1 August 2023

HICL Infrastructure PLC

"HICL" or "the Company" and, together with its subsidiaries, "the Group", the London-listed infrastructure investment company managed by InfraRed Capital Partners Limited ("InfraRed" or "the Investment Manager".)

Interim Update Statement

The Board of HICL is issuing this Interim Update Statement, which relates to the period from 1 April 2023 to 31 July 2023.

Mike Bane, Chair of HICL said:

"HICL's portfolio performed well over the period owing to its defensive positioning and strong inflation correlation, which serve to protect the Company's NAV in the current macro environment. The Company continues to deliver on its asset recycling strategy, which enhances portfolio composition and supports asset valuations as well as providing a valuable source of funding when equity capital markets are closed."

Key Highlights

- Good operational performance across the portfolio in the period demonstrating the resilient nature of the underlying assets. The Company is on track to deliver its target dividend of 8.25p per share for the financial year to 31 March 2024, with cash generation in line with expectations.

- High Speed 1, which represents 4% of the portfolio[1], recommenced distributions in the period demonstrating the asset's continued recovery from the effects of Covid-19.

- The partial disposal of Northwest Parkway ("NWP") above its carrying value completed in June 2023. The Company has other live disposal activity which will continue to enhance portfolio composition, while also providing support for valuations and cash proceeds to reduce drawings on HICL's Revolving Credit Facility ("RCF").

- HICL completed its previously disclosed investments in Texas Nevada Transmission, Altitude Infra in May and the Hornsea II OFTO in July.

- The prospect of higher UK interest rates has continued to weigh on the Company's share price, which has consistently traded at a discount to NAV over the period. In the Board's view, the Company's current share rating does not fully reflect the positive impact of higher than assumed inflation on HICL's cashflows.

- HICL's defensive portfolio continues to be well positioned amidst the uncertain macro environment, benefiting from its strong inflation correlation and limited variable interest rate exposure.

Portfolio Performance

- Overall, the portfolio performed in line with expectations in the period, underpinned by high quality cashflows, long-term capital structures with limited exposure to higher interest rates and active asset management.

- Affinity Water (7% of portfolio value[1]) performed well operationally in the period, aided by mild weather. The business has a stable financial position, enhanced by the continuing reinvestment of free cash into Affinity's substantial investment programme, reducing external gearing, as well as effective treasury management with no refinancing events before 2027. As a water-only company with no exposure to sewerage services, Affinity Water is also not impacted by some of the specific operational challenges in the wastewater sector.

- First distributions received in the period for Texas Nevada Transmission (USA) and Fortysouth (NZ), in line with acquisition assumptions.

Financial Performance

- The Company is on track to deliver its target dividend of 8.25p per share for the financial year to 31 March 2024[2], with cash generation in the period in line with expectations.

- The Company has received the proceeds from its Northwest Parkway disposal. These proceeds were fully hedged with a FX forward which settled on 31 July 2023. In August 2023 these proceeds will be used to repay a portion of the RCF. By 31 August 2023, the drawn balance on the Company's £650m RCF will be £370m. Together with the Private Placement and letters of credit, the Company's gearing will be 16%. To protect against further rises in interest rates, but allow it to benefit if rates decrease, the Company purchased an option to cap £200m of its SONIA exposure to 6.5% for three years.

- The portfolio has low cashflow exposure to rising interest rates, with the vast majority of portfolio holdings benefiting from fixed-rate, amortising debt. Five assets have exposure to debt refinancing, with only one due to be refinanced before 2027. For reference, plus / minus 100bps on the cost of debt for all future refinancings in the portfolio would negatively / positively impact HICL's NAV per share by (1.7p) / 2.1p respectively.

- Higher interest rates also flow through to cash on deposit within underlying portfolio companies. For reference, plus / minus 100bps on the rate attracted by deposits placed by portfolio companies would positively / negatively impact HICL's NAV per share by 2.8p / (2.8p) respectively.

