environment. One example is reducing abstraction of water from groundwater sources, the preservation of which is core to long-term sustainability of water supply to the parts of North West London and the Home Counties served by the company.

  In addition, Affinity Water undertakes many social and environmental initiatives within its catchment area, including providing financial support to local charities and community organisations. Included amongst these was a financial contribution towards the new Batchworth Lock Education Centre, in Hertfordshire. The Education Centre, opened by Her Majesty's Lord-Lieutenant of Hertfordshire, will be used as a new hub by the Rickmansworth Waterways Trust, and focuses on the local canals, community, history and the environment.
- The Northwest Anthony Henday project replaced its sodium lighting with LED technology, which is expected to reduce electricity usage and create cost savings.
- As previously reported, in the year, the Central Middlesex Hospital project company and its facilities management contractor commissioned artwork for the new Park Royal Medical Practice, which created, for both patients and staff, an improved and attractive environment. It is expected that the fabric of the clinic will suffer less wear and tear because users of the facility will treat their surroundings with greater care as effort has gone into the aesthetic appeal of its design.

Environmental Case Study **Cross-project recycling**

The Durham and Cleveland Police Tactical Training Centre PPP project, acquired by HICL in 2007, is a 26-year concession to finance, construct, operate, and maintain a facility to train police officers in the use of firearms. The project won a Silver Award for Best Operational Project at the 2018 Partnerships Awards.

Method of Entry training, where the police practice forceful, and safe, entry into buildings, and which may include the use of equipment such as door rams or pry bars, is an important aspect of police firearms training – but can be resource intensive. One of several sustainability projects ongoing at the site was launched by the InfraRed Asset Management team, through the board of the PPP project company, and the project's management services provider. The objective was to deliver both cost savings for the client and environmental benefits by using recycled materials for training; specifically, used wooden doors from other PPP projects in the InfraRed portfolio in the North of England which were being replaced as part of regular asset renewal. These doors, which came from across social housing, healthcare and education projects, are primarily being used for Method of Entry training, and also as impromptu body shields and improvised stretchers by the police trainees. Once they have served their purpose in training scenarios, they are then recycled.

This unique initiative is one example of the benefit of a portfolio-wide approach to managing infrastructure, where the infrastructure itself may have a variety of different uses and clients. It meant that this project's client did not have to procure new doors thereby making a contribution to protecting the environment.

"The TTC (Tactical Training Centre) has an excellent working relationship with the PFI provider and this is one example of how that partnership has been able to further enhance the learning of the officers of Durham & Cleveland and other external forces who attend the centre."

Inspector Amanda Wilkinson,
Strategic Contracts & Governance Manager,
Office of the Police & Crime Commissioner for Cleveland

4.3 Social

Social initiatives include those that:

- ▲ enhance the social and physical environment of the infrastructure and its neighbouring community; and
- ▲ promote and enhance the lives and well-being of the client staff, users of the infrastructure and the local community.

The Allenby & Connaught MoD project supports many community initiatives. Details of these can be found at www.aspiredefence.co.uk/community/. Amongst its activities in the year, this project organised an event for school children to gain insights into construction and science, technology, engineering and mathematics ("STEM") careers. Further detail on this initiative is provided on the facing page.

A number of other social initiatives took place across the portfolio in the year, including:

- ▲ The A63 Motorway (France) concession promoted 'connected' spectacles, which are aimed at preventing sleepiness while driving. The glasses send an alert when they detect that the driver's attention has reduced. Some glasses have been provided to patrolling officers, haulage companies and regular customers. Following the success of this trial, the glasses are now available to the public.
- ▲ The Miles Platting social housing project provided financial support for a Physical Activity Referral Scheme run by the Manchester Health and Wellbeing Service for the project's neighbourhood.
- ▲ The Sheffield University Student Accommodation project continues to provide accommodation bursaries for four students that meet criteria agreed with the University. Two of these bursaries are for students with exceptional sporting capability. In the year, these were awarded to a squash player and a sports climber. A new on-site gym was also funded by the project company and free access is provided to residents.
- ▲ The South Ayrshire Schools project has continued its annual sponsorship, which dates back to 2013, of initiatives that are developed by the schools to promote and assist the welfare of pupils and the local community. These schemes promote the activities of the school but may not be a statutory responsibility of South Ayrshire Council. This framework of providing grants to the concession's schools has been rolled out to the Edinburgh Schools project in the year, which included a contribution to the cost of a mental health counsellor at one of its schools.
- ▲ The Southmead Hospital project organised and managed a Christmas Market in the main atrium of the hospital. There were ten stalls offering a variety of seasonal products. Money raised was donated to the hospital charity.

Social Case Study **Pupils gain insight to construction careers with Aspire Defence**

The Allenby & Connaught MoD project is a 35-year PFI to finance, construct and refurbish, service and maintain modern, high-quality living and working accommodation. Under the first phase of construction (2006–2014), accommodation was delivered for approximately 18,700 soldiers (nearly 20% of the British Army). A further 2,400 single en-suite bed spaces are currently being delivered under the Army Basing Programme phase (2016–2020) to cater for British troops withdrawing from Germany in summer 2019 and units rebasing in the UK.

In May 2018, the project company ("Aspire Defence Limited") organised a construction site visit for a group of 15 pupils aged 14–15 years from Harrow Way Community School. This event gave the children insight to construction and STEM career opportunities.

At the vast Army Basing Programme technical build area, groundworks and engineering subcontractors from Aspire Defence Capital Works participated in a Q&A session covering a wide variety of topics, from the day-to-day activities on a construction site to the technical intricacies of foundations, steel frames and masonry work. Several female construction staff were also on hand to talk about their career path into construction, an industry where women have been traditionally underrepresented.

The project director also led a minibus tour of the garrison, encompassing the in-construction Junior Ranks' diner and the completed (unoccupied) Junior Ranks' single living accommodation. The pupils left at the end of the day with an Aspire Defence goody bag, which included a scientific calculator.

Allan Thomson, Chief Executive of Aspire Defence Limited, said:

"School children are the employees of the future, so engaging with them at an early stage is a really worthwhile exercise for any business and hopefully helps them make informed decisions about their further education and career path. We were delighted that the staff and students enjoyed the day and found it useful. We hope to host more visits to the project from local secondary schools in future."

"It's good that there are jobs for women in construction."

"There are a lot more jobs in construction than I realised."

Students,
Harrow Way Community School

4.4 Governance

HICL Infrastructure Company Limited

At a Company level, as reported in the Chairman's Statement, the Board recognises the importance of a culture of strong corporate governance that meets the requirements of the UK Listing Authority as well as other regulatory bodies.

The incorporation of HICL Infrastructure PLC in the UK and the transfer of HICL's investment business to HICL Infrastructure PLC was an important milestone for HICL, and in the best interests of shareholders as a whole.

Additionally, a sense of corporate social responsibility is also reflected across HICL's operational structure, including within the portfolio companies.

The Investment Adviser

The Investment Adviser promotes an ethos of stewardship, responsibility and accountability.

Responsible governance is an integral part of HICL's investment cycle. A transaction ESG checklist continues to be used by InfraRed, through which the ESG practices of potential investment opportunities are evaluated as part of the due diligence process.

The Portfolio

Managing the consequences of the liquidation of Carillion has been a key theme in the year. InfraRed has been working closely with all stakeholders and maintaining uninterrupted asset availability, which exemplifies HICL's approach to responsible governance. Further detail is provided in the Investment Adviser's Report in Section 2.6. Client engagement is a key focus across the portfolio. An example of this is the Joint Energy Management Steering Group between the Romford Hospital project and its client. This initiative has delivered energy savings for the project's client through the implementation of LED lighting, real-time energy consumption monitoring and by segregating clinical waste to reduce the volume being sent for high temperature incineration.

Affinity Water was accredited with the Fair Tax Mark in the year. The Fair Tax Mark is an independent certification scheme, which recognises organisations that demonstrate they are paying the right amount of corporation tax in the right place, at the right time. As part of the accreditation process Affinity Water has improved its tax reporting and completed the closure of a subsidiary in the Cayman Islands.

Paul Monaghan, Chief Executive, Fair Tax Mark said: "We are pleased to announce the Fair Tax Mark certification of Affinity Water and their parent Daiwater Investment Ltd – who have worked really hard over the past year to build and demonstrate their responsible tax conduct. At a time when the public is growing used to headlines about big corporates shifting profits to tax havens and minimising the contributions they make to the public purse, it's refreshing to see a business that is proud to say what they pay."

Establishing a strong governance framework for each portfolio company is important to ensuring long-term sustainability. In the portfolio:

- 96% of portfolio companies reported using a risk register;
- 100% of portfolio companies providing operational services to and/or undertaking maintenance for public sector clients or, as in the case of toll roads and Affinity Water, end users reported having a health & safety policy;
- 98% of portfolio companies reported having adopted a cyber security policy;
- 86% of portfolio companies reported having an ESG policy; and
- 60% of portfolio companies reported making voluntary contributions to charitable or community activities.

The Investment Adviser's Asset Management team uses its influence as directors on the boards of the portfolio companies to increase these percentages.

04 / RESPONSIBLE INVESTMENT

05 Board & Governance

HICL Infrastructure Company Limited ("HICL Guernsey") announced on 21 November 2018 that, following consultation with investors, the Board was of the view that it would be in the best interests of shareholders as a whole to move the domicile of the investment business from Guernsey to the United Kingdom. This and related proposals were put to shareholders at an Extraordinary General Meeting ("EGM") of HICL Guernsey. The change of domicile was approved by shareholders and subsequently effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019. As a result of the Scheme, HICL Guernsey transferred its assets to HICL Infrastructure PLC ("HICL UK"). HICL UK will continue the investment activities of HICL Guernsey, as it has an identical investment policy to that of HICL Guernsey. HICL Guernsey has subsequently entered voluntary liquidation. "HICL" means HICL Infrastructure Company Limited prior to 31 March 2019 and HICL Infrastructure PLC from 1 April 2019.

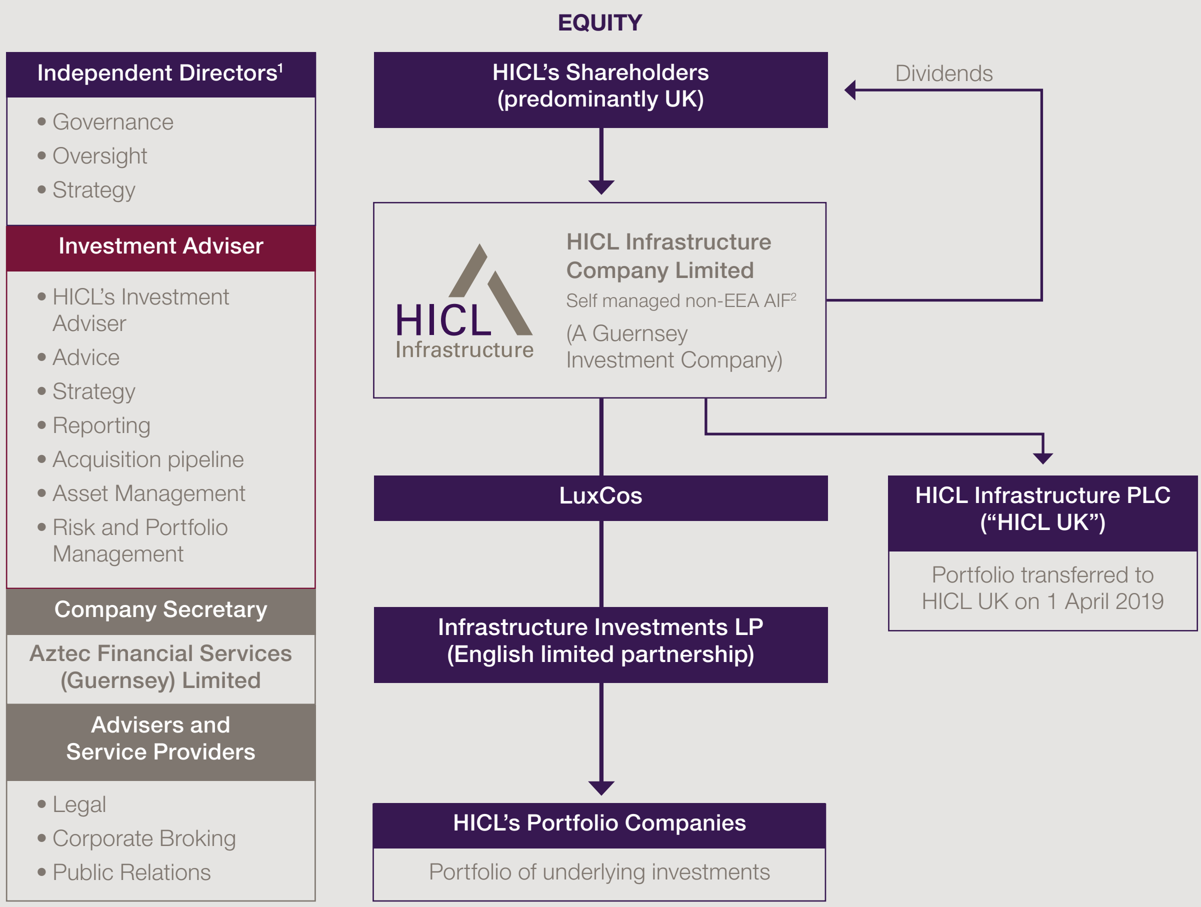
This Board and Governance Report applies to the governance and policies of HICL Guernsey. The corporate governance policies of HICL Guernsey have been adopted wholesale by HICL UK, except where amendments were required to comply with UK regulation.

5.1 Operational Structure

HICL Guernsey announced on 21 November 2018 that, following consultation with investors, the Board was of the view that it would be in the best interests of shareholders as a whole to move the domicile of the investment business of HICL from Guernsey to the United Kingdom.

This and related proposals were put to shareholders at an Extraordinary General Meeting ("EGM"). The change of domicile was approved by shareholders and subsequently effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019. As a result of the Scheme, HICL Guernsey transferred its assets to HICL Infrastructure PLC, and HICL Guernsey has subsequently entered voluntary liquidation.

Organisational Structure (diagram 1)

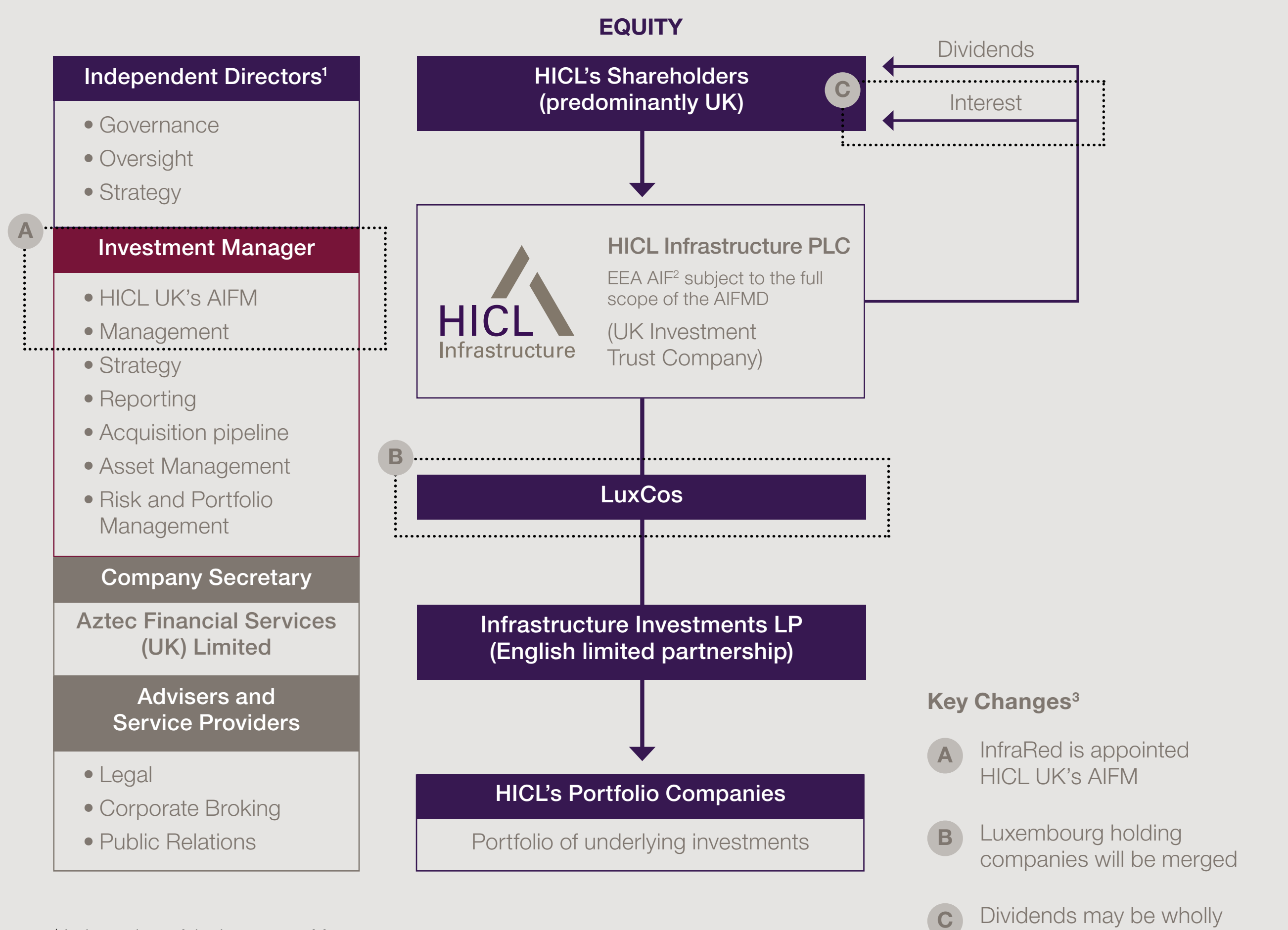


[1] Independent of the Investment Adviser.
[2] Alternative Investment Fund, as defined by the EU's Alternative Investment Fund Managers Directive.

The organisational structure is that of an investment company, with an independent Board of Directors, with Ordinary Shares listed on the London Stock Exchange.

At the year end, HICL owned indirectly a portfolio of 118 infrastructure investments. Its strategy to protect and enhance the value of the existing portfolio and to source appropriately-priced new investments utilises the expertise of its Investment Adviser, InfraRed Capital Partners Limited ("InfraRed"). HICL has a 31 March year end and announces its full year results in May and interim results in November. It also publishes two Interim Update Statements each year, normally in February and July. This communications strategy and timetable have been adopted by HICL UK.

Following the move of domicile by way of the Scheme on 1 April 2019, the Organisational structure changed as follows: New Organisational Structure (diagram 2)



[1] Independent of the Investment Manager.
[2] Alternative Investment Fund, as defined by the EU's Alternative Investment Fund Managers Directive.
[3] Shareholders should refer to the Circular dated 4 March 2019 for a full description of the key differences between HICL Guernsey and HICL UK.

5.1 Operational Structure (continued)

Group Structure as at 31 March 2019

Investments are made via the Corporate Subsidiaries, which comprise a group structure involving two Luxembourg-domiciled investment companies and an English limited partnership. The assets are therefore held indirectly through the Corporate Subsidiaries and any subsidiaries are wholly owned by the general partner of the English limited partnership on behalf of the English limited partnership. InfraRed Capital Partners Limited has acted as the Investment Adviser of HICL and as Operator of the Partnership since HICL's inception.

HICL invests in infrastructure investments indirectly via the Corporate Subsidiaries:

- HICL invests in equity and debt of Luxco 1, a société à responsabilité limitée established in Luxembourg, which in turn invests in equity and debt of a similar entity, Luxco 2. Both of the Luxcos are wholly owned subsidiaries of HICL.
- Luxco 2 is the sole limited partner in the Partnership, an English limited partnership which has a special purpose vehicle, the General Partner, as its general partner. The General Partner is a wholly owned indirect subsidiary of InfraRed Partners LLP. The General Partner, on behalf of the Partnership, has appointed InfraRed as operator of the Partnership. Luxco 2 invests the contributions it receives from Luxco 1 in capital contributions and partner loans to the Partnership, which acquires and holds the infrastructure investments.

