Annual Report & Consolidated Financial Statements

for the year ended 31 March 2014

HICL Infrastructure Company Limited

HICL INFRASTRUCTURE

Contents

Highlights

for the year ended 31 March 2014

Second interim dividend of 3.60 pence per share declared, achieving target of 7.1 pence per share for the year, with good cash cover of 1.51 times

Strong operational and cashflow performance from the Group's portfolio, benefiting from active management and accretive acquisitions made over the last two years

Profit before tax of £153.8m (2013 restated: £93.1m) [1]

Directors' valuation of the portfolio of £1,500.6m[2], up from £1,213.1m at 31 March 2013 and £1,437.6m at 30 September 2013, with the weighted average discount rate reducing from 8.4% to 8.2% over the year

Net asset value per share (post distribution) of 123.1p, a 6.7p increase from 116.4p as at 31 March 2013 and up 3.5p from 119.6p as at 30 September 2013

11.9% total return for the year (based on dividends and NAV) and 9.1% p.a. since IPO

Net investment of £230.0m during the year, comprising 16 new investments, six incremental acquisitions and two disposals – funded from equity raised including £109.0m by way of tap issues

Group revolving credit facility with four lenders renewed and extended to £150m

Agreement with Investment Adviser on revised fees to benefit the Group and shareholders

Demand for UK infrastructure investments currently outstripping supply, impacting prices

Pipeline of new investment opportunities being evaluated both in the UK and overseas, with success dependant on price competition

1. *The Company has prepared its accounts for the year to 31 March 2014 in accordance with IFRS, including IFRS 10 and the Investment Entity amendments, and 2013 comparatives have been restated. These require the Company to prepare IFRS financial statements which do not consolidate the project company subsidiaries and hence closely resemble the pro-forma Investment Basis financial reporting which have been presented in prior years.*

2. *includes £5.1m of future investment obligations.*

Results Summary

for the year to	31 March 2014	31 March 2013 Restated
Total Income	£175.7m	£111.1m
Profit before tax	£153.8m	£93.1m
Earnings per share	13.1p	10.4p
Second interim dividend per share	3.60p	3.575p
Total dividend per share in year	7.10p	7.00p
Net Asset Value (NAV) per share before deducting the declared second interim dividend	126.7p	120.0p[1]
NAV per share after deducting the declared second interim dividend	123.1p	116.4p

1. *The NAV per share at 31 March 2013 is that applicable to the 976.4m Ordinary Shares in issue on the record date of 1 March 2013. The 140m Ordinary Shares issued on 27 March 2013 pursuant to the New Ordinary Shares Prospectus of 26 February 2013 were not eligible for the second interim dividend of 3.575p. See Note 11 to the financial statements.*

Information on HICL Infrastructure Company Limited

HICL Infrastructure Company Limited ("HICL" or the "Company" or, together with its consolidated subsidiaries, the "Group") was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects. It was launched in March 2006 as HSBC Infrastructure Company Limited, and raised £250m with which it purchased an initial portfolio of interests in 15 PFI/PPP projects. The Company changed its name to HICL Infrastructure Company Limited in 2011.

Since the IPO the Company has raised a further £1.1bn through further equity capital raising which has been deployed in making additional investments such that, as at 20 May 2014 the portfolio comprised 95 investments in infrastructure projects in the UK, Australia, Canada, France, Holland and Ireland.

The Company has a single class of equity, Ordinary Shares, with 1,207,428,625 shares in issue as at 20 May 2014. The Company has pursued a progressive distribution policy since launch with an initial target distribution of 7.0p per share within a 7 to 10 year period which the Company achieved in the year ended 31 March 2013 (i.e. after 7 years).

Period to 31 March	2007	2008	2009	2010	2011	2012	2013	2014
Total Dividend per share	6.10p	6.25p	6.40p	6.55p	6.70p	6.85p	7.00p	7.10p

The long-term target Internal Rate of Return ("IRR") is approximately 7 per cent. (as stated in the February 2013 New Ordinary Shares Prospectus and based on a purchase price of 119.5p per share).

The Investment Adviser to the Company is InfraRed Capital Partners Limited, which is authorised and regulated by the Financial Conduct Authority. Total headcount of the InfraRed group is over 100 and the infrastructure team now comprises 50 staff in offices in London, Paris, New York and Sydney.

Company Summary

Company	HICL infrastructure Company Limited, a non-cellular company limited by shares incorporated under the laws of the Island of Guernsey with registration number 44185
Investment Adviser ("IA") and Operator	InfraRed Capital Partners Ltd, a wholly-owned subsidiary of InfraRed Partners LLP which is owned 80.1% by senior management and 19.9% by a subsidiary of HSBC Holdings plc
Company Secretary and Administrator	Dexion Capital (Guernsey) Ltd
Shareholders' funds	£1.5bn as at 31 March 2014
Market capitalisation	£1.6bn as at 31 March 2014
Investment Adviser and Operator Fees	■ 1.1%[1] per annum of the Adjusted Gross Asset Value[2] of the investments up to £750m, 1.0% from £750m up to £1.5bn, 0.9% from £1.5bn up to £2.25bn, and 0.8% above £2.25bn ■ 1.0% of the value of new acquisitions[3] ■ £0.1m per annum investment advisory fee ■ No performance fee ■ All fees from underlying Project Companies paid to the Group (not to the IA)
ISA, PEP and SIPP status	The Ordinary Shares are eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs
NMPI status	Following the receipt of legal advice, the Board confirms that it conducts the Company's affairs, and intends to continue to conduct the Company's affairs, such that the Company would qualify for approval as an investment trust if it were resident in the United Kingdom. It is the Board's intention that the Company will continue to conduct its affairs in such a manner and that IFAs should therefore be able to recommend its Ordinary Shares to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products.
FATCA	The Company has registered for FATCA and has a GIIN number.
Investment policy	The Company's investment policy is set out in Section 2.5 and can also be found on the Company's website
Website	**www.hicl.com**