Valuation

- The Investment Manager continues to observe a material disconnect between public and private markets in the valuations applied to inflation-correlated core infrastructure assets. Transaction data points in private markets, albeit in lower volumes, support the view that valuations are generally remaining stable as inflation correlation provides a hedge against higher discount rates. This is further validated by the valuations seen across the Company's NWP sale, a recent UK PPP sale by a separate InfraRed-managed fund, and HICL's live disposal activity.

- However, public markets appear to be applying higher UK Gilt yields to perceived discount rates for alternative asset funds without a corresponding adjustment for the benefit of inflation. The implied inflation rate in the long-term (30 year) UK government bond yield is currently c. 3.4%[3], which compares to the Company's long term UK inflation assumption in its 31 March 2023 valuation of 2%.

- Aligning HICL's long-term inflation assumptions[4] to the implied inflation rates in current long-term government bond yields across HICL's markets, would result in a 21.4p uplift in NAV, based on the 31 March 2023 valuation. To remain NAV neutral, this equates to an equivalent increase in the Company's weighted average discount rate of 1.1% to 8.3%.

- In the short-term, current inflation forecasts for FY2024 remain significantly ahead of the UK RPI assumptions[4] for the year ended 31 March 2024. For reference, if inflation is 3% higher than the Company's forecast assumptions until March 2024 in all jurisdictions, then 3.1p will be added to its NAV per share.

- Overall, the weighted average risk-free rate across HICL's markets has increased by 0.6% since the Company's valuation at 31 March 2023. All things being equal, this would suggest the adoption of higher discount rates, weighted towards the UK, for HICL's next valuation at 30 September 2023. The valuation impact of this is expected to be materially offset by the impact of higher actual and forecast inflation. This offsetting effect for inflation-correlated core infrastructure aligns with transaction data points observed by InfraRed in the market.

Market and Outlook

- HICL's portfolio continues to perform well amidst macroeconomic volatility. Underlying asset valuations are resilient, with limited cashflow sensitivity to higher interest rates, and strong inflation correlation providing an effective hedge against the risk of higher discount rates.

- The Board and Investment Manager are focused on conservative capital management, including the application of disposal proceeds to reduce the drawings on the Company's RCF. This strategy of asset recycling allows the Company to continue to refine portfolio composition and enhance the investment proposition for shareholders.

- Over the medium-term, core infrastructure investment continues to be propelled by the powerful growth drivers of digitalisation, decarbonisation and the need to renew ageing infrastructure.

1. Based on the Directors' Valuation of £3,772.8m at 31 March 2023
2. This is target only and not a profit forecast. There can be no assurance that this target will be met
3. As at 31 July 2023
4. UK RPI 5.00% to March 2024, 2.75% to March 2030, 2.00% thereafter, CPI: 4.25% to March 2024, 2.00% thereafter. The inflation assumptions for the rest of the world are shown on page 49 of the 2023 Annual Report and Accounts

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HICL Infrastructure PLC

HICL Infrastructure PLC ("HICL") is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. It was the first infrastructure investment company to be listed on the London Stock Exchange.

With a current portfolio of over 100 infrastructure investments, HICL is seeking further suitable opportunities in core infrastructure, which are inherently positioned at the lower end of the risk spectrum.

Further details can be found on the HICL website www.hicl.com.

Investment Manager (InfraRed Capital Partners)

The Investment Manager to HICL is InfraRed Capital Partners Limited ("InfraRed") which has successfully invested in infrastructure projects since 1997. InfraRed is a leading international investment manager, operating worldwide from offices in London, New York, Seoul and Sydney and managing equity capital in multiple private and listed funds, primarily for institutional investors across the globe. InfraRed is authorised and regulated by the Financial Conduct Authority.

The infrastructure investment team at InfraRed consists of over 100 investment professionals, all with an infrastructure investment background and a broad range of relevant skills, including private equity, structured finance, construction, renewable energy and facilities management.

InfraRed implements best-in-class practices to underpin asset management and investment decisions, promotes ethical behaviour and has established community engagement initiatives to support good causes in the wider community. InfraRed is a signatory of the Principles of Responsible Investment.

Further details can be found on InfraRed's website www.ircp.com.