The two Luxembourg entities (Luxco 1 and Luxco 2) have independent boards, on which a HICL Board Director sits, and take advice on administration matters from RSM Tax & Accounting Luxembourg.

Aztec Financial Services (Guernsey) Limited was the Administrator to HICL and also provided company secretarial services and a registered office to HICL. (Following execution of the Scheme, Aztec Financial Services (UK) were appointed the Administrator to HICL and to provide company secretarial services.)

HICL's infrastructure investments are registered in the name of the General Partner, the Partnership or wholly-owned subsidiaries of the Partnership.

Each of the underlying investments is made by a portfolio company (not shown in diagram 1 or 2), which through its contractual structure ensures no cross-collateralisation of the liabilities (being, principally, the debt repayment obligations).

The Board and the Committees

The Board of HICL comprises seven independent, non-executive Directors whose role is to manage HICL 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 – for example on matters concerning the market, the portfolio and new acquisition opportunities.

The Board meets regularly – at least five times a year, each time for two consecutive days – for formal Board and Committee meetings. One of these Board meetings is devoted to considering the strategy of HICL, 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 six committees which manage risk and governance.

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.

5.2
Board of Directors

Mr Ian Russell
Chairman of the Board
Chairman of Nomination Committee

Background and experience
Ian Russell CBE (British), resident in the UK, is a qualified accountant. He was appointed to the Board on 1 May 2013. Ian 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 Herald Investment Trust plc.

Date of appointment
Appointed to the Board on 1 May 2013

Other public company directorships (listed in London unless noted otherwise)*:
Herald Investment Trust plc

Mr Frank Nelson
Senior Independent Director
Chair of Management Engagement Committee

Background and experience
Frank Nelson (British), resident in the UK, is a qualified accountant. He has over 25 years of experience in the construction, contracting, infrastructure and energy sectors. He was appointed to the Board on 1 June 2014. Frank was Finance Director of construction and house-building group Galliford Try plc from 2000 until October 2012. He was previously Finance Director of Try Group plc from 1987, leading the company through its floatation on the London Stock Exchange in 1989 and the subsequent merger with Galliford in 2001. Following his retirement, Frank was appointed as the Senior Independent Director of McCarthy and Stone and Eurocell. He is also Chair of a privately owned contracting and property development group.

Date of appointment
Appointed to the Board 1 June 2014

Other public company directorships (listed in London unless noted otherwise)*:
McCarthy & Stone plc
Eurocell plc

Mr Mike Bane

Background and experience
Mike Bane (British) is a chartered accountant and retired from public practice in June 2018. He has been a Guernsey resident for over 20 years. He has more than 35 years of audit and advisory experience in the asset management industry including in relation to infrastructure investment companies. He led EY's services to the asset management industry in the Channel Islands and was a member of EY's EMEIA Wealth and Asset Management Board. Prior to EY, Mike was at PwC, in both London and Guernsey. Mike was President of the Guernsey Society of Chartered and Certified Accountants from 2015 to 2017. Mike graduated with a BA in Mathematics from the University of Oxford and is a long-standing member of the Institute of Chartered Accountants in England and Wales.

Date of appointment
Appointed to the Board on 1 July 2018

Other public company directorships (listed in London unless noted otherwise)*:
Apax Global Alpha Limited

Mrs Sally-Ann Farnon
Chair of the Audit Committee

Background and experience
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, and is a non-executive director of a number of property and investment companies. She was appointed to the Board on 1 May 2013. 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, and is a director of The Association of Investment Companies.

Date of appointment
Appointed to the Board on 1 May 2013

Other public company directorships (listed in London unless noted otherwise)*:
Apax Global Alpha Limited
Bailiwick Investments Limited (TISE)
BH Global Limited
Breedon Group plc (listed on AIM)
Real Estate Credit Investments Limited
Standard Life Investments Property and Income Trust Limited (due to stand down in June 2019)

Mr Simon Holden
Chair of the Risk Committee

Background and experience
Simon Holden (British), resident in Guernsey, brings Board experience from both private equity and portfolio company operations roles at Candover Investments then Terra Firma Capital Partners. Since 2015, Simon has become an active independent director to listed investment company, private equity fund and trading company Boards. Simon holds the DipIoD in Company Direction from the Institute of Directors, graduated from the University of Cambridge with an MEng and MA in Manufacturing Engineering and is an active member of Guernsey's GIFA, NED Forum and IP Commercial Group.

Date of appointment
Appointed to the Board 1 July 2016

Other public company directorships
Hipgnosis Songs Fund Limited (traded on the Specialist Funds Segment of the LSE)
Merian Chrysalis Investment Company Limited
Trian Investors 1 Limited (traded on the Specialist Funds Segment of the LSE)

Mr Kenneth D. Reid

Background and experience
Kenneth D. Reid (British), resident in Singapore, has more than 30 years of international experience in the sectors of construction, development and infrastructure investment. Working initially with Kier Group, and then from 1990 with Bilfinger Berger AG, he has been a project leader and senior management executive responsible for businesses and projects across all continents. From 2007 to 2010, Ken served as a member of the Group Executive Board of Bilfinger Berger AG. He graduated in Civil Engineering from Heriot-Watt University with First Class Honours (BSc), and subsequently from Edinburgh Business School with an MBA. Ken is a Chartered Engineer, a non-executive director of Sicon Limited, and a member of the Singapore Institute of Directors.

Date of appointment
Appointed to the Board 1 September 2016

Other public company directorships (listed in London unless noted otherwise)*:
None

Mr Chris Russell
Chair of Remuneration Committee

Background and experience
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 the Guernsey domiciled and London listed F&C Commercial Property Trust Ltd and Macau Property Opportunities Fund Ltd and is a non-executive director of Ruffer Investment Company 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.

Date of appointment
Appointed to the Board on 1 June 2010
Chris Russell resigned from the Board on 31 March 2019

Other public company directorships (listed in London unless noted otherwise)*:
F&C Commercial Property Trust Ltd
Ruffer Investment Company Ltd

Ms Frances Davies[1]

Background and experience
Frances Davies (British) has more than 30 years of experience across various roles within the banking and asset management industries. Since 2007, she has been a partner of Opus Corporate Finance, a corporate finance advisory business. Prior to that she served as Head of Global Institutional Business at Gartmore Investment Management where she was responsible for Gartmore's relationships with pension funds and other institutions within the UK, Europe and the US. Previously she held roles at Morgan Grenfell Asset Management and SG Warburg. Ms Davies graduated with a MA in Philosophy, Politics and Economics and a M.Phil in Management Studies, both from Oxford University.

Date of appointment
Appointed to the Board of HICL UK on 1 April 2019

Other public company directorships (listed in London unless noted otherwise)*:
JPMorgan Smaller Companies Investment Trust plc
Aegon Investments Ltd

* 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.
[1] Not on the Board of HICL Guernsey.

5.3 The Investment Adviser

InfraRed Capital Partners Limited ("InfraRed") was appointed as the Investment Adviser to HICL at launch in March 2006. In addition, it was appointed as the Operator of the Partnership by the General Partner, on behalf of the Partnership. Under the terms of the Limited Partnership Agreement, the Operator has full discretion to acquire, dispose of or manage the assets of the Partnership, subject to investment guidelines set out by the Board.

InfraRed is part of the InfraRed Group, a privately-owned property and infrastructure investment business, managing a range of infrastructure and property funds and investments. InfraRed's infrastructure investment team 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.

Since 1990, the InfraRed Group (including predecessor organisations) has launched 19 investment funds investing in infrastructure and property, including HICL.

The InfraRed Group currently manages six infrastructure funds (including HICL) and six real estate funds. The InfraRed Group currently has a staff of around 150 employees and partners, based mainly in offices in London and with smaller offices in Hong Kong, New York, Seoul and Sydney. Its infrastructure team comprises over 80 professional staff who have, on average, over 10 years of relevant industry experience.

Within the infrastructure team, there are:

- a Management team with overall responsibility for the activities provided to HICL;
- an Origination and Transaction team responsible for business development and sourcing new investments;
- an Asset Management team responsible for managing the portfolio of investments; and
- a Portfolio Management team responsible for financial reporting, cash flow management, debt, foreign exchange hedging and tax.

Six senior members of the InfraRed team make up InfraRed's investment committee on behalf of HICL. The Investment Committee has combined experience of over 145 years in making infrastructure investments and managing investments and projects.

Further details on the InfraRed Group can be found at www.ircp.com.

Under the terms of the Investment Advisory Agreement, InfraRed is entitled to a fixed advisory fee of £100,000 per annum, together with all reasonable out-of-pocket expenses.

InfraRed, in its capacity as Operator, and the General Partner are together entitled to annual fees calculated on the following basis and in the following order:

(i) 1.1 per cent of the proportion of the Adjusted Gross Asset Value of HICL's investments which have a value of up to (and including) £750m in aggregate;

(ii) 1.0 per cent of the proportion of the Adjusted Gross Asset Value of HICL's investments that is not accounted for under (i) which, together with the investments under (i) above, have an Adjusted Gross Asset Value of up to (and including) £1.5bn in aggregate;

(iii) 0.9 per cent of the proportion of the Adjusted Gross Asset Value of HICL's investments not accounted for under (i) or (ii) above which, together with investments under (i) and (ii) above have an Adjusted Gross Asset Value of up to (and including) £2.25bn;

(iv) 0.8 per cent of the proportion of the Adjusted Gross Asset Value of HICL's investments not accounted for under (i), (ii) or (iii) above which, together with investments under (i), (ii) and (iii) above have an Adjusted Gross Asset Value of up to (and including) £3.0bn; and

(v) 0.65 per cent of the proportion of the Adjusted Gross Asset Value of HICL that is not accounted for under (i), (ii), (iii) and (iv) above.

These fees are calculated and payable three monthly in arrears, and are based on the Adjusted Gross Asset Value of HICL's assets at the beginning of the period concerned, adjusted on a time basis for acquisitions and disposals during the period.

An amount equal to 1.0 per cent of the value of new investments made by HICL that are not sourced from entities, funds or holdings managed by InfraRed or an affiliate of InfraRed (the "Acquisition Fee") was payable to InfraRed on completion of the acquisition of the relevant investment.

The agreements between HICL and InfraRed had a 12 months' notice period for no fault termination at the year end.

New agreements have been put in place between HICL UK and InfraRed, approved by shareholders at the EGM on 26 March 2019. The detail of the new agreements can be found in the EGM Circular, and the Prospectus of HICL UK, both available on HICL's website.

5.4
Corporate Governance Statement

Introduction

The Board recognises the importance of a strong corporate governance culture that meets the requirements of the UK Governance framework, including the UK Listing Authority as well as other relevant bodies such as the Guernsey Financial Services Commission (the "Guernsey Commission") and the Association of Investment Companies ("AIC") of which HICL 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 Guernsey Commission has issued the GFSC Finance Sector Code of Corporate Governance ("The Guernsey Code"). The Guernsey Code comprises principles and guidance, and provides a formal expression of good corporate practice against which shareholders, boards and the Guernsey Commission can better assess the governance exercised over companies in Guernsey's finance sector.

The Guernsey 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 are also deemed to meet this code.

Alternative Investment Fund Managers Directive ("AIFMD")

The AIFMD 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. In the year, as in other years, HICL is categorised as a self-managed non-EEA AIF for the purposes of the AIFMD. In order to maintain compliance with the AIFMD, HICL complies with various organisational, operational and transparency obligations, including the pre-investment disclosure information required by Article 23 of AIFMD.

Following the execution of the Scheme on 1 April 2019, InfraRed has been appointed as the AIFM to HICL UK.

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.

During the course of the year ended 31 March 2019, the Board confirms that it conducted HICL's affairs such that HICL would qualify for approval as an investment trust if it were resident in the United Kingdom.

The Association of Investment Companies ("AIC") Code of Corporate Governance

As a member of the AIC, the Board has considered the Principles and Provisions of the 2019 AIC Code of Corporate Governance (the "AIC Code"), a framework of best practice in respect of the governance of investment companies. The 2019 AIC Code applies to accounting periods beginning on or after 1 January 2019, however the Board decided that early adoption, as a matter of best practice, is desirable and therefore reports against the revised and extended standards this year. The Board also confirms that HICL is compliant with the 2016 AIC Code of Corporate Governance.

The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional Provisions on issues that are of specific relevance to investment companies. The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council and the Guernsey Financial Services Commission, provides more relevant information to shareholders. HICL has complied with the Principles and Provisions of the AIC Code. The AIC Code is available on the AIC website[1]. It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The following sections set out the Board's evaluation of HICL's compliance with the provisions of the AIC Code.

Board Leadership and Purpose

A. A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. (Incorporates relevant content from UK Code Principle A)

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. (UK Code Principle B)

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. (UK Code Principle C)

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. (UK Code Principle D)

E. Intentionally left blank by the AIC.

[1] www.theaic.co.uk/system/files/policy-technical/AIC2019AICCodeofCorporateGovernanceFeb19.pdf

5.4 Corporate Governance Statement (continued)

Key

● Compliant

● Action taken to ensure full compliance

1. **The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy. For an investment company, the annual report should also include the company's investment objective and investment policy. (Incorporates relevant content from UK Code Provision 1)**

The Board considers formal strategy reports prepared by the Investment Adviser at a separate meeting at least once a year. In the year ended 31 March 2019, a two-day Board meeting was held in September 2018, which was dedicated to reviewing and determining the overall strategy of HICL; in particular HICL's business model (as set out in Section 2.4 – HICL's Business Model & Strategy) and investor engagement programme.

In addition to the strategy days, adherence to the Acquisition Strategy and HICL's overall risk appetite is discussed regularly at Board and Risk Committee meetings. As well as considering acquisitions, the Board also considers disposals, portfolio performance, levels of gearing and likely achievable dividend growth.

HICL's business model, investment objective and a summary of the investment policy, and a description of how these interact to deliver shareholder value, are outlined in Section 2.2 – Investment Proposition and Section 2.4 – HICL's Business Model & Strategy. The business model is constructed to deliver long-term, stable income from long-term contracts with valued stakeholders, and as such the Directors consider the business model sustainable in the long term. The expected future cash flows to be received by HICL extend beyond 2054 (see Section 3.2 – Valuation of the Portfolio), which supports this long-term view.

2. **The board should assess and monitor its own culture, including its policies, practices and behaviour to ensure it is aligned with the company's purpose, values and strategy. (Incorporates relevant content from UK Code Provision 2)**

The Board undertakes a rigorous evaluation of its own performance and that of its advisers.

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. An external review was last commissioned in 2018.

In the year to 31 March 2019, the Board conducted its own internal evaluation, considering the performance, tenure and independence of each Director. This annual self-evaluation was undertaken using an online questionnaire system, and was completed by the Chairman by way of one-to-one interviews with each Director holding office in the year. The Chairman presented a summary of the conclusions to the Board. Feedback on the Chairman was collated by the Senior Independent Director who then briefed the Chairman.

3. **In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the company's investment objective and investment policy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should ensure that the board as a whole has a clear understanding of the views of shareholders. (Incorporates relevant content from UK Code Provision 3)**

The Board welcomes the views of shareholders and places great importance on communication with HICL's shareholders.

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

During the year Mr I Russell (Chairman) and Mr F Nelson (Senior Independent Director) held individual meetings with certain large institutional shareholders, facilitated by HICL's brokers. The Board's intention to is to continue to foster open, two-way communication on the development of HICL.

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

4. **When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.[1] (UK Code Provision 4)**

With regards to the EGM resolutions put to shareholders on 26 March 2019, Resolution 4 passed with a substantial majority, however a minority of shareholders (circa 20%) did not support its detail. Both the Board and InfraRed are committed to enhancing alignment and to heeding shareholder feedback. To this end, having regard for Provision 4 of the UK Corporate Governance Code, the Board and InfraRed agreed to further adjust the management arrangements by removing the Acquisition Fee altogether for investments exchanging after 1 April 2019, being the date of Admission of HICL UK.

5. **The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.[2] The board should keep engagement mechanisms under review so that they remain effective. (Incorporates relevant content from UK Code Provision 5)**

The Directors discharge their duties under section 172 of the Companies 2016 Act to act in good faith, to promote the success of the company for the benefit of shareholders as a whole. As a closed-ended investment company, HICL has no employees, however the Directors also assess the impact of HICL's activities on other stakeholders, in particular public sector clients and the end users of the infrastructure investments, as well as the community as a whole, recognising that the investments of HICL are often key public, community assets.

6. **The board should take action to identify and manage conflicts of interest, including those resulting from significant shareholdings, and ensure that the influence of third parties does not compromise or override independent judgement. (UK Code Provision 7)**

At 31 March 2019, the Board consisted 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.

Each Director is required to inform the Board of any potential or actual conflicts of interest prior to any Board discussion.

It is expected that further investments for HICL will be sourced by InfraRed and it is likely that some of these will be investments that have been originated and developed by, and may be acquired from InfraRed or from a fund managed by InfraRed. In order to deal with these potential conflicts of interest, detailed procedures and arrangements have been established to manage transactions between HICL, InfraRed or funds managed by InfraRed (the "Rules of Engagement"). If HICL invests in funds managed or operated by InfraRed, HICL shall bear any management or similar fees charged in relation to such fund provided, however, that the value of HICL's investments in such funds shall not be counted towards the valuation of HICL's investments for the purposes of calculating the management fees payable to InfraRed.

It is possible that in future HICL may seek to purchase certain investments from funds managed or operated by InfraRed once those investments have matured and to the extent that the investments suit HICL's investment objectives and strategy. If such acquisitions are made, appropriate procedures from the Rules of Engagement will be put in place to manage the conflict.

Key features of the Rules of Engagement are described in the HICL UK's March 2019 Prospectus, available on the website at www.hicl.com.

[1] Details of significant votes against and related company updates are available on the Public Register maintained by The Investment Association – www.theinvestmentassociation.org/publicregister.html

[2] The Companies (Miscellaneous Reporting) Regulations 2018 require directors to explain how they have had regard to various matters in performing their duty to promote the success of the company in section 172 of the Companies Act 2006. The Financial Reporting Council's Guidance on the Strategic Report supports reporting on the legislative requirement.

5.4 Corporate Governance Statement (continued)

7. Where directors have concerns about the operation of the board or the company that cannot be resolved, their concerns should be recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chair, for circulation to the board, if they have any such concerns. (Incorporates relevant content from UK Code Provision 8)

Board minutes record the major points of all discussions, including any concerns raised by the Directors regarding Board decisions or courses of action undertaken.

To date, no written statement of concern has been provided to the Chair by any retiring Board member.

Division of Responsibilities

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. (UK Code Principle F)

G. The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision making. (Incorporates relevant content from UK Code Principle G)

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third party service providers to account. (Incorporates relevant content from UK Code Principle H)

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. (UK Code Principle I)

8. The responsibilities of the chair, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available. The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors. (Incorporates relevant content from UK Code Provision 14)

The Chairman, since 1 March 2016, is Mr I Russell, who met the independence criteria upon appointment and has continued to meet this condition throughout his term of service. In his role of Chairman, Mr I Russell acts as HICL's representative, directs the Board's discussions towards a consensus view, takes a leading role in determining the composition of the Board and seeks to ensure effective communications with shareholders and other stakeholders.

In accordance with guidance in Provision 14, 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.

As well as regular Board meetings, the following committees met during the course of the year (as set out in the table below): Audit, Management Engagement, Market Disclosure, Nomination, Remuneration and Risk. The formal terms of reference for each Committee are substantially identical to those of HICL UK, which have been approved by the Board of HICL UK and are available on the Investor Relations section of HICL's website.

The Chairman and members of each committee as at 31 March 2019 were as shown in Table 1 opposite.

For efficiency and as all Directors are non-executive, all committees (apart from the Audit Committee) comprise all the Directors of the Board.

The respective reports of the Remuneration Committee, the Risk Committee and the Audit Committee are set out in Sections 5.6, 3.7 and 5.5, respectively, of this Annual Report.

The Management Engagement Committee and the Nomination Committee are discussed in the sections relating to Principle 17 and Principle 22, respectively.

The attendance record of Directors for the year to 31 March 2019 is set out in Table 2 opposite.

In addition to formal board meetings, 13 ad hoc and committee meetings of the Board took place within the year to 31 March 2019.

A statement of the Directors' responsibilities is set out in Section 5.8.