Notes:

1. *From 1 April 2014 there is no longer any differential for assets in construction or ramp-up (previously the rate was 1.5%).*
2. *Adjusted Gross Asset Value means fair market value, without deductions for borrowed money or other liabilities or accruals, and including outstanding subscription obligations.*
3. *Does not apply to acquisitions sourced from the InfraRed Capital Partners Group, or entities managed by it.*

Section 1: Chairman's Statement

Introduction

I am pleased to be writing to you with another good set of results for the Group. Overall performance was strong, with the portfolio generating good underlying profitability and cashflows. The quality of the Group's assets, coupled with their active investment management, has ensured that the dividend target of 7.1p per share was comfortably met.

Social infrastructure assets remain attractive with their low-volatility, inflation-linked yield. With increasingly high valuations attributed to assets in the UK secondary market, the Investment Adviser has had to maintain its disciplined approach to acquisition pricing. The Group has still been able to source attractive new investments in the UK, as well as diversifying into new geographies such as France, and, since the year end, Australia.

Financial Results and Performance

Financial Results

The Company has prepared its accounts for the year to 31 March 2014 in accordance with IFRS, including IFRS 10 and the Investment Entity amendments. These require the Company to prepare IFRS financial statements which do not consolidate the project company subsidiaries and hence closely resemble the pro-forma Investment Basis financial reporting which has been presented in prior years.

Profit before tax was £153.8m (2013 restated: £93.1m) and earnings per share were 13.1p (2013 restated: 10.4p).

Cash received from the portfolio by way of distributions, capital repayments and fees was £112.4m (2013 restated: £78.2m). After Group costs, net cash inflows of £94.9m adequately covered the £67.1m distributions paid in the year.

The Company raised a total of £109.0m (before expenses) during the year through two tap issues totalling 83.7m new ordinary shares in July 2013 and February 2014.

In March 2014, the Group renewed and increased its revolving credit facility on improved terms with a larger bank group.

More details of the financial results are set out in Section 2.6.

Portfolio Performance

The Group's portfolio continues to perform well, and as at 31 March 2014 consisted of 93 social and transportation infrastructure projects (79 as at 31 March 2013). The return generated from the portfolio (after rebasing it for new investments, disposals and distributions) was 9.5% (2013: 8.9%) which reflects not only the unwinding of the discount rate, but also value-accretive acquisitions and disposals as well as value enhancements such as insurance premia reductions and other cost saving initiatives.

In January 2014, the Group announced a transaction to rationalise its portfolio through the divestment of an 80% stake in two PFI projects, Swindon Police and Dorset Police, for £9.2m. A £1.1m profit was made on the original cost of these investments.

Although the Group began the financial year with no projects in construction, it has subsequently acquired or invested in four projects in their construction phases. These represent around 7% of the portfolio by value as at 31 March 2014. The largest of these, Allenby and Connaught MoD Accommodation PFI project (5% of the portfolio by value), is expected to complete the final phase of its construction on schedule later this year.

Valuation

As in previous periods, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 31 March 2014.

The Directors have satisfied themselves as to the methodology used, the economic assumptions adopted, and the discount rates applied. The Directors have again taken independent third party advice on the valuation carried out by the Investment Adviser.

The Directors have approved the valuation of £1,500.6m for the portfolio of 93 investments as at 31 March 2014, which includes £5.1m of future subscription obligations. This compares with £1,437.6m as at 30 September 2013, and £1,213.1m as at 31 March 2013 (including £12.7m of subscription obligations). An analysis of the increase in the valuation is detailed in Section 2.7.

The net asset value ("NAV") per share was 126.7p at 31 March 2014 (2013 restated: 120.0p). After taking into account the 3.6p per share second interim distribution, the NAV per share at 31 March 2014 was 123.1p; an increase of 5.8% over the comparable figure (restated) as at 31 March 2013. This increase is attributable to higher valuations of infrastructure investments, the strong operational performance of the portfolio, issuance of shares at a premium to NAV and value-accretive new investments.

Acquisitions

The Group made 16 new investments and six incremental acquisitions during the year for a total consideration of £239.2m including £5.1m commitment for future loan note subscriptions. Further details are set out in Section 2.6 and Note 12b to the accounts.

Despite an increasingly competitive environment, the Investment Adviser has been able to build a consistently strong pipeline of potential acquisitions, sourced through a wide network of relationships, and has successfully secured a fair share of the opportunities presented, sometimes on an exclusive basis. During the year the Investment Adviser participated in 18 auctions and was successful in only four, indicating that prices were generally higher than the Group was prepared to pay.

Since the financial year-end the Group has acquired a 10% interest in the N17/N18 Road Project in Ireland, an additional 16.5% interest in the Miles Platting Project and is in the process of acquiring a 5.85% interest in the AquaSure desalination PPP project, for a combined investment of approximately £52.1m.

"I am pleased to report a strong set of results, a consequence of successful, accretive acquisitions made over the last two years. The Group's portfolio is performing well, with strong cash generation, which has enabled the Company to meet its dividend target for the year of 7.1p per share with good cash cover."

Fees and Costs

Given the growth in the size of the Group's investment portfolio, the Investment Adviser engaged with the Board to review the management fee structure. The outcome was agreement to two changes.

Firstly, the provision for a higher annual management fee for projects in ramp-up or under construction was removed, thereby simplifying the fee structure. Secondly, a further taper of the annual management fee was introduced. Full details are provided in Section 5 – Report of the Directors.

As there are no performance fees or any other fees which might be paid to the Investment Adviser from the project companies, the Directors believe the Company leads the sector in terms of transparency and enjoys highly competitive terms.

Distributions

On 13 May 2014, the Board declared a second interim dividend of 3.6p per share for the year to 31 March 2014 (2013: 3.575p). This brought the total distributions paid for the year to 7.1p, representing 1.4% growth on the prior year total of 7p. As in prior years, a scrip dividend alternative will be offered to shareholders on the register as at 23 May 2014.

After taking advice from the Company's corporate broker and the Investment Adviser, the Board has decided to move to paying dividends to shareholders on a quarterly basis, the first of which will be declared in July and paid in September.

It remains the Board's intention to offer a scrip alternative in respect of the quarterly dividends; further details will be provided in July when the first distribution is declared.

Risks and Uncertainties

As infrastructure, particularly social infrastructure, has matured as an asset class so the benefits have become more widely recognised and understood. With growth in the universe of PFI/PPP investments having slowed considerably due to less procurement in the UK, the balance between project supply and investor demand has now tipped in favour of the vendors. This has served to drive up prices, thus reducing returns, a phenomenon which has been particularly evident in competitive auctions.

As the Group invests in project companies, the key revenue risk is the risk of deductions from the availability payment made by the public sector client under each concession contract. To date, through effective asset management, performance deductions made under the contracts have been relatively small and borne by subcontractors. We recognise the importance of working with all stakeholders in a project to ensure value for money is achieved.

The Group seeks investments which are serviced by reliable and experienced, third-party operators. Although there is always a risk that some may not perform satisfactorily or, in extremis, go out of business, diversification of the projects' service partners, provides some mitigation.

With a large portfolio, some projects not unexpectedly experience operating issues from time to time. The Investment Adviser's team closely monitors each project, attends Board meetings and client liaison discussions, and takes appropriate action to resolve issues in a timely manner. There are currently no performance or credit issues of any materiality upon which to report at a portfolio level.

The Group currently has 13 investments located in Scotland representing 15% of the portfolio by value as at 31 March 2014. If Scotland votes for independence in September, it is unclear how, if at all, this would affect these investments which are secured under legal concession contracts from public sector counterparties and provide essential assets and services. The Board will take appropriate action when the outcome is known.

Financial regulation continues to change and affect the Company. The Board monitors such changes, evaluates the likely impact, and takes advice and acts appropriately to ensure that the business is compliant. The key elements of regulatory change that affect us are outlined below.

Corporate Governance and Regulation

As in previous years, all of the Company's Directors will offer themselves for re-election at the AGM. This is more regular than the Company's Articles require but from a governance perspective adopts best practice.

For the first time, the Annual Report includes a Remuneration Committee Report. This sets out the Directors remuneration policy and remuneration recommendations for the coming year and will be included in resolutions for shareholder approval at the forthcoming AGM on 22 July 2014.

As announced on 6 January 2014, following the UK Financial Conduct Authority's rules concerning non-mainstream pooled investments ("NMPI"), the Board confirmed that it conducts the Company's affairs, and intends to continue to conduct the Company's affairs, such that the Company would qualify for approval as an investment trust if it were resident in the United Kingdom. It is the Board's intention that the Company will continue to conduct its affairs in such a manner and that IFAs should therefore be able to recommend its Ordinary Shares to ordinary retail investors in accordance with the NMPI rules.

During the year, in addition to the Board meeting shareholders at the Home Office event, I held a number of one-on-one meetings and was able to feedback the results of these discussions to the Board. Good and effective communication with shareholders is enormously important to the Board which receives regular reports from the Investment Adviser and the Company's broker, both of whom participate in many meetings with existing and prospective investors.

In July 2013, the Alternative Investment Fund Managers Directive ("AIFMD") came into force. The Company has taken advantage of the transitional arrangements which allow a one year's period of grace in order to put in place the policies, procedures and registration to enable compliance by July 2014.

After taking professional and legal advice, the Board has determined that it will become a self-managed Alternative Investment Fund ("AIF"). The Company will, in due course, register as a self-managed AIF, and a small number of changes to processes and procedures are being implemented to enable the Board to fulfil its prescribed role in the supervision of investment decisions and the management of risk across the Group.