Table 1	Audit Committee	Management Engagement Committee	Market Disclosure Committee	Nomination Committee	Remuneration Committee	Risk Committee
Chairman	Mrs S Farnon	Mr F Nelson		Mr I Russell	Mr C Russell*	Mr S Holden
Members	Mr M Bane Mr S Holden Mr F Nelson Mr K Reid Mr C Russell	Mr M Bane Mrs S Farnon Mr S Holden Mr K Reid Mr C Russell Mr I Russell	Mr I Russell Mr M Bane Mrs S Farnon Mr S Holden Mr F Nelson Mr K Reid Mr C Russell	Mr M Bane Mrs S Farnon Mr S Holden Mr F Nelson Mr K Reid Mr C Russell	Mr M Bane Mrs S Farnon Mr S Holden Mr F Nelson Mr K Reid Mr I Russell	Mr M Bane Mrs S Farnon Mr F Nelson Mr K Reid Mr C Russell Mr I Russell
By invitation	Mr I Russell					

* Following Mr C Russell's resignation from the Board on 31 March 2019, Mr M Bane succeeds him as Chair of the Remuneration Committee for HICL UK. As of 1 April 2019, Ms F Davies was appointed a non-executive Director of HICL UK, and is a member of its Board and its Committees.

Table 2	Formal Board Meetings	Audit Committee	Management Engagement Committee	Market Disclosure Committee	Nomination Committee	Remuneration Committee	Risk Committee
Mr I Russell	5	4	1	1	3	2	4
Mr F Nelson	5	4	1	1	3	2	4
Mr M Bane*	4	3	1	1	3	1	3
Mrs S Farnon	5	4	1	1	3	2	4
Mr S Holden	5	4	1	1	3	2	4
Mr C Russell	5	4	1	1	3	2	4
Mr K Reid	5	4	1	1	3	2	4

* Mr Bane was appointed to the Board during the year and has attended all formal board and committee meetings since he joined, on 1 July 2018.

9. When making new appointments, the board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. **(Incorporates relevant content from UK Code Provision 15)**

In the year to 31 March 2019, there were no specific documented restrictions within HICL's recruitment and succession policies regarding competing demands on Directors' time, however this would be covered informally by the Nomination Committee during the recruitment process. Changes to the HICL UK Nomination Committee's Terms of Reference have been made to explicitly comply with Provision 9.

10. At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent. The majority of the board should be independent of the manager. There should be a clear division of responsibilities between the board and the manager. **(Incorporates relevant content from UK Code Provision 11)**

As per Provision 6, at 31 March 2019, the Board consisted 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 Director is considered during the annual self-evaluation of the Board.

11. The chair should be independent on appointment when assessed against the circumstances set out in Provision 13. **(Incorporates relevant content from UK Code Provision 9)**

At the date of his appointment to the Chair on 1 March 2016, Mr I Russell was considered to be independent by the Board.

12. On appointment, and throughout the chair's tenure, the chair should have no relationships that may create a conflict of interest between the chair's interest and those of shareholders:

- **being an employee of the manager or an ex-employee who has left the employment of the manager within the last five years;**
- **being a professional adviser who has provided services to the manager or the board within the last three years; or**
- **serving on any other boards of an investment company managed by the same manager.**

As Chairman of the Board, Mr I Russell continues to be considered independent and has no relationships that may create a conflict of interest between the chair's interest and those of shareholders.

5.4
Corporate Governance Statement (continued)

13. The board should identify in the annual report each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a non-executive director's independence include, but are not limited to, whether a director:

- **has, or has had within the last three years, a material business relationship with the company or the manager, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company or the manager;**
- **has received or receives additional remuneration from the company apart from a directors' fee;**
- **has close family ties with any of the company's advisers, directors or the manager;**
- **holds cross-directorships or has significant links with other directors through involvement in other companies or bodies. Directors who sit on the boards of more than one company managed by the same manager are entitled to serve as directors; however, they will not be regarded as independent for the purposes of fulfilling the requirement that there must be an independent majority;**
- **represents a significant shareholder; or**
- **has served on the board for more than nine years from the date of their first appointment.**

Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided. (Incorporates relevant content from UK Code Provision 10)

As per Provision 10, all of the Directors are considered to be independent, and the Board is not aware of any circumstances which are likely to impair, or could appear to impair, the independence of any of the Directors.

14. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary. (UK Code Provision 12)

As set out in Provision 8, 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.

15. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, attribution analysis, marketing/investor relations, peer group information and industry issues.

The Board meets quarterly, and 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 HICL's Brokers and Financial Public Relations 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 HICL's Brokers and from the Financial Public Relations agency; and
- 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 set out in more detail in Section 3.7 – Risk Committee Report.

The Board regularly requests 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 HICL's budget and business plan for the prospective year.

16. The board should explain in the annual report the areas of decision making reserved for the board and those over which the manager has discretion. Disclosure should include:

- **a discussion of the manager's overall performance, for example, investment performance, portfolio risk, operational issues such as compliance etc;**
- **the manager's remit regarding stewardship, for example voting and shareholder engagement, and environmental, social and corporate governance issues in respect of holdings in the company's portfolio.**
- **The board should also agree policies with the manager covering key operational issues.**

The Directors are responsible for managing the business affairs of HICL in accordance with its Articles and Investment Policy and have overall responsibility for HICL's activities, including its investment and capital raising activities and for monitoring the performance of the portfolio and reviewing and supervising its delegates and service providers.

The Directors may delegate certain functions to other parties. In particular, HICL delegates the majority of the day-to-day activities required to deliver the business model, including responsibility for the majority of HICL's risk and portfolio management to the Investment Adviser, InfraRed, subject to the overall control and supervision of the Directors. InfraRed also operates and manages the Partnership and its assets in accordance with and subject to the Investment Policy, investment guidelines and approved investment parameters that are adopted by the Directors from time to time in conjunction with (and with the agreement of) InfraRed.

The strategies and policies which govern the delegated activities have been set by the Board in accordance with Companies Law (Guernsey) 2008.

Please see Section 2.6 – Investment Adviser's Report and Section 4 – Responsible Investment.

HICL and InfraRed also have detailed policy and control manuals which cover operational issues.

17. Non-executive directors should review at least annually the contractual relationships with, and scrutinise and hold to account the performance of, the manager.

Either the whole board or a management engagement committee consisting solely of directors independent of the manager (or executives) should perform this review at least annually with its decisions and rationale described in the annual report. If the whole board carries out this review, it should explain in the annual report why it has done so rather than establish a separate management engagement committee.

The company chair may be a member of, and may chair, the management engagement committee, provided that they are independent of the manager. (Incorporates relevant content from UK Code Provision 13)

The Management Engagement Committee ("MEC") of the Board is responsible for reviewing all major service providers to HICL, which includes in particular the Investment Adviser. The terms of reference are substantially identical to those of HICL UK, which have been approved by the Board of HICL UK and are available on the Investor Relations section of HICL's website.

18. The board should monitor and evaluate other service providers (such as the company secretary, custodian, depositary, registrar and broker).

The board should establish procedures by which other service providers, should report back and the methods by which these providers are monitored and evaluated.

The MEC met once in the year to 31 March 2019 to review the performance of the key service providers including the Investment Adviser. No material weaknesses were identified, the recommendation to the Board was that the current arrangements are appropriate and that the Investment Adviser provides good quality services and advice to HICL.

The MEC meeting for the financial year occurred in February 2019, when a review of key service providers was undertaken. Overall, the feedback on performance throughout the year was that key services 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.

5.4 Corporate Governance Statement (continued)

19. All directors should have access to the advice of the company secretary, who is responsible for advising the board on all governance matters. Both the appointment and removal of the company secretary should be a matter for the whole board. (UK Code Provision 16)

The Management Engagement Committee makes recommendations to the Board in relation to all service providers and it is the Board that considers the appointment and removal of all service providers, including the Company Secretary.

20. The directors should have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities properly.

Specialist advisers were invited to join the Board meetings to brief the Board on relevant topics. All members of the Board have access to these specialist advisers where necessary to discharge their responsibilities properly.

21. Where a new company has been created by the manager, sponsor or other third party, the chair and the board should be selected and bought into the process of structuring a new launch at an early stage.

As HICL was listed in March 2006, the Board does not believe that it is necessary to comment on this principle. The Chair and Board were an integral part of the decision-making process in respect of the listing of the shares of HICL UK required to effect the transfer of the investment portfolio from Guernsey to the UK.

Composition, Succession and Evaluation

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. (Incorporates relevant content from UK Code Principle J)

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. (UK Code Principle K)

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. (UK Code Principle L)

22. The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to the board and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. If the board has decided that the entire board should fulfil the role of the nomination committee, it will need to explain why it has done so in the annual report. The chair of the board should not chair the committee when it is dealing with the appointment of their successor. (Incorporates relevant content from UK Code Provision 17)

The Board has a Nomination Committee, the terms of reference of which are substantially identical to those of HICL UK, which have been approved by the Board of HICL UK and are available on the Investor Relations section of HICL's website. It is composed of all seven Board Directors and at 31 March 2019 it was chaired by Mr I Russell who is also the Chairman of the Board.

The Nomination Committee had three meetings in the year to 31 March 2019, including using an independent third party advisers; Fletcher Jones (not connected to HICL) in relation to the appointment of Mr M Bane to the Board, and Odgers Berndtson in relation to the appointment of Ms F Davies to the Board of HICL UK. These appointments were both made from a shortlist of suitably qualified candidates assessed through a rigorous interview process involving the Chairman, the Directors of the Board and representatives from InfraRed.

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. There is a good spread of skills on the Board and a good level of knowledge of regulatory requirements and regulations, generally, as well as a number of Directors with accounting qualifications and a good understanding of investment companies.

During the year, the balance of skills and experience was further enhanced with the appointment of Mr M Bane to the Board, who was elected at the July 2018 Annual General Meeting, and has a wealth of audit and advisory experience in the asset management industry including in relation to infrastructure investment companies.

Following the year end, Ms F Davies was appointed to the Board of HICL UK on 1 April 2019. Her experience in the banking and asset management industries complements the skillsets of the existing Directors, thereby strengthening the Board overall.

23. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success. **(UK Code Provision 18)**

The Directors are not subject to automatic reappointment.

As a general policy, all Directors retire, and, if appropriate and willing to act, offer themselves for re-election by shareholders at each AGM. Each of the Directors retired and offered themselves for re-election at the AGM on 17 July 2018.

Succession planning for key roles, including the Chair and the Chair of the Audit Committee, as well as the mix of skills and experience on the Board more generally with respect to Director recruitment, are explicitly considered and discussed by the Nomination Committee.

24. Each board should determine and disclose a policy on the tenure of the chair. A clear rationale for the expected tenure should be provided, and the policy should explain how this is consistent with the need for regular refreshment and diversity. **(Incorporates relevant content from UK Code Provision 19)**

Other than in exceptional circumstances, it is the policy of the Board that Directors, including the Chair, will not serve more than nine years on the Board. As a general rule, a Director who has served more than nine years will not be considered independent.

25. Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is engaged it should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. **(UK Code Provision 20)**

As outlined in respect of Provision 22, the Nomination Committee used external search consultancies to assist with the recruitment of both Mr M Bane and Ms F Davies during the year.

26. There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. The external evaluator should be identified in the annual report and a statement made about any other connection it has with the company or individual directors. **(UK Code Provision 21)**

An external review was last commissioned in 2018.

In the year to 31 March 2019, the Board conducted its own internal evaluation, considering the performance, tenure and independence of each Director. This annual self-evaluation was undertaken using an online questionnaire system, and was completed by the Chairman by way of one-to-one interviews with each Director holding office in the year. The Chairman presented a summary of the conclusions to the Board.

Feedback on the Chairman was collated by the Senior Independent Director who then briefed the Chairman.

27. The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified. **(UK Code Provision 22)**

The Directors proactively engage in the Board evaluation process, and act on development needs which are identified. The Chairman takes the lead in recognising the strengths and addressing any weaknesses of the Board as a whole.

5.4
Corporate Governance Statement (continued)

28. The annual report should describe the work of the nomination committee, (including where the whole board is acting as the nomination committee) including:

- **the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;**
- **how the board evaluation has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition; and**
- **the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives.** **(Incorporates relevant content from UK Code Provision 23)**

The work of the Nomination Committee is described in Provision 22, and the Board evaluation process is outlined in Provision 26.

HICL has adopted a Diversity Policy, which the Nomination Committee will take regard of in decision making.

Diversity Policy

The Board believes that a diversity of viewpoints and personal experiences, along with broad professional expertise, lead to better decisions, are critical to innovation and provide a competitive advantage in HICL's marketplace. When recruiting new Directors, the Board searches for candidates from a diverse range of backgrounds and communities to attract the widest breadth of talent, skills and outlook. The Board's policy is to appoint individuals on merit, based on their skills, experience and expertise.

HICL aims to achieve that the key targets of the Hampton-Alexander Review and the Parker Review. These are that 33% of the Board of Directors should be women by the end of 2020 and that HICL should have at least one Director from an ethnic minority by 2024.

HICL is an investment company and as such does not have a senior management team. Day-to-day management of HICL is delegated to InfraRed Capital Partners ("InfraRed"), HICL's Investment Adviser. InfraRed's diversity policy and statistics are published at: www.ircp.com/responsibility/diversity.

As at 31 March 2019, 14% of the Board of Directors were women and 0% were from ethnic minorities.

Audit, Risk and Internal Control

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements. **(Incorporates relevant content from UK Code Principle M)**

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects. **(UK Code Principle N)**

O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. **(UK Code Principle O)**

29. The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies two[1]. The chair of the board should not chair the committee but can be a member if they were independent on appointment. If the chair of the board is a member of the audit committee, the board should explain in the annual report why it believes this is appropriate. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates. **(Incorporates relevant content from UK Code Provision 24)**

As set out in respect of Provision 8, the Audit Committee comprises all of the Directors, with the exception of the Chairman, who attends by invitation.

The Board has satisfied itself that at least one member has recent and relevant financial experience and that the committee as a whole has competence relevant to both the infrastructure sector and the investment trust sector (see the Directors' biographies in Section 5.2 above).

[1] A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

30. The main roles and responsibilities of the audit committee should include:

- **monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;**
- **providing advice (where requested by the board) on whether the annual report and accounts, 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;**
- **reviewing the company's internal financial controls and internal control and risk management systems, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself;**
- **conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;**
- **reviewing and monitoring the external auditor's independence and objectivity;**
- **reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;**
- **developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required; and**
- **reporting to the board on how it has discharged its responsibilities.** **(Incorporates relevant content from UK Code Provision 25)**

HICL complies with this provision. See the Audit Committee Report (Section 5.5) and the Risk Committee Report (Section 3.7).

31. The annual report should describe the work of the audit committee including:

- **the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed;**
- **an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;**
- **in the case of a board not accepting the audit committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment); and**
- **an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.** **(Incorporates relevant content from UK Code Provision 26)**

HICL complies with this provision. See the Audit Committee Report (Section 5.5).

5.4 Corporate Governance Statement (continued)

32. The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy. (UK Code Provision 27)

HICL complies with this provision. See the Statement of Directors' Responsibilities (Section 5.8).

33. The board should carry out a robust assessment of the company's emerging and principal risks.[1] The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. (UK Code Provision 28)

HICL complies with this provision. See the Risk Committee Report (Section 3.7).

34. The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls. (UK Code Provision 29)

The Board is responsible for HICL'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 HICL in managing the risks to which it is exposed.

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 HICL's investment performance in comparison to its stated objectives and it reviews HICL's activities since the last Board meeting to ensure adherence to 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.

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

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 Company Secretary, including their own internal review processes, and the work carried out by HICL's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards HICL's assets, is maintained. An internal audit function specific to HICL 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 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.

[1] Principal risks should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.

35. In annual and half-yearly financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. (UK Code Provision 30)

HICL complies with this provision. See the Report of Directors (Section 5.7).

36. Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. (UK Code Provision 31)

HICL complies with this provision. See the Viability Statement (Section 3.6).

Remuneration

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. (Incorporates relevant content from UK Code Principle P)

Q. A formal and transparent procedure for developing policy remuneration should be established. No director should be involved in deciding their own remuneration outcome. (Incorporates relevant content from UK Code Principle Q)

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. (UK Code Principle R)

37. The board should establish a remuneration committee of independent non-executive directors with a minimum membership of three, or in the case of smaller companies, two.[1] In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the board should satisfy itself that the appointee has relevant experience and understanding of the company. If the board has decided that the entire board should fulfil the role of the remuneration committee, it will need to explain why it has done so in the annual report. (Incorporates relevant content from UK Code Provision 32)

HICL complies with this provision. See the Remuneration Report (Section 5.6).

38. The remuneration committee should have delegated responsibility for determining the policy and setting the remuneration for the chair. (Incorporates relevant content from UK Code Provision 33)

Changes have been made to the HICL UK Remuneration Committee's Terms of Reference to authorise the Remuneration Committee to determine HICL's policy for the remuneration of the Directors of HICL, including the Chair, in order to comply with Provision 38.

39. The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements. Provision should be made for additional directors' fees where directors are involved in duties beyond those normally expected as part of the director's appointment. In such instances the board should provide details of the events, duties and responsibilities that gave rise to any additional directors' fees in the annual report. (Incorporates relevant content from UK Code Provision 34)

HICL complies with this provision. See the Remuneration Report (Section 5.6).

[1] A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

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5.4 Corporate Governance Statement (continued)

40. Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties. (Incorporates relevant content from UK Code Provision 35)

HICL complies with this provision. See the Remuneration Report (Section 5.6).

41. The main role and responsibilities of the remuneration committee should include:

- **in conjunction with the chair, setting the directors' remuneration levels; and**
- **considering the need to appoint external remuneration consultants.**

The Remuneration Committee is authorised to obtain any professional advice on any matters within its terms of reference it considers necessary, including appointing external remuneration consultants where necessary. In February 2017, an external review of the Directors' remuneration was undertaken by Trust Associates, an independent professional consultant. Their recommendations included suggested remuneration for the financial year to 31 March 2020. See the Remuneration Report in Section 5.6 for further details.

Changes have been made to the HICL UK Remuneration Committee's Terms of Reference to authorise the Remuneration Committee to determine HICL's policy for the remuneration of the Directors of HICL to fully comply with Provision 41.

42. There should be a description of the work of the remuneration committee in the annual report. (Incorporates relevant content from UK Code Provision 41)

HICL complies with this provision. See the Remuneration Report (Section 5.6).

5.5 Audit Committee Report

The following pages set out the Audit Committee's report on its activities in respect of the year ended 31 March 2019 for HICL Infrastructure Company Limited ("HICL Guernsey"). As mentioned previously, since the year end, the investment business of HICL Guernsey has transferred to HICL Infrastructure PLC ("HICL UK"), and HICL Guernsey is being voluntarily liquidated.

The Audit Committee has been in operation throughout the year and operates within clearly defined terms of reference; these are substantially identical to those of HICL UK, which have been approved by the Board of HICL UK and are available on the Investor Relations section of HICL's website. The Committee, which comprises all the Directors except for Mr Ian Russell, met formally four times in the year to 31 March 2019.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual and Interim Reports, the valuation of HICL's investment portfolio, the system of internal controls, and the terms of appointment, independence and remuneration of the external auditor, KPMG Channel Islands Limited ("KPMG" or the "external auditor"). It is also the formal forum through which KPMG 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, in accordance with HICL's Non-Audit Services policy. The Committee notes KPMG's announcement in November 2018 to phase out the provision of non-audit services for its FTSE 350 audit clients.

The Audit Committee reviewed the scope and results of the audit, its effectiveness and the independence and objectivity of KPMG.

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.

Susie Farnon
Audit Committee Chairman
21 May 2019

Responsibilities

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 HICL'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 HICL's investments;
- establishing policies for the provision of non-audit services by the external auditor;
- 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, in accordance with HICL's Non-Audit Services policy;
- reviewing and approving the external auditor's plan for the following financial year, including a review of appropriateness of proposed materiality levels;
- reviewing HICL's procedures for the prevention, detection and reporting of fraud, including the procedures for handling allegations from whistleblowers;
- reviewing the appropriateness of HICL'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 and Interim Reports 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 KPMG 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 HICL Guernsey.