Outlook

With the attractions of infrastructure investments better understood, new and additional capital has entered the market. As a result, it has become more challenging to source investment opportunities with the risk-reward characteristics of earlier acquisitions. That said, the Company continues to benefit from the Investment Adviser's network of long-established relationships with potential vendors and developers. The Group has proven to be a reliable party capable of evaluating acquisition opportunities efficiently, having the finance available and possessing the ability to execute a purchase on time and without last minute renegotiation.

Whilst the Group is evaluating more potential investments overseas, and also investments in projects under construction, it is unlikely that the overall composition of the portfolio will change materially.

New investments that meet our requirements continue to come to market and include both single and portfolio opportunities. Despite the more competitive environment in which we now trade, the prospects remain good for the Group to make further value-accretive investments this year.

With the recent acquisitions funded from the Group's revolving credit facility, the Directors are considering the timing and quantum of further tap issuance.

The Board is pleased with the performance of the Group's investment portfolio and the returns generated. We are confident that previous guidance we gave of 7.25p per share aggregate dividend for the year to March 2015 remains appropriate.

Graham Picken
Chairman
20 May 2014

The Group's Investment Portfolio

as at 20 May 2014

Education	Barking & Dagenham Schools	Ealing Schools	Irish Grouped Schools	Rhondda Schools
	Boldon School	Edinburgh Schools	Kent Schools	Sheffield BSF Schools
	Bradford Schools	Falkirk NPD	Manchester School	Sheffield Schools
	Conwy Schools	Fife Schools	Newport Schools	South Ayrshire Schools
	Cork School of Music	Fife Schools 2	North Tyneside Schools	University of Bourgogne
	Croydon School	Haverstock School	Norwich Schools	West Lothian Schools
	Darlington Schools	Health & Safety Labs	Oldham Schools	Wooldale Centre for Learning
	Defence Sixth Form College	Helicopter Training Facility	Perth & Kinross Schools	
	Derby Schools	Highland Schools PPP	Renfrewshire Schools	
Health	Barnet Hospital	Central Middlesex Hospital	Nuffield Hospital	Sheffield Hospital
	Birmingham Hospitals	Doncaster Mental Health Hospital	Oxford Churchill Oncology	Staffordshire LIFT
	Birmingham & Solihull LIFT	Ealing Care Homes	Oxford John Radcliffe Hospital	Stoke Mandeville Hospital
	Bishop Auckland Hospital	South West Hospital, Enniskillen	Pinderfields & Pontefract Hospitals	Tameside General Hospital
	Blackburn Hospital	Glasgow Hospital	Queen Alexandra Hospital	West Middlesex Hospital
	Blackpool Primary Care Facility	Lewisham Hospital	Redbridge & Waltham Forest LIFT	Willesden Hospital
	Brentwood Community Hospital	Medway LIFT	Romford Hospital	
	Brighton Hospital	Newton Abbot Hospital	Salford Hospital	
Fire, Law & Order	Addiewell Prison	Exeter Crown Courts	Metropolitan Police Training Centre	Tyne & Wear Fire Stations
	Dorset Fire & Rescue	Greater Manchester Police Stations	South East London Police Stations	
	Dorset Police	Gloucester Fire & Rescue	Sussex Custodial Centre	
	D & C Firearms Training Centre	Medway Police	Swindon Police	
Transport	A249 Road	Dutch High Speed Rail Link	N17/N18 Road	
	A92 Road	Kicking Horse Canyon P3	NW Anthony Henday P3	
	Connect PFI	M80 Motorway DBFO	RD 901	
Accommodation	Allenby & Connaught MoD Accommodation	Home Office	Northwood MoD HQ	University of Sheffield Accommodation
	Colchester Garrison	Miles Platting Social Housing	Oldham Library	AquaSure[1]
	Health & Safety Headquarters	Newcastle Libraries	Royal School of Military Engineering	

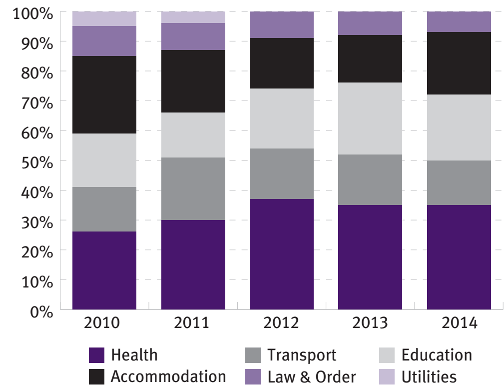
KEY:

Portfolio as at 31 March 2013	Acquired since 31 March 2013	Additional stake acquired since 31 March 2013	Disposed since 31 March 2013	Acquired since 31 March 2014

1. *Investment in AquaSure is in the process of being acquired as at 20 May 2014.*

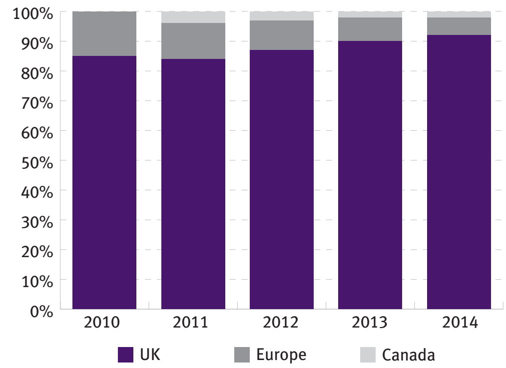
Analysis of the Portfolio – Last Five Years

By Sector [1]

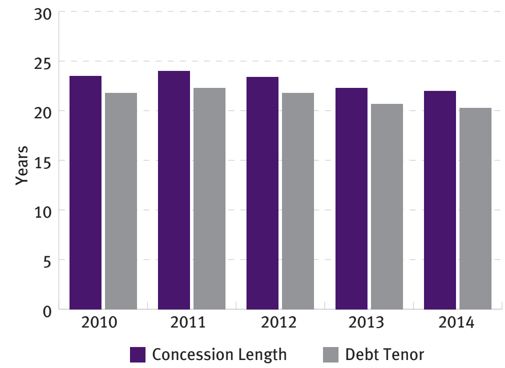


By Investment Status [1]

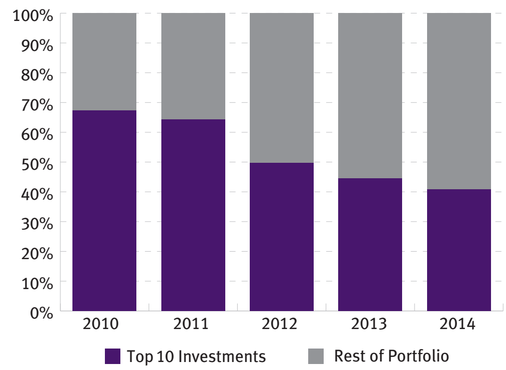
By Geography [1]



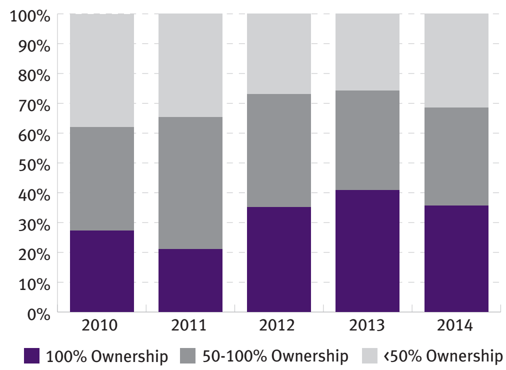
By Concession and Debt Term [2]



By Investment Concentration [1]



By Ownership Stake [1]



1. *Based on the Directors' valuation of the Group's investments at 31 March 2014 and the preceding 4 years.*
2. *Based on the Group's portfolio as at 31 March 2014 and the preceding 4 years, taking the weighted average concession length and debt term outstanding.*

Section 2: Strategic Report

2.1 Introduction

This Strategic Report sets out:

- 2.2 – the Company's Objectives;
- 2.3 – the Strategy adopted to deliver these Objectives;
- 2.4 – the Company's Business Model;
- 2.5 – the Investment Policy and Current Acquisition Strategy;
- 2.6 – an Operational and Financial Review for the year, including KPIs;
- 2.7 – the Directors' Valuation of the Group's Portfolio as at 31 March 2014;
- 2.8 – the current Outlook;
- 2.9 – the Ten Largest Investments;
- 2.10 – the key risks and the mitigants facing the Group and its investments; and
- 2.11 – the policies, approach and achievements adopted in respect of Corporate Social Responsibility.

References in this report to the Company mean HICL Infrastructure Company Limited (and together with its consolidated subsidiaries, the "Group").

The Company's business purpose is to invest shareholders' funds for returns from capital appreciation, investment income or both.

The Company is an investment company with a current portfolio of investments in social, transportation and related infrastructure projects, mostly structured under a public sector infrastructure procurement model (called PFI or PPP in the UK, and PPP or P3 in other countries) which has been used by a number of countries over the last 20 years to procure new infrastructure investment. These projects provide serviced assets in a number of sectors including education, health, justice, road, rail and general accommodation sectors (such as libraries, barracks, social housing). The majority of the Company's investments are in projects which are operational, having successfully completed their construction phase.

2.2 Objectives

The aim of the Company is to invest shareholders' funds in a portfolio of lower risk, predominantly operational, infrastructure projects to earn a return that allows the Company to pay a sustainable annual dividend with the potential for an element of capital growth.

Financial

In the year to 31 March 2014, the Company was targeting a total dividend of 7.1p per share and this has been achieved. The Directors have set a target for the year to 31 March 2015 of 7.25p per share which is considered achievable based on current portfolio performance. Future targets will be set having regard to the portfolio performance and the long-term sustainability of the dividend level.

Dividends paid are expected to be cash covered (with an allowance for that part of the portfolio's assets still under construction).

The dividend is paid gross as the Company is registered in Guernsey and the Company also offers shareholders a scrip dividend alternative to cash dividends as this can be advantageous to certain investors.

The Company is also seeking to preserve the capital value of a shareholder's investment and deliver an element of capital growth. At the time of the March 2013 share capital raising, the target total return was forecast to be circa 7.0% p.a. over the long-term for investors acquiring shares at a price of 119.5p per share. The Board still considers this achievable.

Part of the attraction of the Group's investment portfolio is its positive correlation to inflation (described in more detail in Section 2.7). In making new investments, an important consideration is that this correlation is maintained and, where possible, enhanced.