Significant Issues Considered

After discussions with both the Investment Adviser and KPMG, the Audit Committee determined that the key risks of material misstatement of HICL Guernsey's financial statements related to the valuation of investments, and the judgements around consolidation and going concern. With regard to the valuation of investments, the main risk areas were the key forecast assumptions and valuation discount rates.

5.5 Audit Committee Report (continued)

Significant Issue	Audit Committee Actions
Valuation of investments	
As outlined in Note 13 to the financial statements, the total carrying value of 'Investments at fair value through profit or loss – portfolio' at 31 March 2019 was £2,821.1m. Market quotations are not available for HICL's investments such that their valuation is undertaken using a discounted cash flow methodology, other than the A13 Senior Secured Bonds which are listed and HICL's investment is valued based on the quoted market price. The discounted cash flow methodology requires a series of material judgements to be made as further explained in Notes 3 and 4 to the financial statements.	The Audit Committee discussed the valuation process and methodology with the Investment Adviser in July and November 2018 as part of its review of the September 2018 Interim Report, and in February, April and May 2019 as part of its review of the March 2019 Annual Report. The Investment Adviser carries out valuations semi-annually and provides detailed valuation reports to the Audit Committee. The Audit Committee also receives a half-year and year end valuation report and opinion from a third-party valuation expert. The Audit Committee met with KPMG in February 2019 when it reviewed and agreed the external auditor's audit plan, and again in May 2019 at the conclusion of the audit, discussing in particular the audit approach to the valuation. The external auditor explained the results of their audit and the results of KPMG's audit testing were satisfactory.
Valuation of investments – key forecast assumptions	
The key assumptions are considered to be future inflation rates, interest rates, rates of gross domestic product and tax rates. These assumptions are explained in further detail in Section 3.2 – Valuation of the Portfolio and Note 4 of the financial statements.	The Audit Committee considered in detail those economic assumptions that are subject to judgement and that may have a material impact on the valuation. The Audit Committee reviewed the Investment Adviser's valuation reports, 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 economic assumptions were consistent with those used for acquisitions, and the third-party valuation expert confirmed that the economic assumptions were within an acceptable range. The Investment Adviser provided sensitivities showing the impact of changing these assumptions, which have been considered by the Audit Committee and the external auditor. The external auditor challenged, with support of their internal valuation specialist, discount rates and macro-economic assumptions applied in the valuation by benchmarking these to independent market data, including recent market transactions, and using their specialist's experience in valuing similar investments. They further assessed the reasonableness of HICL's assumptions by comparing these to the assumptions used by comparator companies. 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.

Significant Issue	Audit Committee Actions
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 from each investment's financial forecasts to arrive at a valuation (discounted cash flow valuation). The resulting valuation is therefore 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 3.2 – Valuation of the Portfolio and Note 4 of the financial statements.	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.
Consolidation	
The Directors have exercised judgement in determining whether HICL Guernsey, HICL UK and the Corporate Subsidiaries meet the IFRS 10 definition of an investment entity. HICL UK is deemed not to meet this definition nor does it provide investment-related services to HICL Guernsey. It is therefore measured at fair value through profit or loss in these financial statements. By virtue of HICL Guernsey and Corporate Subsidiaries' status as investment entities, all other investments are also accounted for at fair value through profit or loss. See Note 2(a) for details.	The Investment Adviser provided a paper explaining the rationale for the basis of consolidation, which has been considered by the Audit Committee and the external auditor. The external auditor challenged the judgements made and the Investment Adviser's interpretation of IFRS 10. The Audit Committee met with the Investment Adviser in April 2019 to discuss the rationale as part of its review of the March 2019 Annual Report. The Audit Committee concluded that the Investment Adviser's judgement applied was appropriate.
Going concern	
The financial statements have been prepared on a basis other than going concern. Subsequent to the year end, following completion of the Scheme, HICL Guernsey was placed into voluntary liquidation. A strict interpretation of IAS 1, paragraph 25, is that HICL Guernsey should not therefore prepare accounts on a going concern basis. The Directors note that HICL's investment business, owned by HICL UK from 1 April 2019, is a continuing business and HICL UK is a going concern. HICL UK has been considered by the Board in their viability statement analysis. See Note 2(a) for details.	The Investment Adviser provided a paper explaining the rationale for the basis of preparation, which has been considered by the Audit Committee and the external auditor. The Audit Committee met with the Investment Adviser to discuss the rationale as part of its review of the March 2019 Annual Report. The Audit Committee concluded that the Investment Adviser's judgement applied was appropriate.

5.5 Audit Committee Report (continued)

External Auditor

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 it is expected that the audit of HICL UK will be tendered within the next six years.

Following the transfer of the investment business of HICL Guernsey to HICL UK, and voluntarily liquidation of HICL Guernsey post year end, KPMG LLP (the UK equivalent of KPMG Channel Islands Limited) has been appointed as external auditor of HICL UK, the continuing entity.

Non-audit Services

The Audit Committee is responsible for reviewing KPMG's independence and performance. It establishes policies for the provision of non-audit services by the external auditor and reviews the terms under which the external auditor may be appointed to perform non-audit services, and the scope and results of the audit, including KPMG's effectiveness. In order to safeguard the independence and objectivity of the external auditor, the Audit Committee ensures that any advisory and/or consulting services provided by the external auditor do not conflict with their statutory audit responsibilities.

HICL Guernsey voluntarily complies with the FRC Revised Ethical Standard 2016 regarding non-audit services and audit related services.

In accordance with the Non-Audit Services policy, 'Permitted audit and audit related services' include the statutory audit of HICL and of its subsidiaries, HICL's interim review and other permitted audit related services. Where the fee for these services is less than £20,000, Audit Committee has pre-approved these services and they will be reported after the event to the Audit Committee.

For all other audit related and non-audit services engagements, such as tax compliance and reporting accountant engagements in relation to capital raising, Audit Committee approval must be obtained on a case by case basis, prior to engaging the external auditor.

When reviewing requests for non-audit services that are not in the 'Prohibited non-audit services' list, the Audit Committee will assess:

- whether the provision of such services impairs the external auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the external auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the total audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

The Audit Committee considered the tax compliance work undertaken by other KPMG network firms and was of the view that this work was permissible within the FRC guidelines on the basis that it is expected to have no direct or an inconsequential effect on the financial statements of HICL Guernsey in the view of an objective, reasonable and informed third party.

The Audit Committee notes KPMG's announcement in November 2018 to phase out the provision of non-audit work for FTSE 350 audit clients.

The Audit Committee reviews the scope and results of the audit, its effectiveness and the independence and objectivity of the external auditor, with particular regard to the level of non-audit fees. In the year fees were:

	March 2019 £m	March 2018 £m
Audit of HICL Guernsey and intermediate holding entities	0.3	0.3
Audit of HICL's project subsidiaries and other audit related services	0.4	0.3
Non-audit services	0.2	0.2
Total	0.9	0.8

Non-audit services consisted of audit related assurance services for HICL's Interim Report, tax compliance and advisory services. In total, it represented 29% (2018: 33%) of total audit fees.

The Audit Committee considers KPMG to be independent of HICL and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit. KPMG confirmed their compliance with their standard independence and objectivity procedures to the Audit Committee.

Assessment of independence and effectiveness

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 member network firms.

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.

5.6
Directors' Remuneration Report

Following the resignation of Chris Russell as Chair of the Remuneration Committee of HICL Infrastructure Company Limited ("HICL" or the "Company" and, together with its subsidiaries, the "Group") on 31 March 2019, I was appointed Chair of HICL's Remuneration Committee. The Remuneration Committee 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 three times in the year to 31 March 2019.

The terms of reference of the Committee are substantially identical to those of HICL UK, which have been approved by the Board of HICL UK and are available on the Investor Relations section of HICL's website. They are to determine and agree the Company's policy for the remuneration of the Directors, including the approval of any ad hoc payments in respect of additional corporate work required such as the issuance of new shares.

Mike Bane
Remuneration Committee Chairman
21 May 2019

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 HICL are non-executive and as such there are:

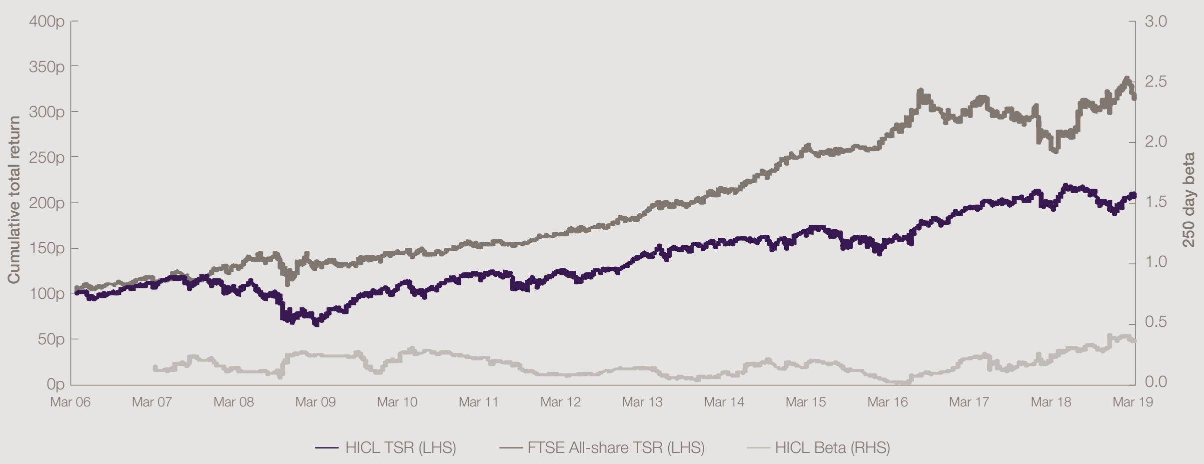
- no service contracts;
- no annual bonus or short-term incentives;
- no long-term incentive schemes;
- no pension 'rights';
- no options or similar performance incentives; and
- no expense 'allowance' or other taxable benefits.

In accordance with Principles P, Q and R of the 2019 AIC Code, the Remuneration Committee is tasked with ensuring that Directors' remuneration:

- reflects the time commitment and responsibilities of the role;
- 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 the 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 HICL are non-executive they receive an annual fee appropriate for their responsibilities but no other incentive programmes or performance-related emoluments.

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 13 year period from inception at the end of March 2006 until 31 March 2019 compared with an investment in the FTSE All-share Index over the same period. During that period the TSR for the Company was 9.2% p.a. compared with the FTSE All-share Index which was 5.8% p.a.



In February 2017, an external review of the Directors' remuneration was undertaken by Trust Associates, an independent professional consultant. Their recommendations included suggested remuneration for the financial year to 31 March 2020. The Committee considered the recommendations in February 2019 and, in turn, recommended them to the Board which adopted them, with a view to implementing them for HICL Infrastructure PLC ("HICL UK"). The recommendations will be put to shareholders of HICL UK for approval at the AGM on 16 July 2019.

Trust Associates noted that the workload and time involved had increased since the last review (driven by the increasing size and complexity of HICL and its operations, and in line with inflation).

For routine business, Trust Associates' suggested remuneration for the financial year to 31 March 2020, and therefore applicable to the Directors of HICL Infrastructure PLC, was:

- ▲ Directors' base fee to be increased to £47,000 p.a.
- ▲ The Chairman of the Audit Committee's fee to increase to £59,000 p.a.
- ▲ The Chairman of the Risk Committee's fee to increase to £54,500 p.a.
- ▲ The Senior Independent Director's fee to increase to £60,000 p.a.
- ▲ The Chairman of the Board's fee to increase to £78,000 p.a.

The applicable premium to the Directors' base fee for each of the latter four roles is calibrated to recognise the additional responsibility involved in performance of the task. The premium applicable to the Chairman of the Board reflects not only the considerably greater weight of responsibility, but also his involvement in meetings with shareholders and the Investment Adviser each year.

In addition, an additional £6,000 annual fee is paid to the Director who also acts as director of the two Luxembourg subsidiary company boards.

For comparative purposes the table below sets out the Directors' regular (i.e. excluding any approved one-off payments) remuneration approved and paid for the year to 31 March 2019 as well as proposed for the year ending 31 March 2020.

As last year the fees approved/proposed relate to the roles performed, and not to individuals per se.

In March 2019, a Prospectus for HICL UK was published as part of the change of domicile, which was effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019. For the additional work in relation to this and the associated EGM circular, each Director received a one-off payment of £10,000.

5.6 Directors' Remuneration Report (continued)

Role (YE 2019)	Total Fees Proposed** (YE 2020)	Fees Approved* (YE 2019)
Chairman	£78,000	£75,000
Senior Independent Director	£60,000	£57,500
Audit Committee Chair	£59,000	£56,500
Risk Committee Chair	£54,500	£52,500
Director (including Luxembourg subsidiary companies)	£53,000	£51,000
Director	£47,000	£45,000
Director	£47,000	£45,000
Total	**£398,500**	**£382,500**

* Approved at the AGM on 17 July 2018.
** These fees will be applicable to the Directors of HICL Infrastructure PLC.

The Board, following a recommendation from the Remuneration Committee, sought shareholder approval, by way of special resolution at the July 2018 AGM, for an increase in the Directors' aggregate remuneration cap to £500,000 p.a., to allow for the continued implementation of Trust Associates' recommendations, to provide for moderate adjustments that may be necessary in subsequent years, including the recruitment of future Directors, and to provide contingency for any additional fees associated with non-routine business.

The total fees paid to Directors in the year were within the annual fee cap of £500,000, which was approved by shareholders at the AGM on 17 July 2018.

Statement of Implementation of Remuneration Policy in the Current Financial Year

The Board of HICL UK have approved the proposed increase in the fees as recommended by the Remuneration Committee and will seek shareholder approval for the Directors' Remuneration Policy at the AGM on 16 July 2019 with a view to implementing it back-dated to 1 April 2019. More detail can be found in the Remuneration Report of HICL Infrastructure PLC.

Director	Total Remuneration paid/due for year ended 31 March 2019
Mr I Russell	£85,000
Mr F Nelson	£67,500
Mr M Bane	£43,750
Mrs S Farnon	£66,500
Mr S Holden	£62,500
Mr K Reid	£55,000
Mr C Russell	£61,000
Total	**£441,250**

Other Disclosures

The Directors of HICL on 31 March 2019, and their interests in the shares of HICL, are shown in the table below.

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 17 July 2018, the resolutions relating to the Directors' remuneration for the year ended 31 March 2019 and the Directors' Aggregate Annual Remuneration Cap were approved.

Director	31 March 2019 Ordinary	31 March 2018 Ordinary
Mr I Russell	95,979	95,979
Mr F Nelson	51,568	51,568
Mr M Bane	0	0
Mrs S Farnon	59,931	59,931
Mr S Holden	9,871	3,093
Mr K Reid	0	0
Mr C Russell*	113,895	113,895
Total	**331,244**	**324,466**

* Of which 10,000 were held by his family.

5.7 Report of the Directors

The Directors present the Annual Report and Financial Statements of HICL Infrastructure Company Limited ("HICL Guernsey" and, together with its subsidiaries, the "Group") for the year to 31 March 2019.

Principal Activity

HICL Guernsey was an Authorised Closed-Ended investment company incorporated in Guernsey. It was subject to certain obligations to the Guernsey Financial Services Commission as a result of its regulatory status as an Authorised Closed-Ended Investment Scheme. Its shares had a premium listing on the Official List of the UK Listing Authority and were traded on the main market of the London Stock Exchange up to the year end on 31 March 2019. Following shareholder approval at an Extraordinary General Meeting of HICL Guernsey, the investment business of the Company has transferred to HICL Infrastructure PLC ("HICL UK"), effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019, and the Guernsey company was placed into voluntary liquidation.

Results

HICL Guernsey's results for the year are summarised in Section 3.1 – Operating & Financial Review and are set out in detail in the Financial Statements.

Distributions and Share Capital

HICL declared three quarterly interim dividends, totalling 6.03p per share, for the year ended 31 March 2019, in the table below.

The fourth quarterly interim dividend, of 2.02p per share, for the year ended 31 March 2019 will be declared by HICL UK on 29 May 2019, and is due to be paid on 28 June 2019.

HICL has one class of share capital, Ordinary Shares, of which there were 1,789,556,677 in issue as at 31 March 2018. This number increased to 1,791,142,767 as at 31 March 2019 as a result of scrip dividends during the year.

HICL has previously offered a scrip dividend alternative in respect of the quarterly interim dividends for the year. In the year ended 31 March 2019, a Scrip Dividend Alternative was offered in the first three quarters. There will be no Scrip Dividend Alternative offered by HICL UK in respect of the fourth quarterly interim dividend or future dividends, however shareholders may be offered the opportunity to reinvest their dividends via a Dividend Reinvestment Plan ("DRIP"), the details of which will be made available on HICL's website.

Amount	Declared	Record date	Paid/to be paid
2.01p	18 July 2018	24 August 2018	28 September 2018
2.01p	14 November 2018	23 November 2018	31 December 2018
2.01p	12 February 2019	22 February 2019	22 March 2019

Directors

The Directors who held office during the year to 31 March 2019 were:

Director	Date of Appointment	Years of Service
Mr I Russell	1 May 2013	5 years 11 months
Mr F Nelson	1 June 2014	4 years 10 months
Mr M Bane	1 July 2018	0 years 9 months
Mrs S Farnon	1 May 2013	5 years 11 months
Mr S Holden	1 July 2016	2 years 9 months
Mr K Reid	1 September 2016	2 years 7 months
Mr C Russell	1 June 2010	8 years 10 months

Mr C Russell resigned from the Board on 31 March 2019, as he was approaching nine years' tenure. Ms F Davies was appointed to the Board of HICL UK, effective from 1 April 2019.

Biographical details of each of the continuing Directors are shown in Section 5.2 – Board of Directors.

Corporate Governance

Section 5.4 – Corporate Governance Statement sets out in detail the code of corporate governance against which HICL 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 HICL and acts as Operator of the limited partnership which holds and manages HICL's investments. A summary of the contract between HICL, its subsidiaries and InfraRed in respect of services provided is set out in Note 17 to the Financial Statements.

5.7 Report of the Directors (continued)

The Management Engagement Committee met in February 2019 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 agreed targets. 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 HICL and InfraRed are set out in Section 3.1 and Section 5.3.

Broker, Administrator and Company Secretary

HICL's principal broker during the year was Canaccord Genuity Limited. In March 2019, HICL appointed RBC Capital Markets as its joint corporate broker, alongside Canaccord Genuity Limited. The Administrator and Company Secretary was Aztec Financial Services (Guernsey) Limited.

Substantial Interests in Share Capital

As at 31 March 2019, HICL is aware of or 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 HICL's shares to which voting rights are attached (at the date of notification):

	Number of Shares Held	Percentage Held
Investec Wealth and Investment Limited	113,447,629	6.33%
Brewin Dolphin	106,312,906	5.94%

Donations

HICL made no political donations during the year.

A donation of £5,000 was made to each of The Church of St Peter Port and The Guernsey Society for Cancer Relief in the year.

Payment of Suppliers

It is the policy of HICL 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

As detailed in Note 19, subsequent to the reporting date, on 1 April 2019, HICL Guernsey entered into the Scheme, as detailed in HICL Guernsey's EGM Circular dated 4 March 2019, in which HICL UK acquired HICL Guernsey's investment business in its entirety through the acquisition of HICL Guernsey's interests in Luxco 1. On 1 April 2019, HICL Guernsey was placed into voluntary liquidation and therefore on an individual basis, is not a going concern. These financial statements have been prepared on a basis other than going concern. The recognition and measurement applied in the financial statements remained unchanged from prior year. HICL Guernsey's assets and liabilities have been classified as 'current' and liquidation costs have been recognised in the Income Statement.

Via the Scheme, HICL Guernsey's shareholders were issued one Ordinary Share in HICL UK for each Ordinary Share held in HICL Guernsey. Additionally, there is no expectation that the investment business' activities will discontinue. As a result, the Directors have considered HICL's continuing investment business in their viability assessment – see Section 3.6.

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 17 July 2018.

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. Issued shares may be held in treasury and may be subsequently cancelled or sold for cash in the market. This gives HICL the ability to reissue shares quickly and cost efficiently, thereby improving liquidity and providing HICL 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 HICL'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 HICL's website (www.hicl.com), 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.