As the Group has overseas investments, it has a foreign currency hedging policy (explained in Section 2.6) which forward hedges investment cashflows and seeks to reduce balance sheet volatility from currency fluctuations.

Whilst the Group does not need to make further investments to achieve the targeted returns, further growth provides the opportunity to enhance returns and manage any price premium to NAV per share. Issuing further shares, either by way of a prospectus or tap issue, is the main mechanism by which the Board moderates any share price premium. New shares are only issued at or above the current NAV per share, thus avoiding NAV dilution.

Non-Financial

The key non-financial objectives of the Group are:

- To seek and maintain strong relationships with all key stakeholders of both the Company and the Group's investments, including clients, local communities, key contractors and financial lenders. Experience has demonstrated that good relationships and a positive approach to partnering and working together helps to deliver the required investment returns;
- To build and develop a portfolio of investments in infrastructure projects and companies with diversified clients, funders and subcontractors;
- To manage the Group and its investments in accordance with the Company's stated Corporate Social Responsibility statements and policies, as set out in Section 2.11; and
- Through disclosure, case studies, and site visits, to inform existing shareholders and potential investors and increase the understanding of infrastructure as an investment class.

2.3 Strategy

New Investments

Any new investment that the Group makes needs to meet the Investment Policy published by the Company, as well as the Acquisition Strategy which the Company reviews and publishes regularly (both are set out in Section 2.5). All new investments need to support the achievement of the Objectives set out in Section 2.2 above, and balance the risks involved against the projected forecast returns, to enable the Group to achieve its long-term targets without materially changing the risk profile of the Group.

Part of the Investment Strategy is to acquire new investments which are value accretive to the current portfolio. Accretion can be achieved through the initial gross yield, the potential total return, and the inflation correlation.

When acquiring a new investment, the Group seeks sufficient percentage ownership to allow it to appoint at least one director to the project company board. The size of a new investment is less important but must be less than 20% of the current portfolio valuation.

The Group seeks new investments in both the UK and in certain overseas countries where there is a well-developed market for infrastructure assets and appropriate laws, regulations and government sponsorship.

Portfolio Diversification

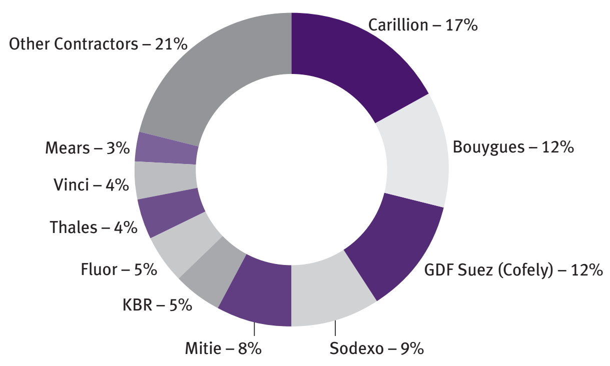
The Group's strategy is to have a diversified portfolio by asset type, asset location (geography), public sector counterparties, supply chain contractors, and project company managers. The Board believes diversification is important in the portfolio as it mitigates risk.

As at 31 March 2014, the Group had the following geographic diversity:

As at 31 March 2014	Number of Investments	Percentage of Directors' Valuation
England, Wales and Northern Ireland	73	76.8%
Scotland	13	15.1%
Europe (excluding UK)	5	6.4%
Canada	2	1.7%

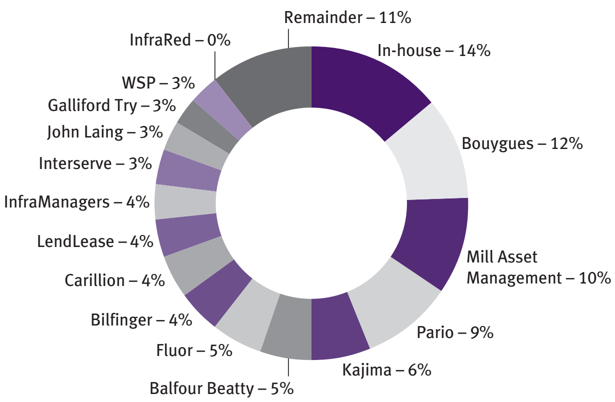
Each project subcontracts the delivery of services to one or more experienced facilities managers specialising in a particular field (e.g. catering; cleaning; security; mechanical and engineering maintenance). The Group's portfolio of investments has a diversified range of facilities management companies.

Spread of key contractors providing operational services to projects in the portfolio



The chart above provides an analysis of the proportionate exposure to the key subcontractors as measured against the Directors' portfolio valuation.

Spread of key project company managers providing SPV services to projects in the portfolio



The chart above shows the proportionate exposure to the main SPV managers as measured against the Directors' portfolio valuation. InfraRed does not provide this service to any of the Group's project companies.

Portfolio and Asset Management

The active management of investments to achieve the desired investment returns is a key strategy.

With oversight from the Company, the Investment Adviser is tasked with the day-to-day management of the portfolio and reports to the Board formally on a quarterly basis (or more frequently if there are matters to discuss, note and approve).

This management task is carried out by two functions with the Investment Adviser's team; Portfolio Management and Asset Management.