5.8
Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare financial statements that show a true and fair view. The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU to meet the requirements of applicable law and regulations.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of HICL Guernsey and of its profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess HICL Guernsey's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate HICL Guernsey or to cease operations, or have no realistic alternative but to do so. As explained in Note 2, the directors do not believe it is appropriate to prepare financial statements on a going concern basis.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain HICL Guernsey's transactions and disclose with reasonable accuracy at any time the financial position of HICL Guernsey and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of HICL Guernsey and to prevent and detect fraud and other irregularities.

Directors' Responsibility Statement

We confirm that to the best of our knowledge that:

- the financial statements, prepared in accordance with the IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of HICL Guernsey, taken as a whole as required by DTR 4.1.6 and are in compliance with the requirements set out in the Companies (Guernsey) Law 2008 as amended;
- 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 HICL Guernsey together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess HICL Guernsey'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 Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which HICL Guernsey'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 HICL Guernsey's auditors are aware of that information.

Approval of the Accounts

On 26 March 2019, HICL's shareholders at an Extraordinary General Meeting of HICL resolved that pursuant to section 395(2) of the Companies (Guernsey) Law, 2008 that HICL's Directors be sanctioned to continue to have powers as directors of HICL for the purpose of procuring the preparation of, considering and, if thought fit, approving in accordance with the provisions of sections 234(4) and 244(4) of the Companies (Guernsey) Law, 2008, the final annual report and accounts of HICL for the financial year ended 31 March 2019, and procuring the audit of such accounts and procuring that they are published, and that the Liquidators shall have no control of, or responsibility for, any such matters.

By order of the Board

Authorised signatory

Aztec Financial Services (Guernsey) Limited
Company Secretary
21 May 2019

Registered Office:
East Wing, Trafalgar Court, Les Banques St Peter Port,
Guernsey, Channel Islands GY1 3PP

06 Financial Statements

6.1
Independent Auditor's Report

KPMG

Independent auditor's report

to the members of HICL Infrastructure Company Limited

1. Our opinion is unmodified

We have audited the financial statements ("Financial Statements") of HICL Infrastructure Company Limited (the "Company"), which comprise the balance sheet as at 31 March 2019, the income statement, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Financial Statements:

- give a true and fair view of the financial position of the Company as at 31 March 2019, and of the Company's financial performance and the Company's cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 2 to the Financial Statements which explains that the Financial Statements have not been prepared on the going concern basis for the reason set out in that note. The Company will be liquidated, however, the Company's investment business will continue in HICL Infrastructure PLC. This has not impacted the recognition and measurement applied in the financial statements which remains consistent with prior year. Our opinion is not modified in respect of this matter.

Overview		
Materiality: Financial Statements as a whole		£28m (2018: £26.75m) 1% of Company net asset value (2018: 1% of Company gross asset value)
Risk of material misstatement		**vs 2018**
Recurring risk	Forecast based valuation	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2018), which is in addition to non-going concern basis of preparation emphasis of matter in section 1 of the report, in arriving at our audit opinion above, together with our key audit procedures to address this matter and our findings ("our results") from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Investment at fair value through profit or loss

£2,821.1 million; (2018: £2,677.2 million)

Refer to pages 103 - 107 of the Audit Committee Report, note 2(c) accounting policy, note 3 critical accounting judgements, estimates and assumptions, note 4 financial instruments and note 13 investments at fair value through profit or loss.

The risk	Our response
Basis The Company's investment in infrastructure assets are made indirectly through its immediate Luxembourg subsidiary ("LuxCo"). LuxCo is carried at fair value through profit or loss and represents a significant proportion of the Company's net assets (2019: 100%; 2018: 100%). The carrying amount is calculated by assessing the fair value of LuxCo which reflects its own net asset value incorporating the fair value of the underlying infrastructure projects and holding companies. The fair value of infrastructure investments was determined using the income approach whereby the long term forecasted cash flows of each individual infrastructure asset is discounted at a rate which reflects their risk profile. Inherent in these long term forecasted cash flows are key macro-economic assumptions such as inflation, tax and deposit rates. Risk The valuation risk represents both a risk of fraud and error associated with estimating the timing and amounts of long term forecasted cash flows alongside the selection and application of appropriate assumptions. Changes to long term forecasted cash flows and/or the selection and application of different assumptions may result in a materially different valuation for the infrastructure investments.	Our audit procedures included: Controls evaluation: We tested the design and implementation and operating effectiveness of the control in operation around the reconciliation of changes to underlying project cash flows. Assessing forecasted distributions: We compared the prior year forecasted distributions to the current year actual distributions to evaluate the historical accuracy of forecasting. We assessed the valuation movements on each investment focusing on changes since the previous reporting date or the date of acquisition for those assets acquired in the current year, challenging any significant variances through a review of supporting evidence. For a risk based selection of project entities we obtained responses, directly from the underlying project entities, to questionnaires designed to identify significant matters which could have a material impact on the project entity forecasted distributions. We held discussions with the Investment Adviser in relation to all project entities identified as having significant operational or other issues such as, but not limited to construction defects or events of default. We performed follow up procedures, including a review of supporting documentation, to assess and challenge the impact of the specific issues, if any, on the forecasted distributions. We obtained and reviewed supporting documentation for all significant acquisitions and disposals during the year. With the support of our tax specialists, we assessed the impact of certain tax considerations on the forecasted distributions. For a risk based selection of project entities we challenged the justification for, and calculation of, significant adjustments to forecasted distributions. Benchmarking valuation assumptions: We challenged, with support of our KPMG valuation specialists, the Company's discount rates and macro-economic assumptions applied in the valuation models by benchmarking these to independent market data, including recent market transactions, and using our KPMG valuation specialist's experience in valuing similar investments. We further assessed the reasonableness of the Company's assumptions by comparing these to the assumptions used by peer companies. Assessing disclosures We considered the Company's disclosures (see note 3) in relation to the use of estimates and judgments regarding the fair value of investments and the Company's investment valuation policies adopted and fair value disclosures in notes 2,4 and 13 for compliance with IFRS as adopted by the EU. Our results: We found the valuation of the investment at fair value through profit and loss to be acceptable.

6.1 Independent Auditor's Report (continued)

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

Materiality for the Financial Statements as a whole was set at £28m, determined with reference to a benchmark of Net Assets of £2,821.7m, of which it represents approximately 1% (2018: 1% of Company gross asset value).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.4m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

4. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of principal risks and longer-term viability

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

— the directors' confirmation within the viability statement on page 65 that they have carried out a robust assessment of the principal risks facing the Company's investment business, including those that would threaten its business model, future performance, solvency or liquidity;
— the Principal Risks disclosures describing these risks and explaining how they are being managed or mitigated; and
— the directors' explanation in the viability statement of how they have assessed the prospects of the Company's investment business, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company's investment business will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 shareholders to assess the Company's position, performance, its investment business model and strategy; or
— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the 2016 UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

5. We have nothing to report on the other matters on which we are required to report by exception

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

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

6. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 113, the directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report.

Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

7. 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 the terms of our engagement by 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

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

Glategny Court
St Peter Port
Guernsey GY1 1WR
Channel Islands

21 May 2019

KPMG

6.2
Income Statement

For the year ended 31 March 2019

	Note	Year ended 31 March 2019 Total £m	Year ended 31 March 2018 Total £m
Investment income	6	290.4	124.1
Total income		**290.4**	**124.1**
Fund expenses	7	(5.0)	(2.3)
Profit before tax		**285.4**	**121.8**
Profit for the year	10	**285.4**	**121.8**
Earnings per share – basic and diluted (pence)	10	**15.9**	**6.9**

The results for HICL Guernsey for the year ended 31 March 2019 are derived from operations which will continue in HICL UK from 1 April 2019 when HICL Guernsey was placed into voluntarily liquidation, and therefore HICL Guernsey is not a going concern. The financial statements for the year ended 31 March 2018 were prepared on a going concern basis, therefore all results were derived from continuing operations. See Note 2(a) for details.

There is no other comprehensive income or expense apart from those disclosed above and consequently a statement of comprehensive income has not been prepared.

Balance Sheet

As at 31 March 2019

	Note	31 March 2019 £m	31 March 2018 £m
Non-current assets			
Investments at fair value through profit or loss – portfolio	13	–	2,677.2
Total non-current assets		**–**	**2,677.2**
Current assets			
Investments at fair value through profit or loss – portfolio	13	2,821.1	–
Investments at fair value through profit or loss – HICL UK	14, 19	2,000.1	–
Cash and cash equivalents		2.5	0.7
Total current assets		**4,823.7**	**0.7**
Total assets		**4,823.7**	**2,677.9**
Current liabilities			
Trade and other payables		(1.9)	(0.8)
Amounts owed to HICL UK	14, 19	(2,000.1)	–
Total current liabilities		**(2,002.0)**	**(0.8)**
Total liabilities		**(2,002.0)**	**(0.8)**
Net assets		**2,821.7**	**2,677.1**
Equity			
Ordinary Share capital	16	0.2	0.2
Share premium	16	2,028.0	2,025.6
Retained reserves		793.5	651.3
Total equity	12	**2,821.7**	**2,677.1**
Net assets per Ordinary Share (pence)	12	**157.5**	**149.6**

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 21 May 2019, having been delegated the power for same at an Extraordinary General Meeting of HICL Guernsey held on 26 March 2019, and signed on its behalf by:

S Farnon
Director

I Russell
Director

6.2
Statement of Changes in Shareholders' Equity

For the year ended 31 March 2019

	Year ended 31 March 2019 Attributable to equity holders of the parent		
	Share capital and share premium £m	Retained reserves £m	Total shareholders' equity £m
Shareholders' equity at 1 April 2018	2,025.8	651.3	2,677.1
Profit for the year	**–**	**285.4**	**285.4**
Distributions paid in cash (Note 11)	–	(140.6)	(140.6)
Distributions paid by scrip issue (Note 11)	–	(2.6)	(2.6)
Distributions paid in the year	–	(143.2)	(143.2)
Ordinary Shares issued for scrip dividend (Note 16)	2.6	–	2.6
Total Ordinary Shares issued in the period	2.6	–	2.6
Costs of share issue (Note 16)	(0.2)	–	(0.2)
Shareholders' equity at 31 March 2019	**2,028.2**	**793.5**	**2,821.7**

	Year ended 31 March 2018 Attributable to equity holders of the parent		
	Share capital and share premium £m	Retained reserves £m	Total shareholders' equity £m
Shareholders' equity at 1 April 2017	1,753.5	665.9	2,419.4
Profit for the year	**–**	**121.8**	**121.8**
Distributions paid in cash (Note 11)	–	(129.9)	(129.9)
Distributions paid to by scrip issue (Note 11)	–	(6.5)	(6.5)
Distributions paid in the year	–	(136.4)	(136.4)
Ordinary Shares issued for cash (Note 16)	267.7	–	267.7
Ordinary Shares issued for scrip dividend (Note 16)	6.5	–	6.5
Total Ordinary Shares issued in the period	274.2	–	274.2
Costs of share issue (Note 16)	(1.9)	–	(1.9)
Shareholders' equity at 31 March 2018	**2,025.8**	**651.3**	**2,677.1**

Cash Flow Statement

For the year ended 31 March 2019

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Cash flows from operating activities		
Profit before tax	285.4	121.8
Adjustments for:		
Investment income	(290.4)	(124.1)
Operating cash flows before movements in working capital	(5.0)	(2.3)
Changes in working capital:		
Decrease in receivables	–	0.1
Increase/(decrease) in payables	1.1	(0.2)
Cash flow from operations	**(3.9)**	**(2.4)**
Income received on investments	149.1	133.0
Net cash from operating activities	**145.2**	**130.6**
Cash flows from investing activities		
Investment in subsidiary	(2.6)	(266.7)
Net cash used in investing activities	**(2.6)**	**(266.7)**
Cash flows from financing activities		
Net (payment)/proceeds from issue of share capital	(0.2)	265.8
Distributions paid	(140.6)	(129.9)
Net cash (used in)/from financing activities	**(140.8)**	**135.9**
Net increase/(decrease) in cash and cash equivalents	**1.8**	**(0.2)**
Cash and cash equivalents at beginning of year	0.7	0.9
Cash and cash equivalents at end of year	**2.5**	**0.7**

Cash flows for HICL Guernsey for the year ended 31 March 2019 are derived from operations which will continue in HICL UK from 1 April 2019 when HICL Guernsey was placed into voluntarily liquidation, and therefore HICL Guernsey is not a going concern. The financial statements for the year ended 31 March 2018 were prepared on a going concern basis, therefore all cash flows were derived from continuing operations. See Note 2(a) for details.

6.3 Notes to the Financial Statements

1. REPORTING ENTITY

HICL Infrastructure Company Limited (in voluntary liquidation) ("HICL Guernsey") is a company domiciled in Guernsey, Channel Islands. On 1 April 2019, following its entry into a scheme of reconstruction (the "Scheme") as detailed in HICL Guernsey's Extraordinary General Meeting ("EGM") Circular dated 4 March 2019, HICL Guernsey was placed into voluntary liquidation – see Note 19 for details. HICL Guernsey's shares were publicly traded on the London Stock Exchange until 1 April 2019.

The financial statements of HICL Guernsey as at and for the year ended 31 March 2019 comprise HICL Guernsey only, which is consistent with the prior year.

HICL Guernsey continues to measure its investment in HICL Infrastructure 1 S.a.r.l. ("Luxco 1"), HICL Infrastructure 2 S.a.r.l. ("Luxco 2") and Infrastructure Investments Limited Partnership ("IILP", and together the "Corporate Subsidiaries" and each a "Corporate Subsidiary") at fair value in accordance with IFRS 10:31.

For the year end 31 March 2019, HICL Guernsey had one additional direct subsidiary, HICL Infrastructure PLC ("HICL UK" and together with HICL Guernsey and the Corporate Subsidiaries, the "Corporate Group"), which HICL Guernsey also measured a fair value in these financial statements – see Note 2(a).

2. KEY ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements were approved and authorised for issue by the Board of Directors on 21 May 2019.

The 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 for financial instruments and subsidiaries classified at fair value through profit or loss which are stated at their fair values. The financial statements are presented in Pounds Sterling, which is HICL Guernsey's functional currency.

The preparation of these 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 financial statements.

Investment Entities

HICL Guernsey has applied IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other entities' in these financial statements, which require investment entities to measure certain subsidiaries, including those that are themselves investment entities, at fair value through the income statement, rather than consolidating their results.

The Directors are of the opinion that HICL Guernsey has all the typical characteristics of an investment entity as defined in IFRS 10:

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 Corporate Subsidiaries carry out investment activities and incur overheads and borrowings on behalf of HICL Guernsey. They are considered investment entities themselves and are therefore measured at fair value in these financial statements.

At 31 March 2019, HICL UK does not meet the definition of an investment entity and did not provide any investment-related services to HICL Guernsey during the period so, in accordance with IFRS 10:32, HICL UK has been measured at fair value in these financial statements.

2. KEY ACCOUNTING POLICIES (CONTINUED)

Going concern

As detailed in Note 19, subsequent to the reporting date, on 1 April 2019, HICL Guernsey entered into the Scheme, as detailed in HICL Guernsey's EGM Circular dated 4 March 2019, in which HICL UK acquired HICL Guernsey's investment business in its entirety through the acquisition of HICL Guernsey's interests in Luxco 1. On 1 April 2019, HICL Guernsey was placed into voluntary liquidation and therefore on an individual basis, is not a going concern. These financial statements have been prepared on a basis other than going concern. The recognition and measurement applied in the financial statements remained unchanged from prior year. HICL Guernsey's assets and liabilities have been classified as 'current' and liquidation costs have been recognised in the Income Statement.

Via the Scheme, HICL Guernsey's shareholders were issued one Ordinary Share in HICL UK for each Ordinary Share held in HICL Guernsey. Additionally, there is no expectation that the investment business' activities will discontinue. As a result, the Directors have considered HICL's continuing investment business in their viability assessment – see Section 3.6.

(b) New standards effective for the current year

HICL Guernsey adopted the following standards that became effective during the current year, although they had no material impact on HICL Guernsey's financial statements.

- IFRS 9 Financial Instruments.
- Annual Improvements to IFRS Standards 2014–2016 Cycle.

(c) Financial instruments

Financial assets and liabilities are recognised on the Balance Sheet when HICL Guernsey 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 IFRS 9 '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.

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 HICL Guernsey or which are subsidiaries not consolidated in HICL Guernsey's results, are designated at fair value through profit or loss since HICL Guernsey manages these investments and makes purchase and sale decisions based on their fair value.

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

Other

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

(ii) Fair values

Fair values are determined using 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 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.

(d) Investment income

Income from investments is recognised in the Income Statement as accrued from HICL Guernsey's direct subsidiaries. Gains on investments relate solely to the investments held at fair value.

6.3
Notes to the Financial Statements (continued)

2. KEY ACCOUNTING POLICIES (CONTINUED)

(e) Share capital and share premium

Ordinary Shares are classified as equity. Costs associated with the establishment of HICL Guernsey 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.

(f) 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.

(g) Income tax

Under the current system of taxation in Guernsey, HICL Guernsey itself is exempt from paying taxes on income, profits or capital gains. The profits of each project company are subject to corporation tax in the country the project is located in. Sensitivity of HICL's portfolio to changes in tax rates are provided in Note 4 and impacts are reflected in the fair value of underlying investments.

(h) Foreign exchange gains and losses

Transactions entered into by HICL Guernsey 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 Income Statement.

(i) Segmental and geographical reporting

The Chief Operating Decision Maker (the "CODM") is of the opinion that HICL Guernsey 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. HICL Guernsey does not derive revenue from Guernsey. HICL Guernsey has no single major customer.

The financial information used by the CODM on a quarterly basis to allocate resources, assess performance and manage HICL presents the business as a single segment comprising the portfolio of investments in infrastructure assets.

(j) Expenses

All expenses are accounted for on an accruals basis. HICL Guernsey's investment advisory and administration fees, finance costs and all other expenses are charged through the Income Statement.

(k) Dividends payable

Dividends payable to HICL Guernsey's shareholders 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 HICL Guernsey 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.

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS as adopted by the EU 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 disclosure or to the carrying amounts of assets and liabilities are outlined below.

Judgements

Going concern

The financial statements have been prepared on a basis other than going concern. Subsequent to the year end, following completion of the Scheme, HICL Guernsey was placed into voluntary liquidation. A strict interpretation of IAS 1, paragraph 25, is that HICL Guernsey should not therefore prepare accounts on a going concern basis.

Consolidation

The Directors have exercised judgement in determining whether HICL Guernsey, HICL UK and the Corporate Subsidiaries meet the IFRS 10 definition of an investment entity. HICL UK is deemed not to meet this definition nor does it provide investment-related services to HICL Guernsey. It is therefore measured at fair value through profit or loss in these financial statements. By virtue of HICL Guernsey and Corporate Subsidiaries' status as investment entities, all other investments are also accounted for at fair value through profit or loss. See Note 2(a) for details.

Estimates and assumptions

Investments at fair value through profit or loss

HICL Guernsey recognises its investment in Luxco 1, a Corporate Subsidiary, at fair value which includes the fair value of each of the individual project companies and holding companies in which HICL Guernsey holds an indirect investment. 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 except for those investments that have an observable market price in active market. 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 2019 valuation was 7.2% (2018: 7.4%). The discount rate is considered to be the most significant unobservable input 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, gross domestic products and tax rates which are further discussed in Note 4 and include sensitivities to these key judgements.

6.3 Notes to the Financial Statements (continued)

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. HICL 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 for specific assets and liabilities. 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 2019 £m	31 March 2018 £m
Financial assets		
Investments at fair value through profit or loss – portfolio	2,821.1	2,677.2
Investments at fair value through profit or loss – HICL UK	2,000.1	–
Financial assets at fair value through profit or loss	**4,821.2**	**2,677.2**
Cash and cash equivalents	2.5	0.7
Financial assets – loans and receivables	**2.5**	**0.7**
Financial liabilities		
Trade and other payables	(1.9)	(0.8)
Amounts owed to HICL UK[1]	(2,000.1)	–
Financial liabilities – payables	**(2,002.0)**	**(0.8)**

[1] Settled on 1 April 2019 via the Scheme. See Note 19 for details.

The Directors believe that the carrying values of all financial instruments are approximate 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).

	As at 31 March 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments at fair value through profit or loss – portfolio	–	–	2,821.1	2,821.1
Investments at fair value through profit or loss – HICL UK[1]	–	2,000.1	–	2,000.1
Investments at fair value through profit or loss	**–**	**2,000.1**	**2,821.1**	**4,821.2**

[1] Settled on 1 April 2019 via the Scheme. See Note 19 for details.

	As at 31 March 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments at fair value through profit or loss – portfolio	–	–	2,677.2	2,677.2
Investments at fair value through profit or loss	**–**	**–**	**2,677.2**	**2,677.2**

4. FINANCIAL INSTRUMENTS (CONTINUED)

There were no transfers between Level 1, 2 or 3 during the year (2018: None). A reconciliation of the movement in Level 3 assets is disclosed in Note 13.

Level 3

Valuation methodology

HICL Guernsey records the fair value of Luxco 1, a directly owned holding company through which its investment business is held, by calculating and aggregating the fair value of each of the individual project companies and holding companies in which HICL Guernsey holds an indirect investment. Detailed below are the valuation methodologies applied in valuing those indirect investments.

The Directors have satisfied themselves as to the methodology used, the discount rates and key assumptions applied, and the valuation of all the underlying investments. All equity investments in PPP or similar projects are valued using a discounted cash flow methodology. The A13 investment in listed senior bonds is valued based on the quoted market price at the balance sheet date. 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 the underlying infrastructure investments, the Directors have also obtained an independent opinion from a third party expert with experience in valuing these types of investments, supporting the reasonableness of the valuation.

Investments – The key valuation assumptions and sensitivities for the valuation

The following economic assumptions were used in the discounted cash flow valuations:

		31 March 2019	31 March 2018
Inflation Rates	UK RPI and RPIx)[1] CPIH[2]	2.75% p.a. 2.0% p.a.	2.75% p.a. 2.0% p.a.
	Eurozone (CPI)	1.0% p.a. to 2019, 2.0% p.a. thereafter	1.0% p.a. to 2019, 2.0% p.a. thereafter
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	USA (CPI)	2.0% p.a.	2.0% p.a.
Interest Rates	UK	1.0% p.a. to March 2022, 2.0% p.a. thereafter	1.0% p.a. to March 2021, 2.0% p.a. thereafter
	Eurozone	0.5% p.a. to March 2022, 1.5% p.a. thereafter	0.5% p.a. to March 2021, 1.5% p.a. thereafter
	Canada	2.0% p.a. to March 2021, 2.5% p.a. thereafter	2.0% p.a. to March 2021, 3.0% p.a. thereafter
	USA	2.0% p.a. to March 2021, 2.5% p.a. thereafter	2.0% p.a. to March 2021, 3.0% p.a. thereafter
Foreign Exchange Rates	CAD/GBP	0.57	0.55
	EUR/GBP	0.86	0.88
	USD/GBP	0.77	0.71
Tax Rates	UK	19% to March 2020, 17% thereafter	19% to March 2020, 17% thereafter
	Eurozone	Ireland 12.5% France 25% – 33.3% Netherlands 20.5% by 2025	Ireland 12.5% France 25% – 33.3% Netherlands 20% – 25%
	USA	21% Federal & 4.6% Colorado State	21% Federal & 4.6% Colorado State
	Canada	26% and 27%	26% and 27%
GDP Growth	UK	2.0% p.a.	2.0% p.a.
	Eurozone	1.8% p.a.	1.8% p.a.
	USA	2.5% p.a.	2.5% p.a.

[1] Retail Price Index and Retail Price Index excluding mortgage interest payments.
[2] Consumer Prices Index including owner occupiers' housing costs.

6.3
Notes to the Financial Statements (continued)

4. FINANCIAL INSTRUMENTS (CONTINUED)

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 in these markets and publicly available information on relevant transactions.

The discount rates used for valuing each infrastructure investment vary on an investment-by-investment basis and take into account risks and opportunities associated with the investment earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by investment phase, jurisdiction and market participants' appetite for these risks.

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

Period ending	Range	Weighted average
31 March 2018	4.1% to 9.8%	7.4%
30 September 2018	3.4% to 9.6%	7.2%
31 March 2019	**2.1%[1] to 9.6%**	**7.2%**

[1] The 2.1% discount rate relates to the A13 senior bonds. The rate is the implied rate from the quoted market price of the bonds at the year end.

A change to the weighted average rate of 7.2% (2018: 7.4%) by plus or minus 0.5% has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share.

Discount rate	-0.5% change	Investments at fair value through profit or loss – portfolio	+0.5% change
March 2019	**+£165.6m**	**£2,821.1m**	**-£150.4m**
March 2018	+£152.4m	£2,677.2m	-£138.7m
Implied change in NAV per Ordinary Share1 – March 2019 (March 2018)	**+9.2 pence** (+8.5 pence)	**157.5 pence** (149.6 pence)	**-8.4 pence** (-7.7 pence)

[1] NAV per Ordinary Share based on 1,791 million Ordinary Shares at 31 March 2019.

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), RPIx (RPI excluding mortgage payments) or CPI (Consumer Prices Index), and revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing).

A change to the inflation rate by plus or minus 0.5% has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Inflation assumption	-0.5% p.a. change	Investments at fair value through profit or loss – portfolio	+0.5% p.a. change
March 2019	**-£140.8m**	**£2,821.1m**	**+£155.1m**
March 2018	-£125.5m	£2,677.2m	+£146.3m
Implied change in NAV per Ordinary Share1 2 – March 2019 (March 2018)	**-7.9 pence** (-7.0 pence)	**157.5 pence** (149.6 pence)	**+8.7 pence** (+8.2 pence)

[1] Analysis is based on HICL's 35 largest investments (2018: 35 largest investments), pro rata for the whole portfolio.
[2] NAV per Ordinary Share based on 1,791 million Ordinary Shares at 31 March 2019.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rates

Each investment'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. The portfolio's sensitivity to interest rates primarily relates to the cash deposits required as part of the project funding, though a small number are sensitive to interest rates as future refinancings is required.

Each PPP project and demand risk asset in the portfolio has cash held in bank deposits, which is a requirement of their senior debt financing. As at 31 March 2019 cash deposits for the portfolio were earning interest at a rate of 0.9% per annum on average.

A change to the interest rate and/or deposit rate by plus or minus 0.5% has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Interest rate	-0.5% p.a. change	Investments at fair value through profit or loss – portfolio	+0.5% p.a. change
March 2019	**-£20.3m**	**£2,821.1m**	**+£23.4m**
March 2018	-£21.0m	£2,677.2m	+£24.0m
Implied change in NAV per Ordinary Share1 2 3 – March 2019 (March 2018)	**-1.1 pence** (-1.2 pence)	**157.5 pence** (149.6 pence)	**+1.3 pence** (+1.3 pence)

[1] This analysis is based on HICL's 35 largest investments (2018: 35 largest investments), pro rata for the whole portfolio.
[2] NAV per Ordinary Share based on 1,791 million Ordinary Shares at 31 March 2019.
[3] March 2018 comparatives have been represented to be an interest rate sensitivity rather than a deposit rate sensitivity.

Gross Domestic Product

The portfolio has four projects (2018: four projects) where revenues are positively correlated to changes in Gross Domestic Product. These projects are A63 Motorway, M1-A1 Road, HS1 and Northwest Parkway which together comprise 21% of the Investments at fair value through profit or loss.

A change to the Gross Domestic Product by plus or minus 0.5% has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Gross Domestic Product (GDP)	-0.5% p.a. change	Investments at fair value through profit or loss – portfolio	+0.5% p.a. change
March 2019	**-£83.9m**	**£2,821.1m**	**+£85.0m**
March 2018	-£69.4m	£2,677.2m	+£70.5m
Implied change in NAV per Ordinary Share1 – March 2019 (March 2019)	**-4.7 pence** (-3.9 pence)	**157.5 pence** (149.6 pence)	**+4.7 pence** (+3.9 pence)

[1] NAV per Ordinary Share based on 1,791 million Ordinary Shares at 31 March 2019.

Tax rates

The profits of each investment company are subject to corporation tax in the country in which the investment is located. The UK Finance Act 2016 enacted a reduction to the corporation tax rate to 17% effective from April 2020, which is assumed in the valuation of the portfolio.

A change to the tax rate by plus or minus 5.0% has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Tax rate assumption	-5.0% p.a. change	Investments at fair value through profit or loss – portfolio	+5.0% p.a. change
March 2019	**+£115.8m**	**£2,821.1m**	**-£112.8m**
March 2018	+£106.9m	£2,677.2m	-£106.2m
Implied change in NAV per Ordinary Share1 2 – March 2019 (March 2018)	**+6.5 pence** (+6.0 pence)	**157.5 pence** (149.6 pence)	**-6.3 pence** (-5.9 pence)

[1] This analysis is based on HICL's 35 largest investments (2018: 35 largest investments), pro rata for the whole portfolio.
[2] NAV per Ordinary Share based on 1,791 million Ordinary Shares at 31 March 2019.

6.3
Notes to the Financial Statements (continued)

4. FINANCIAL INSTRUMENTS (CONTINUED)

Risk management

The Corporate Group is exposed to market risk (which includes currency risk, interest rate risk and inflation risk), credit risk and liquidity risk arising from the financial instruments it holds through a Corporate Subsidiary as disclosed below.

Market risk

Returns from HICL'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 Corporate 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 risks, including 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 Corporate Group is exposed. This Note presents information about the Corporate Group's exposure to financial risks, its objectives, policies and processes for managing risk and the Corporate Group's management of its financial resources.

The Corporate 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.

Interest rate risk

The Corporate Group invests indirectly in subordinated loanstock of infrastructure project companies, usually with fixed interest rate coupons. Where floating rate debt is owned the primary risk is that the Corporate 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. HICL Guernsey has made use of borrowings at a Corporate Subsidiary level 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 Corporate Group's policy is to ensure that interest rates are sufficiently hedged, when entering into material medium/long-term borrowings, typically via a Corporate Subsidiary, to protect the Corporate Group and Corporate Subsidiary'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 Corporate Group has an indirect exposure to changes in interest rates through its investment in infrastructure 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 infrastructure project companies in which the Corporate Group invests 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 Corporate Group's overall cash flows 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 Corporate Group's cash flows, 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 Investments at fair value through profit or loss to inflation is also shown above within Note 4.

Currency risk

The Corporate 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 Corporate Group expects to receive over the medium term, where considered appropriate. This may involve the use of forward exchange and other currency hedging contracts at Corporate Subsidiary level, as well as the use of Euro, Canadian dollar, US dollar and other currency denominated borrowings via a Corporate Subsidiary. HICL Guernsey at 31 March 2019 hedged its currency exposure through Euro, Canadian dollar and US dollar forward contracts. This has reduced the volatility in the NAV from foreign exchange movements.

4. FINANCIAL INSTRUMENTS (CONTINUED)

The hedging policy is designed to provide confidence in the near-term yield and to limit NAV per share sensitivity to no more than 2% 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 Net Asset Value and NAV per Ordinary share:

Foreign Exchange sensitivities	-5.0% change	Net Asset Value	+5.0% change
March 2019	**-£13.7m**	**£2,821.7m**	**+£13.7m**
March 2018	-£14.9m	£2,677.1m	+£14.9m
Implied change in NAV per Ordinary Share2 – March 2019 (March 2018)	**-0.8 pence** (-0.8 pence)	**157.5 pence** (149.6 pence)	**+0.8 pence** (+0.8 pence)

[1] Sensitivities include effect of foreign exchange hedging contracts.
[2] NAV per Ordinary Share based on 1,791 million Ordinary Shares at 31 March 2019.

Credit risk

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

The Corporate Group's key direct counterparties are the project companies in which it makes investments. The Corporate 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 Corporate Group's investment and subsidiary entities receive revenue from government departments and public sector or local authority clients. Therefore, a significant portion of the Corporate Group's investments' revenue is with counterparties of good financial standing.

The Corporate Group is also reliant on each project's subcontractors continuing to perform their service delivery obligations such that revenues to projects are not disrupted. The Operator has a subcontractor counterparty monitoring procedure in place.

The credit standing of subcontractors is reviewed, and the risk of default estimated for each significant counterparty position. Monitoring is ongoing and period end positions are reported to the Board on a quarterly basis. HICL Guernsey's largest credit risk exposure to a project at 31 March 2019 was to the High Speed 1 project (7% of investments at fair value) and the largest subcontractor counterparty risk exposure was to subsidiaries of the Bouygues Corporate Group which provided facilities management services in respect of 15% of the investments at fair value.

The Corporate Group is subject to credit risk on its loans, receivables, cash and deposits. The Corporate 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.

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

Liquidity risk

Liquidity risk is the risk that the Corporate Group will not be able to meet its financial obligations as they fall due. The Corporate 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 Corporate Group ensures it maintains adequate reserves and its Corporate Subsidiaries have sufficient banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Corporate Group's investments are predominantly funded by share capital.

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

6.3
Notes to the Financial Statements (continued)

4. FINANCIAL INSTRUMENTS (CONTINUED)

The Corporate 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 Corporate Group's bankers in favour of the senior lenders to the investment companies. Such investment obligations are met from the Corporate Group's cash resources when they fall due. At 31 March 2019, HICL Guernsey's investment obligations totalled £89.3 million (2018: £41.9 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 Corporate Group's overall liquidity.

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

31 March 2019	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m
Amounts owed to HICL UK[1]	2,000.1	–	–	–
Trade and other payables	1.9	–	–	–
Total	**2,002.0**	**–**	**–**	**–**

[1] Settled on 1 April 2019 via the Scheme. See Note 19 for details.

31 March 2018	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m
Trade and other payables	0.8	–	–	–
Total	**0.8**	**–**	**–**	**–**

Capital management

HICL Guernsey at 31 March 2019 had a £400 million Revolving Credit Facility via a Corporate Subsidiary of which £90.0 million (2018: 134.6 million) was drawn down at the year end. HICL Guernsey's obligations under the Revolving Credit Facility were transferred to HICL UK on 1 April 2019 following entry into the Scheme. 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.

HICL makes prudent use of its available leverage. Under the Articles, HICL Guernsey's outstanding borrowings, including any financial guarantees to support outstanding subscription obligations but excluding internal company borrowings of the Corporate Group's underlying investments, are limited to 50% of the Adjusted Gross Asset Value, being the Directors' Valuation plus cash balances of HICL Guernsey and its Corporate Subsidiaries at any time.

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

	31 March 2019 £m	31 March 2018 £m
Outstanding drawings		
Bank borrowings	90.0	134.6
Letter of credit facility	17.8	26.6
	107.8	**161.2**
Adjusted Gross Asset Value		
Directors' Valuation (Note 13)	2,998.9	2,836.5
Cash and cash equivalents	3.5	17.4
	3,002.4	**2,853.9**
Borrowing ratio	**3.6%**	**5.6%**

4. FINANCIAL INSTRUMENTS (CONTINUED)

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

To assist in the narrowing of any discount to the Net Asset Value at which the Ordinary Shares may trade, from time to time HICL Guernsey 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 HICL Guernsey's approach to capital management during the year.

5. GEOGRAPHICAL ANALYSIS

The tables below analyse the revenue and investments at fair value by the different regions HICL has indirect investments in.

Investment Income	UK	Eurozone	North America	Australia	Total
March 2019	**£203.2m**	**£37.7m**	**£37.8m**	**£11.7m**	**£290.4m**
% of Total Investments Income	**70%**	**13%**	**13%**	**4%**	**100%**
March 2018	£93.2m	£17.3m	£5.2m	£8.4m	£124.1m
% of Total Investments Income	75%	14%	4%	7%	100%

Investments at fair value through profit and loss – portfolio	UK	Eurozone	North America	Australia	Total
March 2019	**£2,172.2m**	**£423.2m**	**£225.7m**	**–**	**£2,821.1m**
% of Total Investments	**77%**	**15%**	**8%**	**–**	**100%**
March 2018	£2,141.8m	£267.7m	£187.4m	£80.3m	£2,677.2m
% of Total Investments	80%	10%	7%	3%	100%

6. INVESTMENT INCOME

	Year ended 31 March 2019 Total £m	Year ended 31 March 2018 Total £m
Income from investments	149.1	133.0
Gain/(loss) on valuation (Note 13)	141.3	(8.9)
	290.4	**124.1**

7. FUND EXPENSES

	Year ended 31 March 2019 Total £m	Year ended 31 March 2018 Total £m
Audit fees	0.2	0.1
Fees for audit-related assurance services	0.1	0.1
Investment Adviser fees	0.1	0.1
Directors' fees (Note 17)	0.4	0.3
Professional fees[1]	4.2	1.7
	5.0	**2.3**

[1] Professional fees includes £2.7m (2018: £Nil) costs of the Scheme in relation to moving the domicile of HICL Guernsey's investment business from Guernsey to the UK.

HICL Guernsey had no employees during the year (2018: Nil).

6.3 Notes to the Financial Statements (continued)

8. NET FINANCE COSTS

During the year ended 31 March 2019, HICL Guernsey had de minimis net finance income consisting of interest earned on bank deposits offset by some bank charges.

9. INCOME TAX

Guernsey

Under the current system of taxation in Guernsey, HICL Guernsey 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 financial statements do not include the tax charges for any of HICL's 118 (2018: 116) investments as these are held at fair value. All investments are subject to taxes in the countries in which they operate.

10. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity shareholders of HICL Guernsey by the weighted average number of Ordinary Shares in issue during the year.

	2019	2018
Profit attributable to equity holders	£285.4m	£121.8m
Weighted average number of Ordinary Shares in issue	1,789.9m	1,757.1m
Basic and diluted earnings per Ordinary Share	15.9p	6.9p

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

11. DIVIDENDS

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Amounts recognised as distributions to equity holders during the year:		
Fourth quarterly interim dividend for the year ended 31 March 2018 of 1.97p (2017: 1.92p) per share	35.2	31.2
First quarterly interim dividend for the year ended 31 March 2019 of 2.01p per share (2018: 1.96p)	36.0	35.0
Second quarterly interim dividend for the year ended 31 March 2019 of 2.01p per share (2018: 1.96p)	36.0	35.1
Third quarterly interim dividend for the year ended 31 March 2019 of 2.01p per share (2018: 1.96p)	36.0	35.1
	143.2	**136.4**
Distributions paid in cash	140.6	129.9
Distributions paid by scrip issue	2.6	6.5
Total distributions paid in the year	**143.2**	**136.4**
Amounts not recognised as distributions to equity holders during the year:		
Fourth quarterly interim dividend for the year ended 31 March 2019 of 2.02p (2018: 1.97p) per share	36.2	35.2

It is expected that the fourth quarterly interim dividend will be approved by the Board of HICL UK on 29 May 2019 and will be payable on 28 June 2019 to shareholders on HICL UK's register as at 7 June 2019. The fourth quarterly interim dividend has not been included as a liability at 31 March 2019.

The 2018 fourth quarterly interim dividend of 1.97p and the first three 2019 quarterly interim dividends of 2.01p each are included in the Statement of Changes in Shareholders' Equity.

11. DIVIDENDS (CONTINUED)

Interim dividend	Year ended 31 March 2019	Year ended 31 March 2018	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2015
3 month period ending 30 June	2.01	1.96p	1.91p	1.86p	1.81p
3 month period ending 30 September	2.01	1.96p	1.91p	1.86p	1.81p
3 month period ending 31 December	2.01	1.96p	1.91p	1.86p	1.81p
3 month period ending 31 March	2.02	1.97p	1.92p	1.87p	1.87p
	8.05p	**7.85p**	**7.65p**	**7.45p**	**7.30p**

12. NET ASSETS PER ORDINARY SHARE

	31 March 2019	31 March 2018
Shareholders' equity at 31 March	£2,821.7m	£2,677.1m
Less: fourth interim dividend	(£36.2m)	(£35.3m)
	£2,785.5m	£2,641.8m
Number of Ordinary Shares at 31 March	1,791.1m	1,789.5m
Net assets per Ordinary Share after deducting fourth interim dividend	**155.5p**	**147.6p**
Add fourth interim dividend	2.02p	1.97p
Net assets per Ordinary Share at 31 March	**157.5p**	**149.6p**

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

HICL's investment portfolio was disposed of as part of the Scheme on 1 April 2019 hence it has been included as a current asset in these financial statements. Further detail is included in Note 14 and Note 19.