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

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

Asset Management complements Portfolio Management and is focused on the successful management and operational performance of the Group's investments. Activities include:

- the management oversight of each investment through the appointment of a director to each project company board;
- where the project involves the construction of new facilities, the monitoring of progress to ensure successful delivery;
- the building of closer, open relationships with all parties involved;
- the facilitation of early resolution of operational issues as they arise, including contractual disputes; and
- the working together with project companies to achieve contract variations, both to extend the scope of the project, and to find cost savings and efficiencies.

2.4 Business Model

Introduction

The Company is a Guernsey-registered investment company with an independent board of directors whose shares are listed on the London Stock Exchange.

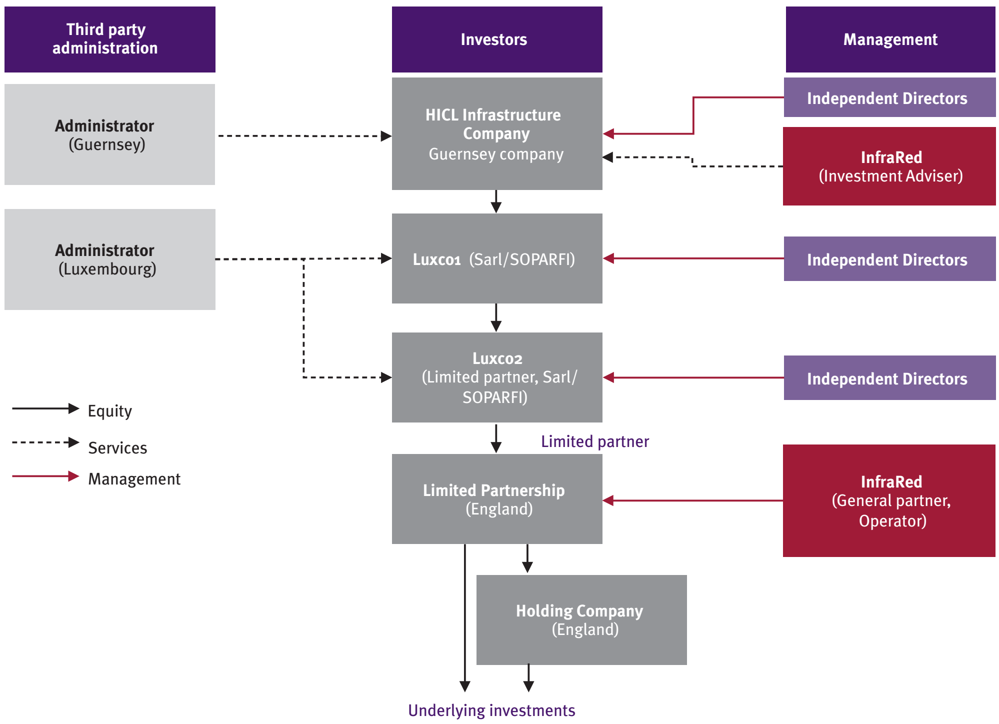
Through the group structure, the Company owns a portfolio of over 90 infrastructure investments and is seeking to protect and enhance value through active management of the existing portfolio and the sourcing of new investments using the expertise of the Investment Adviser.

The Company has a 31 March year-end and announces interim results in November and full year results in May. It also publishes two interim management statements a year, normally in February and July.

Group Structure

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

The Group Structure



The Company has a board of six directors (details on whom can be found in Section 5). Dexion Capital (Guernsey) Ltd has been appointed as Company Secretary and Administrator, and the Board takes advice from the Investment Adviser on matters concerning the market, the portfolio and new acquisition opportunities.

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

The Company's Board and the Committees

The Board of the Company comprises six independent, non-executive directors whose role is to manage the governance of the Company in the interests of shareholders and other stakeholders. In particular the Board approves and monitors adherence to the Investment Policy and Acquisition Strategy, determines risk appetite of the Group, sets Group policies and monitors the activities and performance of the Investment Adviser and other key service providers against agreed objectives.

The Board meets a minimum of four times a year for regular Board meetings and there are a number of other ad hoc meetings dependent upon business need. In addition, the Board convenes five committees, including a newly formed Risk Committee, which meet on a regular basis, such that on four occasions a year the business of the Company spans two days to cover committee agendas.

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

In July 2013, the Alternative Investment Fund Managers Directive ("AIFMD") came into force. The Company is deemed to be an Alternative Investment Fund ("AIF") under the Directive. Having taken advice, the Board has determined that the most appropriate status for the Company is to be a self-managed AIF and expects to complete its registration before the expiry of the AIFMD transitional period on 22 July 2014. The practical implications of these changes are modest, being mainly to formalise the current working practices into an appropriately documented reporting structure. Further details are set out in Section 2.10.

The Investment Adviser

The Investment Adviser (since launch) is InfraRed Capital Partners Limited (formally HSBC Specialist Fund Management Limited until its management buy-out in 2011), part of the InfraRed Group.

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

The InfraRed Group comprises InfraRed Capital Partners (Management) LLP and a number of wholly-owned subsidiaries, two of which are regulated by the Financial Conduct Authority (including the Investment Adviser). The InfraRed Group currently manages six infrastructure funds and five real estate funds with total equity under management of more than US$7 billion. The InfraRed Group has over 100 employees and partners, based mainly in offices in London and with smaller offices in Paris, Sydney, Hong Kong and New York.