Investments at fair value through profit or loss includes HICL Guernsey's investment in Luxco 1, a directly owned holding company and an investment entity itself through which its investment business is held.

	31 March 2019 £m	31 March 2018 £m
Opening balance	2,677.2	2,419.4
Investments in the year	2.6	266.7
Gain/(loss) on revaluation	141.3	(8.9)
Carrying amount at year end – portfolio	**2,821.1**	**2,677.2**
HICL UK	2,000.1	–
Carrying amount at year end	**4,821.2**	**2,677.2**
This is represented by:		
Less than one year	4,821.2	–
Greater than one year	–	2,677.2
Carrying amount at year end	**4,821.2**	**2,677.2**

HICL Guernsey's recognition of Luxco 1's fair value includes the fair value of each of the individual portfolio companies and holding companies in which HICL Guernsey holds an indirect investment.

Investments in the year reflect funds paid to Luxco 1, following the issuance of equity to shareholders.

Refer to Note 3 for the valuation techniques and key model inputs used for determining investment fair values.

6.3 Notes to the Financial Statements (continued)

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2019. 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 equity investments are valued using a discounted cash flow methodology except for the A13 investment in listed senior bonds which is valued based on quoted market price at the balance sheet date. The valuation techniques and methodologies have been applied consistently with the prior year. Discount rates (including the effective rate on A13) range from 2.1% to 9.6% (weighted average of 7.2%) (2018: 4.1% to 9.8% (weighted average of 7.4%)).

The valuation of HICL's underlying portfolio at 31 March reconciles to Investments at fair value through profit or loss – portfolio on the Balance Sheet as follows:

	31 March 2019 £m	31 March 2018 £m
Directors' Valuation	2,998.9	2,836.5
Less: future commitments (Note 18)	(89.3)	(41.9)
Investments at fair value per Investment Basis	2,909.6	2,794.6
Net debt in Corporate Subsidiaries	(86.8)	(115.9)
Net working capital liability in Corporate Subsidiaries	(1.7)	(1.5)
Investments at fair value through profit or loss – portfolio	**2,821.1**	**2,677.2**

Investments are generally restricted on their ability to transfer funds to HICL 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;
- investment company is in compliance with the terms of its senior funding arrangements; and
- senior lenders have approved the annual budget for the Company.

13. 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 (UK unless stated otherwise):

	31 March 2019			31 March 2018		
Project name	Equity	Subordinated Debt	Mezzanine Debt	Equity	Subordinated Debt	Mezzanine Debt
A13 Road[7]	–	–	–	–	–	–
A249 Road	50.00%	50.00%	–	50.00%	50.00%	–
A63 Motorway[4]	20.95%	20.95%	–	13.82%	13.82%	–
A9 Road[2]	20.00%	–	–	20.00%	–	–
A92 Road	50.00%	50.00%	–	50.00%	50.00%	–
Addiewell Prison	66.66%	66.66%	–	66.66%	66.66%	–
Affinity Water	33.20%	–	–	33.20%	–	–
Allenby & Connaught MoD	12.50%	12.50%	–	12.50%	12.50%	–
AquaSure Desalination Plant[5]	–	–	–	9.70%	–	–
Bangor and Nendrum Schools	20.40%	25.50%	–	20.40%	25.50%	–
Barking and Dagenham Schools	100.00%	100.00%	–	100.00%	100.00%	–
Barnet Hospital	100.00%	100.00%	–	100.00%	100.00%	–
Belfast	75.00%	75.00%	–	–	–	–
Birmingham & 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	100.00%	100.00%	–	100.00%	100.00%	–
Blackpool Primary Care Facility	75.00%	75.00%	–	75.00%	75.00%	–
Boldon School	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%	–
Breda Court[2]	85.00%	–	–	85.00%	–	–
Brentwood Community Hospital	75.00%	75.00%	–	75.00%	75.00%	–
Brighton Hospital	50.00%	50.00%	–	50.00%	50.00%	–
Burbo	50.00%	50.00%	–	–	–	–
Central Middlesex Hospital	100.00%	100.00%	–	100.00%	100.00%	–
Connect	33.50%	33.50%	–	33.50%	33.50%	–
Conwy Schools	90.00%	90.00%	–	90.00%	90.00%	–
Cork School of Music[1]	75.50%	75.50%	–	75.50%	75.50%	–
Croydon Schools	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	100.00%	100.00%	–	100.00%	100.00%	–
Doncaster Mental Health Unit	50.00%	50.00%	–	50.00%	50.00%	–
Dorset Fire & Rescue	100.00%	100.00%	–	100.00%	100.00%	–
Durham & Cleveland Police Tactical Training Centre	100.00%	100.00%	–	100.00%	100.00%	–
Dutch High Speed Rail Link[2]	43.00%	43.00%	–	43.00%	43.00%	–
Ealing Care Homes	63.00%	63.00%	–	63.00%	63.00%	–
Ealing Schools	50.00%	50.00%	–	50.00%	50.00%	–
East Ayrshire Schools	25.00%	25.00%	–	25.00%	25.00%	–
Ecole Centrale Supelec[4]	85.00%	–	–	85.00%	–	–
Edinburgh Schools	100.00%	100.00%	–	100.00%	100.00%	–
Exeter Crown Court	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%	–
Glasgow Hospital	25.00%	25.00%	–	25.00%	25.00%	–

6.3
Notes to the Financial Statements (continued)

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

	31 March 2019			31 March 2018		
Project name	Equity	Subordinated Debt	Mezzanine Debt	Equity	Subordinated Debt	Mezzanine Debt
Gloucestershire Fire & Rescue	75.00%	75.00%	–	75.00%	75.00%	–
Greater Manchester Police Authority	72.90%	72.90%	–	72.90%	72.90%	–
Haverstock School	50.00%	50.00%	–	50.00%	50.00%	–
Health & Safety Executive (HSE) Merseyside Headquarters	50.00%	50.00%	–	50.00%	50.00%	–
Health & Safety Laboratory	80.00%	90.00%	–	80.00%	90.00%	–
Helicopter Training Facility – AssetCo	86.60%	7.20%	100.00%	86.60%	7.20%	100.00%
Helicopter Training Facility – OpCo	23.50%	74.10%	–	23.50%	74.10%	–
HICL UK	100.00%	–	–	–	–	–
Highland Schools	–	–	–	100.00%	100.00%	–
Hinchingbrooke Hospital	75.00%	75.00%	–	75.00%	75.00%	–
Home Office Headquarters	100.00%	100.00%	–	100.00%	100.00%	–
High Speed Rail 1	21.80%	21.80%	–	21.80%	21.80%	–
Irish Grouped Schools[1]	50.00%	50.00%	–	50.00%	50.00%	–
Ireland Primary Care Centres	60.00%	–	–	60.00%	–	–
Kent Schools	50.00%	50.00%	–	50.00%	50.00%	–
Kicking Horse Canyon P3[3]	50.00%	–	–	50.00%	–	–
Lewisham Hospital	100.00%	100.00%	–	100.00%	100.00%	–
M1-A1 Link Road	30.00%	30.00%	–	30.00%	30.00%	–
M80 Motorway	50.00%	50.00%	–	50.00%	50.00%	–
Manchester School	75.50%	75.50%	–	75.50%	75.50%	–
Medway LIFT	60.00%	60.00%	–	60.00%	60.00%	–
Medway Police	100.00%	100.00%	–	100.00%	100.00%	–
Metropolitan Police Specialist Training Centre	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 Schools BSF	80.00%	80.00%	–	80.00%	80.00%	–
Newport Schools	100.00%	100.00%	–	100.00%	100.00%	–
Newton Abbot Hospital	100.00%	100.00%	–	100.00%	100.00%	–
North Ayrshire Schools	25.50%	25.50%	–	25.50%	25.50%	–
North Tyneside Schools	50.00%	50.00%	–	50.00%	50.00%	–
Northwest Anthony Henday P3[3]	50.00%	50.00%	–	50.00%	50.00%	–
Northwest Parkway[6]	33.33%	–	–	33.33%	–	–
Northwood MoD Headquarters	50.00%	50.00%	–	50.00%	50.00%	–
Norwich Schools	75.00%	75.00%	–	75.00%	75.00%	–
Nuffield Hospital	25.00%	25.00%	–	25.00%	25.00%	–
N17/N18 Road[1]	50.00%	50.00%	–	10.00%	–	–
Oldham Library	75.00%	75.00%	–	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	100.00%	100.00%	–	100.00%	100.00%	–
Paris-Sud University[4]	85.00%	85.00%	–	–	–	–
PSBP North East Batch Schools	90.00%	90.00%	–	90.00%	90.00%	–
Perth and Kinross Schools	100.00%	100.00%	–	100.00%	100.00%	–
Pinderfields and Pontefract Hospitals	100.00%	100.00%	–	100.00%	100.00%	–
Queen Alexandra Hospital Portsmouth	100.00%	100.00%	–	100.00%	100.00%	–
Queen's (Romford) Hospital	66.70%	66.70%	–	66.70%	66.70%	–
RD901 Road[4]	90.00%	90.00%	–	90.00%	90.00%	–

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Project name	31 March 2019 Equity	31 March 2019 Subordinated Debt	31 March 2019 Mezzanine Debt	31 March 2018 Equity	31 March 2018 Subordinated Debt	31 March 2018 Mezzanine Debt
Redbridge & Waltham Forest LIFT	60.00%	60.00%	–	60.00%	60.00%	–
Renfrewshire Schools	30.00%	30.00%	–	30.00%	30.00%	–
Rhondda Cynon Taf Schools	100.00%	100.00%	–	100.00%	100.00%	–
Royal Canadian Mounted Police 'E' Division Headquarters[3]	100.00%	–	–	100.00%	–	–
Royal School of Military Engineering	26.00%	32.10%	–	26.00%	32.10%	–
Salford Hospital	50.00%	50.00%	–	50.00%	50.00%	–
Salford Schools	25.50%	25.50%	–	25.50%	25.50%	–
Salford & Wigan BSF Phase 1	80.00%	80.00%	–	80.00%	80.00%	–
Salford & Wigan BSF Phase 2	80.00%	80.00%	–	80.00%	80.00%	–
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%	–	75.00%	75.00%	–
South Ayrshire Schools	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%	–	62.50%	62.50%	–
Staffordshire LIFT	60.00%	60.00%	–	60.00%	60.00%	–
Stoke Mandeville Hospital	100.00%	100.00%	–	100.00%	100.00%	–
Sussex Custodial Services	100.00%	100.00%	–	100.00%	100.00%	–
Tameside General Hospital	50.00%	50.00%	–	50.00%	50.00%	–
Tyne & Wear Fire Stations	100.00%	–	–	100.00%	–	–
University of Bourgogne[4]	85.00%	85.00%	–	85.00%	85.00%	–
University of Sheffield Accommodation	50.00%	50.00%	–	50.00%	50.00%	–
West Lothian Schools	75.00%	75.00%	–	75.00%	75.00%	–
West Middlesex Hospital	100.00%	100.00%	–	100.00%	100.00%	–
Willesden Hospital	100.00%	100.00%	–	100.00%	100.00%	–
Wooldale Centre for Learning	50.00%	50.00%	–	50.00%	50.00%	–
Zaanstad Prison[2]	100.00%	100.00%	–	100.00%	100.00%	–

[1] The project is located in Ireland.
[2] The project is located in the Netherlands.
[3] The project is located in Canada.
[4] The project is located in France.
[5] The project is located in Australia.
[6] The project is located in the United States of America.
[7] Senior debt investment.

6.3 Notes to the Financial Statements (continued)

14. INVESTMENTS – ACQUISITIONS AND DISPOSALS

Acquisitions

HICL Guernsey, via its Corporate Subsidiaries, made the following acquisitions during the year ended 31 March 2019:

- In April 2018, HICL acquired an 85% equity interest in the Biology, Pharmacy and Chemistry Department of the Paris-Sud University for a total commitment of €20.7 million, which includes a loan stock subscription obligation payable following the substantial completion of construction of the project.
- In April 2018, HICL acquired a 75% equity and loan interest in the Belfast Metropolitan College PFI project for total consideration of £6.4 million through an existing joint venture company, Redwood Partnership Ventures 2 Limited, in which HICL has a 75% shareholding.
- In April 2018, HICL acquired a 50% equity and loan interest in the transmission assets associated with the Burbo Bank Extension wind farm for total consideration of £9.9 million.
- In June 2018, HICL acquired an incremental 7.2% equity and loan interest in the A63 Motorway for €62.0 million.
- In February 2019, HICL acquired a 40% equity (8% incremental) and loan interest in the N17/N18 Gort to Tuam PPP Scheme for €23.0 million.

Disposals

HICL Guernsey, via its Corporate Subsidiaries, made the following disposals during the year ended 31 March 2019:

- In June 2018, HICL disposed of its 100% equity and subordinated debt interest in the Highland Schools PPP2 project for £56.4 million.
- In July 2018, HICL disposed of 15% of its 90% equity and subordinated debt interest in the Oldham Library PPP project for £0.9 million.
- In November 2018, HICL disposed of its 9.7% interest in the AquaSure Desalination PPP project for AUD161 million[1].

Investment in HICL UK

On 11 January 2019, HICL Guernsey subscribed for 50,000 £1 Redeemable shares in HICL UK at par in connection with the arrangements for the establishment of HICL UK, as detailed in HICL Guernsey's EGM Circular dated 4 March 2019. The obligation remained outstanding at balance sheet date and was settled as part of the Scheme (see Note 19) on 1 April 2019.

On 17 January 2019, HICL Guernsey subscribed for 1 £0.0001 Ordinary Share in HICL UK for a premium of £2.0bn in connection with the arrangements for the establishment of HICL UK, as detailed in HICL Guernsey's EGM Circular dated 4 March 2019. The obligation remained outstanding at balance sheet date and was settled as part of the Scheme (see Note 19) on 1 April 2019.

15. LOANS AND BORROWINGS

HICL Guernsey, through a Corporate Subsidiary, had £90.0 million cash loans or borrowings outstanding at 31 March 2019 (2018: 134.6 million). A Corporate Subsidiary had letters of credit utilised on the Revolving Credit Facility totalling £17.8 million at 31 March 2019 (2018: £26.6 million).

HICL Guernsey, through a Corporate Subsidiary, had the following undrawn borrowing facilities at 31 March:

	2019 £m	2018 £m
Secured		
– expiring within one year	–	–
– expiring between 1 and 2 years	–	–
– expiring between 2 and 5 years	292.2	238.8
– expiring after 5 years	–	–
	292.2	**238.8**

[1] Including AUD 4 million dividends received subsequent to signing the sale agreement.

15. LOANS AND BORROWINGS (CONTINUED)

HICL Guernsey's, and subsequently HICL UK's, multi-currency £400m Revolving Credit Facility is held via a Corporate Subsidiary and is jointly provided by The Royal Bank of Scotland, National Australia Bank, Lloyds Bank, Sumitomo Mitsui Banking Corporation, ING, HSBC and Santander.

Following an extension in February 2019, the facility runs until 31 May 2022 and has a margin of 1.65% over Libor. It is available to be drawn in cash and letters of credit for future investment obligations.

All bank covenants were complied with during the year; the most significant of which were requirements to maintain a forward and historic interest cover ratio above 3:1 and gearing ratio not greater than 30%.

16. SHARE CAPITAL AND RESERVES

Ordinary Shares	31 March 2019 m	31 March 2018 m
Authorised and issued at 1 April	1,789.5	1,623.3
Issued for cash	–	162.2
Issued as a scrip dividend alternative	1.6	4.0
Authorised and issued at 31 March – fully paid	**1,791.1**	**1,789.5**

The holders of the 1,791,142,767 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 HICL Guernsey (2018: 1,789,556,677 Ordinary Shares). Via the Scheme, HICL Guernsey's shareholders were issued one Ordinary Share in HICL UK for each Ordinary Share held in HICL Guernsey.

Ordinary Share capital and share premium	31 March 2019 £m	31 March 2018 £m
Opening balance	2,025.8	1,753.5
Premium arising on issue of equity shares	2.6	274.2
Expenses of issue of equity shares	(0.2)	(1.9)
Balance at 31 March	**2,028.2**	**2,025.8**

Share capital at 31 March 2019 is £179.0 thousand (2018: £179.0 thousand).

For the year ended 31 March 2019

On 28 September 2018, 0.6 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 158.12p as a scrip dividend alternative in lieu of cash for the first quarterly interim dividend in respect of the year ended 31 March 2019.

On 31 December 2018, 0.6 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 160.08p as a scrip dividend alternative in lieu of cash for the second quarterly interim dividend in respect of the year ended 31 March 2019.

On 22 March 2019, 0.5 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 166.42p as a scrip dividend alternative in lieu of cash for the third quarterly interim dividend in respect of the year ended 31 March 2019.

For the year ended 31 March 2018

On 30 June 2017, 0.5 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 171.0p as a scrip dividend alternative in lieu of cash for the fourth quarterly interim dividend in respect of the year ended 31 March 2017.

On 30 September 2017, 2.3 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 161.98p as a scrip dividend alternative in lieu of cash for the first quarterly interim dividend in respect of the year ended 31 March 2018.

On 31 December 2017, 0.6 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 155.64p as a scrip dividend alternative in lieu of cash for the second quarterly interim dividend in respect of the year ended 31 March 2018.

On 31 March 2018, 0.6 million new Ordinary Shares of 0.01p each fully paid in HICL Guernsey were issued at a reference price of 143.36p as a scrip dividend alternative in lieu of cash for the third quarterly interim dividend in respect of the year ended 31 March 2018.

In June 2017, 162.2 million new Ordinary Shares of 0.01p each were issued to various institutional investors at an issue price per share (before expenses) of 165.0p.

Retained reserves

Retained reserves comprise retained earnings and the balance of the share premium account, as detailed in the Statement of Changes in Shareholders' Equity.

6.3 Notes to the Financial Statements (continued)

17. RELATED PARTY TRANSACTIONS

InfraRed Capital Partners Limited ("IRCP") was the Investment Adviser to HICL Guernsey until 1 April 2019. IRCP's appointment as Investment Adviser was governed by an Investment Advisory Agreement, which had a termination notice period of one year. IRCP was entitled to a fee of £0.1 million per annum (disclosed within Fund expenses in Note 7) (2018: £0.1 million), which was payable half-yearly in arrears. On 1 April 2019, following HICL Guernsey's entry into the Scheme (see Note 19), the Investment Advisory Agreement between HICL Guernsey and IRCP was terminated, without penalty.

On 4 March 2019, IRCP was appointed under an Investment Management Agreement as Investment Manager to and AIFM of HICL UK. Following shareholder approval at an Extraordinary General Meeting of HICL Guernsey on 26 March 2019, the Investment Management Agreement may be terminated by either party to the agreement, being HICL UK or IRCP, giving three years' written notice. The appointment may also be terminated if IRCP's appointment as Operator (see below) is terminated. Under the Investment Management Agreement, IRCP is entitled to a fee of £0.1 million per annum, payable half-yearly in arrears and which is subject to review, from time to time, by HICL UK.

IRCP is also the Operator of IILP, the Corporate Subsidiary through which HICL holds its investments. IRCP has been appointed as the Operator by the General Partner of IILP, Infrastructure Investments General Partner Limited, a fellow subsidiary of IRCP. Following shareholder approval at an Extraordinary General Meeting of HICL Guernsey on 26 March 2019, the Operator and the General Partner may each terminate the appointment of the Operator by either party giving three years' written notice. The notice period prior to this was one year. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Management 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, HICL 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 HICL, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In the year to 31 March 2019, 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 HICL 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, 0.8 per cent for the incremental value in excess of £2,250 million and 0.65 per cent for the incremental value in excess of £3,000 million and ii) until 1 April 2019, 1.0 per cent of the value of new portfolio investments, that were not sourced from entities, funds or holdings managed by the IRCP Group.

The total Operator fees were £27.7 million (2018: £26.2 million) of which £7.0 million remained payable at year end (2018: £6.7 million). The total charge for new portfolio investments was £1.1 million (2018: £4.6 million) of which £0.2 million remained payable at the year end (2018: £0.1 million).

The Directors of HICL Guernsey received fees for their services. Further details are provided in the Directors' Remuneration Report in Section 5.6.

Total fees for Directors for the year were £368,875 (2018: £323,000). Directors' expenses of £32,370 (2018: £27,608) were also paid in the year. One Director also receives fees of £6,000 (2018: £6,000) for serving as director of the two Luxembourg subsidiaries.

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

18. GUARANTEES AND OTHER COMMITMENTS

As at 31 March 2019, HICL Guernsey, through its Corporate Subsidiaries, had £89.3 million commitments for future investments (2018: £41.9 million).

19. EVENTS AFTER THE BALANCE SHEET DATE

On 26 March 2019, HICL Guernsey's shareholders at an EGM of HICL Guernsey approved proposals for HICL Guernsey to enter into the Scheme, as detailed in HICL Guernsey's EGM Circular dated 4 March 2019, which became effective on 1 April 2019. HICL UK acquired HICL Guernsey's investment business in its entirety, through the acquisition of HICL Guernsey's interests in Luxco 1, a Luxembourg-domiciled investment company which via a second Luxembourg-domiciled investment company and an English limited partnership holds the portfolio of infrastructure investments. On completion of the Scheme, HICL Guernsey's £2.0bn investment in HICL UK and equivalent obligation to HICL UK (see Note 14) were settled.

Subsequently on 1 April 2019 and under the provisions of the Scheme, HICL Guernsey was placed into voluntary liquidation and William Callewaert and Richard Searle, both of BDO Limited, Place du Pré, Rue du Pré, St Peter Port, Guernsey, GY1 3LL, were appointed as the liquidators of HICL Guernsey.

19. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

Via the Scheme, HICL Guernsey's shareholders were issued one Ordinary Share in HICL UK for each Ordinary Share held in HICL Guernsey meaning there was no change in ultimate ownership of HICL's investment business immediately following the Scheme.

On 1 April 2019, the Investment Advisory Agreement between HICL Guernsey and IRCP was terminated, without penalty. See Note 17 for details.

20. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS

At 31 March 2019, HICL Guernsey, via its Corporate Subsidiaries, held investments in 118 (2018: 116) service concession arrangements in the Accommodation, Education, Health, Fire, Law and Order, Transport and Water 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
A9 Road	Finance, construct, operate and maintain a section of the A9 road in the Netherlands	2038	24	€574m	Fluor
A13 Road	Design, build, finance and operate a 20km section of the A13 road between Limehouse, London and Wennington, Essex on behalf of Transport for London ("TfL")	2028	30	£220m	KBR
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	2034	30	£79m	FM Conway
A63 Motorway	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	Egis
A92 Road	Design, construct, finance and operate the upgraded A92 shadow toll road between Dundee and Arbroath for Transport for Scotland	2035	32	£54m	Eurovia
Addiewell Prison	Design, build, finance and operate a new maximum security prison at Addiewell, West Lothian	2033	27	£75m	Sodexo
Affinity Water	Ownership and management of water treatment and supply covering an area of 4,515 square kilometres	N/A	N/A	N/A	In house
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	KBR
Bangor & Nendrum Schools	Design, build, finance and operate two schools on behalf of the South Eastern Education and Library Board in Northern Ireland	2038	32	£31m	Bilfinger Berger
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
Barnet Hospital	Design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust	2032	33	£65m	Ecovert Compass Siemens
Belfast Metropolitan College	The Project is a 27-year PPP project that involves the design, construction, financing, maintenance and operation of a further and higher education college and associated basement car park.	2036	27	£38m	Amey
Birmingham & Solihull LIFT	Design, construct and invest in facilities of new health and social care facilities	2040	36	£65m	Integral
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	Engie
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	2034	35	£66m	ISS

6.3
Notes to the Financial Statements (continued)

20. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
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	Engie
Blackpool Primary Care Facility	Design, construct, finance and operate a primary care centre in Blackpool for Blackpool Primary Care Trust	2039	32	£19m	Eric Wright
Boldon School	Design, construct, finance, operate and maintain Boldon School for the Borough of South Tyneside	2031	27	£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	2033	27	£84m	Amey
Bradford BSF Phase 2	Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council	2036	27	£230m	Amey
Breda Court	Design, construct, finance, maintain and operate a new court building in Breda	2048	30	€117m	Volker Wessels
Brentwood Community Hospital	Design, construct, finance and maintain a new community hospital for South West Essex Primary Care Trust	2038	32	£23m	Integral
Brighton Children's Hospital	Construct and operate a new children's hospital in Brighton	2034	30	£37m	Integral
Burbo Bank	Under the offshore transmission owner ("OFTO") regime, the OFTO takes ownership of an operational transmission asset and receives contractual, availability-based revenues over a 20-year period	2038	20	£194m	RES
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
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	2029	26	£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)	2032	27	€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	2035	32	£20m	Vinci
Darlington Schools	Design, construct, finance, operate and maintain an Education Village comprising four schools	2030	27	£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 Council	2031	27	£37m	Vinci
Doncaster Mental Health Unit	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	2032	29	£15m	N/A
Dorset Fire & 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	Engie
Durham & 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	2026	26	£6m	Engie
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	2031	30	€890m	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	2036	32	£22m	Optivo

20. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
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	2031	29	£31m	Mitie
East Ayrshire Schools	Design, build, finance and operate three senior campus schools and a primary school on behalf of the North Ayrshire Council	2038	32	£78m	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	2043	28	€65m	Bouygues
Edinburgh Schools	Design, construct, finance, operate and maintain six secondary schools and two primary schools for the City of Edinburgh Council	2038	31	£165m	Mitie
Exeter Crown & County 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	2039	33	£178m	Engie
Gloucestershire Fire & Rescue	Construct and operate four 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	2030	27	£82m	Bouygues
Haverstock School	Design and construction of a single new secondary school on an existing school site on Haverstock Hill, Camden	2030	27	£21m	Mitie
Health & Safety Laboratory	Construct new workshops and offices in Buxton	2034	33	£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	2036	33	£62m	Honeywell
Helicopter Training Facility	Design, construct, management, operate and finance simulators based training facility for Royal Air Force (RAF) helicopter pilots	2037	40 (with break clause by Grantor at Year 20)	£100m	CAE
High Speed 1	Finance, operate, and maintain a high-speed rail link for the UK Department of Transport	2040	30	£5,793m	Network Rail
Hinchingbrooke Hospital	Construction, financing, maintenance and operation of a two storey 8,500m^2 diagnostic and treatment centre situated adjacent to the existing Hinchingbrooke District General Hospital	2035	31	£19m	Kier
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
Irish Grouped Schools	Design, construct, finance, operate and maintain five secondary schools in the Republic of Ireland for the Department of Education and Skills	2027	26	€34m	Bilfinger Berger
Ireland Primary Care Centres	Design, build, finance and maintain 14 primary care centres across Republic of Ireland	2042	26	€145m	Aramark
Kent Schools	Design, build, funding and partially operate six schools in Kent	2035	30	£95m	Mitie
Kicking Horse Canyon P3	Upgrade, operate and maintain a section of highway in British Columbia, Canada	2030	25	CAD$ 127m	Emcon
Lewisham Hospital	Design, construct, finance, operate and maintain a new wing in Lewisham Hospital for the Department of Health	2036	32	£58m	Bouygues
M1-A1 Link Road	Finance, construct, operate, and maintain a motorway linking the M1, M621 and M62 motorways to the south of Leeds and the A1(M) south of Wetherby	2026	30	£250m	Balfour Beatty
M80 Motorway	Design, build, finance and operate a section of the M80 motorway in Scotland	2041	33	£275m	Eurovia

6.3 Notes to the Financial Statements (continued)

20. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Manchester School	Design, construct, finance, operate and maintain the Wright Robinson College in Manchester for Manchester City Council	2032	27	£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	2035	30	£19m	Rydon
Medway Police Station	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	2028	27	£40m	Bouygues
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	2034	27	£30m	Integral
Newham Schools BSF	Design, build, finance, maintain and operate two new secondary schools in Newham, London on behalf of the London Borough of Newham Council	2035	26	£53m	Mitie
Newport Schools	Design, construct, finance, operate and maintain a nursery, infant and junior school for Newport City Council	2034	26	£15m	Vinci
Newton Abbot Hospital	Design, construct, finance, operate and maintain a community hospital for Devon Primary Care Trust	2039	33	£20m	Rydon
North Ayrshire Schools	Design, build, finance and operate three secondary schools and one primary school on behalf of the North Ayrshire Council	2037	32	£84m	Mitie
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	2034	32	£30m	Mitie
Northwest Anthony Henday 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	Eurovia
Northwest Parkway	Operate, manage, maintain, rehabilitate and toll a 14km four-lane road under an agreement with the Northwest Parkway Public Highway Authority	2106	99	NA	In house
Northwood MoD Headquarters	Design, construct and commission new-built facilities on behalf of the Ministry of Defence in Northwood, Greater London	2031	25	£198m	Skanska
Norwich Area 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 the Republic of Ireland	2042	29	€336m	Strabag
Oldham Library	Design, construct, finance, operate and maintain the Oldham Library and Lifelong Learning Centre for Oldham Metropolitan Borough Council	2031	27	£15m	Kier
Oldham 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	Interim arrangement[1]
Paris-Sud	The Project involves the design, construction, financing and maintenance of new teaching and research facilities for the Paris-Sud University, on the Saclay Plateau, near Paris.	2047	29	€302m	Bouygues

20. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
PSBP North East Batch Schools	Design, construct, operate and maintain six new primary and six 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 Pinderfields, West Yorkshire and a new diagnostic and treatment hospital in Pontefract, West Yorkshire for the Mid Yorkshire NHS Trust	2042	35	£311m	Engie
Queen Alexandra Hospital, Portsmouth	Design and construct a new hospital and retained estates work in Portsmouth	2040	35	£255m	Engie
Queen's (Romford) Hospital	Design, construct, manage, finance, operate and maintain a new hospital in Romford	2039	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	Colas
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	26	£15m	Rydon
Renfrewshire Schools	Design, construct, manage, finance, operate and maintain six primary and four secondary schools in Renfrewshire, Scotland	2036	31	£100m	Amey
Rhondda 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	2031	27	£22m	Vinci
Royal Canadian Mounted Police 'E' Division Headquarters	Design, construct, finance, operate and maintain a 72,000 sqm headquarters office facility building in Surrey, British Columbia, Canada	2037	28	CAD234m	Bouygues
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	Babcock
Salford Hospital	Design, construct and commission new-build facilities and associated site infrastructure for the Salford Royal NHS Foundation Trust	2042	35	£137m	Engie
Salford Schools	Design, build, finance and operate two schools on behalf of the Salford City Council	2033	27	£36m	Mitie
Salford & Wigan BSF Phase 1	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 BSF Phase 2	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	27	£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	2037	32	£26m	Veolia
Sheffield Schools	Design, construct, finance and operate two primary schools and two secondary schools for Sheffield City Council	2031	26	£53m	Kier
South Ayrshire Schools	Design, construct, finance and operate of three primary schools, two secondary academy schools and a new performing arts annex at an existing academy for South Ayrshire Schools	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	2029	27	£80m	Bouygues
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	2045	36	£431m	Interim arrangement[1,2]
South West (Enniskillen) Hospital	Design, construct, finance and maintain a new acute hospital and key worker accommodation at Enniskillen in Northern Ireland	2042	34	£227m	Interserve

6.3
Notes to the Financial Statements (continued)

20. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Project	Short description of concession arrangements	End date	Number of years	Project Capex	Key subcontractors
Staffordshire LIFT	Develop, design, construct, invest in and maintain health and social care facilities	2043	38	£40m	Integral
Stoke Mandeville Hospital	Design, finance, construct, refurbish, operate and maintain a new hospital facility for the Buckingham Hospitals NHS Trust	2036	32	£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	2033	32	£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	Engie
Tyne & Wear Fire Stations	Design, construct, manage, finance and operate seven fire station facilities and a headquarters building in Tyne & Wear for the Tyne & Wear Fire and Civil Defence Authority	2029	26	£23m	Engie
University of Bourgogne	Design, construct, finance and maintain three new buildings on the Bourgogne university campus in France and the refurbishment of an existing one	2040	27	€20m	Bouygues
University of Sheffield Accommodation	Construct and manage a new student village at the University of Sheffield	2046	40	£160m	Engie
West Lothian Schools	Design, construct, finance and operate two new schools, Armadale Academy and the Deans Community High School for West Lothian Council	2039	32	£60m	Bellrock
West Middlesex Hospital	Design, construct, finance, operate and maintain a new 228 bed hospital for West Middlesex University Hospital NHS Trust	2038	37	£60m	Bouygues
Willesden Hospital	Design, construct, manage and finance a community hospital in North London for NHS Brent	2035	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	26	£24m	Mitie
Zaanstad Prison	Design, build, finance, maintain and operate of a new penitentiary institution at business park Hoogtij in Zaanstad, the Netherlands	2041	27	€160m	Ballast Nedam

[1] Following Carillion's insolvency in January 2018, interim arrangements were in place at 31 March 2019 while long-term replacements were being agreed.
[2] A long-term replacement contract was signed with Bouygues during April 2019.

21. SUBSIDIARIES

The following 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
HICL Infrastructure PLC	United Kingdom	100.0%
HICL Infrastructure 1 S.a.r.l.	Luxembourg	100.0%
HICL Infrastructure 2 S.a.r.l.	Luxembourg	100.0%
Infrastructure Investments Limited Partnership	United Kingdom	100.0%
2003 Schools Services Limited	United Kingdom	100.0%
Ashburton Services Limited	United Kingdom	100.0%
Annes Gate Property PLC*	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%
GT NEPS Limited	United Kingdom	90.0%
Information Resources (Oldham) Limited	United Kingdom	75.0%
Metier Healthcare Limited	United Kingdom	100.0%
Newport Schools Solutions Limited*	United Kingdom	100.0%
Newton Abbot Health Limited*	United Kingdom	100.0%
Pi2 B.V.	Netherlands	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.

Glossary

Item	Definition
Acquisition Strategy	This identifies the scope for current acquisitions, further details can be found in Section 2.4 – HICL's Business Model & Strategy
ADPs	Approved Delegated Parameters
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	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
AIC	The Association of Investment Companies is a United Kingdom trade association for the closed-ended investment company industry
AIC Code	The 2019 AIC Code of Corporate Governance
AMP7	The UK water industry regulatory period from 2020 to 2025
Corporate assets	These are assets that provide services or access to essential assets for corporate counterparties. The relationship between the infrastructure asset owner and the corporate counterparty is usually contractual, with prices set through a commercial negotiation or a market-clearing price. See Section 2.1 – The Infrastructure Market
Corporate Group	Refers to HICL and its Corporate Subsidiaries
Corporate Subsidiaries	The two Luxembourg subsidiaries and the English Limited Partnership, being HICL Infrastructure 1 S.a.r.l., HICL Infrastructure 2 S.a.r.l. and Infrastructure Investments Limited Partnership
Demand-based assets	Infrastructure assets with revenues linked to the usage of the underlying assets. See Section 2.1 – The Infrastructure Market
Directors' Valuation	Fair market valuation of HICL's investments, further details can be found in Section 3.2 – Valuation of the Portfolio
ESG	Environmental, Social and Governance
EPS	Earnings per share
FATCA	The Foreign Account Tax Compliance Act
FCA	UK Financial Conduct Authority
IFRS Basis	Basis on which HICL prepares its IFRS financial statements. HICL applies IFRS 10 and Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) and therefore does not consolidate any of its subsidiaries, including those that are themselves investment entities
HICL	HICL Infrastructure Company Limited ("HICL Guernsey") prior to 31 March 2019 and HICL Infrastructure PLC ("HICL UK") from 1 April 2019
HICL Guernsey	HICL Infrastructure Company Limited, the Guernsey entity (in voluntary liquidation)
HICL UK	HICL Infrastructure PLC, a UK entity which will continue the investment activities of HICL Guernsey, as it has an identical investment policy to that of HICL Guernsey and has acquired HICL Guernsey's entire investment portfolio under the terms of the Scheme (see "the Scheme" below)
InfraRed	InfraRed Capital Partners and its Group, more details of which can be found at www.ircp.com

Item	Definition
Investment Adviser	InfraRed Capital Partners Limited acting in its capacity as Investment Adviser to HICL pursuant to the Investment Advisory Agreement
Investment Basis	Pro forma financial information on the basis that HICL consolidates the results of the Corporate Subsidiaries
Investment Policy	HICL's Investment Policy has not materially changed since IPO and can be found on the website at www.hicl.com/about-hicl/strategy-and-investment-policy
IPO	Initial Public Offering, the act of offering the stock of a company on a public stock exchange for the first time. HICL completed its IPO in March 2006
Lifecycle	Concerns the replacement of material parts of an asset to maintain it over its concession life
Market capitalisation	A measure of the size of a company calculated by multiplying the number of shares in issue by the price of the shares
NAV	Net Asset Value, being the value of the investment company's assets, less any liabilities it has. The NAV per share is the NAV divided by the number of shares in issue. The difference between the NAV per share and the share price is known as the discount or premium
Ofwat	The Water Services Regulation Authority
Ongoing charges	A measure of the regular, recurring costs of running an investment company, expressed as a percentage of NAV
Operating company	A company that owns and operates infrastructure assets
Portfolio company	Project Companies and Operating Companies to HICL that own or operate infrastructure assets, in which HICL has an investment
PPP project	Public-Private Partnership projects involving long-term contracts between a public sector client and a private company for the delivery of a service or facility for the use by the general public, public bodies, authorities or agencies usually in return for an availability payment. See Section 2.1 – The Infrastructure Market
PR19	Ofwat's final methodology for the 2019 Price Review, covering the regulatory period from 2020 to 2025 ("AMP7")
PRI	Principles for Responsible Investment
Project company	An infrastructure project or concession with a defined expiry date, including a special purpose company (or other entity) formed with the specific purpose of undertaking an infrastructure project
Regulated assets	Infrastructure assets with monopolistic characteristics and which are subject to regulatory price controls. See Section 2.1 – The Infrastructure Market
Revolving credit facility	An acquisition facility provided by lenders, in the case of HICL, expiring in May 2022. See Section 3.1 – Operating & Financial Review
Scrip dividend	An interim dividend received by investors in the form of new Ordinary Shares in lieu of a cash dividend
The Scheme	Following shareholder approval at an Extraordinary General Meeting of HICL Guernsey, the change of domicile was effected by way of a scheme of reconstruction ("the Scheme") on 1 April 2019

Directors & Advisers

Directors
Ian Russell, CBE (Chairman)
Mike Bane
Susie Farnon
Simon Holden
Frank Nelson
Kenneth D. Reid
Chris Russell (resigned from the Board on 31 March 2019)

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Link Registrars (Guernsey) Limited
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Administrator to Company, Company Secretary and Registered Office
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Joint Corporate Brokers
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London EC2V 7QR

RBC Capital Markets
2 Swan Lane
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EC4R 3BF

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 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
Aztec Financial Services (Guernsey) Limited

Shareholders' funds
£2.8bn as at 31 March 2019

Market capitalisation
£2.8bn as at 31 March 2019

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

0.8% from £2.25bn to £3.0bn

0.65% above £3.0bn

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 HICL (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 during the year ended 31 March 2019 it conducted HICL's affairs such that HICL would qualify for approval as an investment trust if it were resident in the United Kingdom.

HICL UK intends to conduct its affairs as an investment trust. On this basis, the Ordinary Shares should qualify as an 'excluded security' and therefore be excluded from the FCA's restrictions in COBS 4.12 of the FCA Handbook that apply to non-mainstream pooled investment products.

AIFMD status
During the year ended 31 March 2019, HICL was a Guernsey-domiciled self-managed non-EEA Alternative Investment Fund.

Following the execution of the Scheme on 1 April 2019, InfraRed has been appointed as the alternative investment fund manager ("AIFM") to HICL UK.

FATCA
HICL is registered for FATCA. HICL Guernsey had GIIN number X5FC1F.00000.LE.831; HICL UK has GIIN number E6TB47.99999.SL.826.

Investment policy
HICL's Investment Policy is summarised in Section 2.2 – Investment Proposition and can be found in full on HICL's website.

ISIN and SEDOL
ISIN: GB00B0T4LH64

SEDOL: B0T4LH6

Following execution of the Scheme, HICL UK's ISIN and SEDOL changed (ISIN: GB00BJLP1Y77 SEDOL: BJLP1Y7)

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.

HICL Infrastructure

Delivering Real Value.

Registered Address
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