Since 1998, the InfraRed Group (including predecessor organisations) has raised 13 private institutional investment funds investing in infrastructure and property, in addition to the Group and The Renewables Infrastructure Group Limited (which are publicly listed investment companies). InfraRed Capital Partners (Management) LLP is 80.1 per cent. owned by 27 partners through InfraRed Capital Partners (Management) LLP, and 19.9 per cent. owned by a subsidiary of HSBC. This ownership structure was the result of a management buyout of the specialist infrastructure and real estate business which was previously known as HSBC Specialist Investments Limited (HSIL) which was completed in April 2011.

The infrastructure investment team within the InfraRed Group currently consists of 50 investment professionals, all of whom have an infrastructure investment background. The team currently has approximately 500 years' combined experience in the infrastructure sector, and approximately 270 years with the InfraRed Group (including predecessor organisations), and has a broad range of relevant skills, including private equity, structured finance, construction and facilities management.

The Company has an advisory contract with the Investment Adviser which can be terminated with 12 months' notice. The Investment Adviser is also operator of the Group's Limited Partnership, through which the Group's investments are held. Details of the fees paid to the Investment Adviser during the year are set out in Section 2.6.

Other Key Service Providers

Apart from the Investment Adviser, the Company and the Group have the following key service providers:

Provider	Role
Dexion Capital (Guernsey) Ltd	Administrator and Company Secretary to the Company
RSM FHG & Associés	Administrators of the two Luxembourg Sarls
Canaccord Genuity Ltd	Brokers to the Company
Tulchan Communications LLP	Financial PR advisers to the Company
Carey Olsen	Legal advisers to the Company as to Guernsey law
Hogan Lovells International LLP	Legal advisers to the Company as to English law
Capita Registrars Guernsey	Registrars to the Company
KPMG Channel Islands Limited	Independent Auditor
Lloyds, NAB, RBS and SMBC	Lenders to the Group via the £150m revolving credit facility

The Board reviews the performance of all key service providers on an annual basis.

Group Financing, Gearing and Interest Rate Hedging

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

The Company raised £109.0m (before expenses) of new equity in the year to 31 March 2014 from tap issues of 66.7m Ordinary Shares in July 2013 and 17.0m Ordinary Shares in February 2014. The net proceeds from the share issues were used to pay down drawings on the Group's revolving credit facility.

There was good take-up by shareholders of the scrip dividend alternatives to the two interim dividends with 7.4m (2013: 4.5m) new Ordinary Shares being issued in April 2013 and December 2013.

In March 2014 the Group signed an increase and extension to its existing £100m debt facility which was due to mature in February 2015. The new multi-currency revolving credit facility is £150m and is available to be drawn in cash and letters of credit for future investment obligations. It matures in May 2016. The Company took the opportunity to broaden its credit providers beyond its current relationship banks, Royal Bank of Scotland and National Australia Bank, who jointly provided the existing facility, and include Lloyds Bank and Sumitomo Mitsui Banking Corporation.

As at 31 March 2014, the Group's drawings under the £150m facility were nil by way of cash and £5.3m by way of letters of credit and guarantees. The Group had net cash as at 31 March 2014 of £42.7m (2013: £146.0m).

The Association of Investment Companies ("AIC") has published guidance in relation to gearing disclosures which is defined for a company with net cash as the net exposure to cash and cash equivalents, expressed as a percentage of shareholders' funds after any offset against its gearing. It is calculated by dividing total assets (less cash/cash equivalents) by shareholders funds. On this basis, the Group had a net cash position of 2.1% at 31 March 2014 (2013: 10.0% net cash). This analysis excludes any debt in the Group's investments, which are typically leveraged.

Since 31 March 2014, the Group has utilised a further £52.1m in order to make two new investments and the acquisition of an incremental stake. These are the 5.85% stake in the AquaSure PPP project in Victoria, Australia (due to complete shortly), a 10% interest in the N17/N18 Gort to Tuam road PPP in the Republic of Ireland, and a further 16.5% interest (equity only) in the Miles Platting Social Housing PFI project in Manchester.

To manage interest rate risk the Group can use interest rate swaps to hedge drawings under the Group's debt facility. During the year the Group did not utilise any interest rate swaps due to the limited period during which the Group was a net borrower under the facility.

The Company's equity base now comprises almost 6,000 shareholders, broadly split 50:50 between retail investors and institutions. With the share liquidity that a larger market capitalisation offers, the Company's shares are increasingly attractive to large institutional investors.

How a new Investment is made

The Group acquires the majority of its investments from vendors wishing to sell equity in projects once they are operational. In addition, the Group will invest in projects during their construction phase when suitable opportunities arise. Further details of the Group's Investment Policy and Acquisition Strategy are set out in Section 2.5.

Under agreed delegations from the Board, the Investment Adviser identifies potential investments which, if they fall within the Investment Policy and agreed Acquisition Strategy, progress to approval from the Investment Adviser's Investment Committee. Potential acquisitions falling outside these agreed delegations require Board/Risk Committee approval before proceeding. Similar procedures apply if an acquisition is proposed from a fund managed by the Investment Adviser where, in such circumstances, a Buyside Committee is formed, a third party valuation is obtained, the Board approves the transaction and shareholder approval is sought for the related party aspect. Further details are set out in Section 2.5.

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

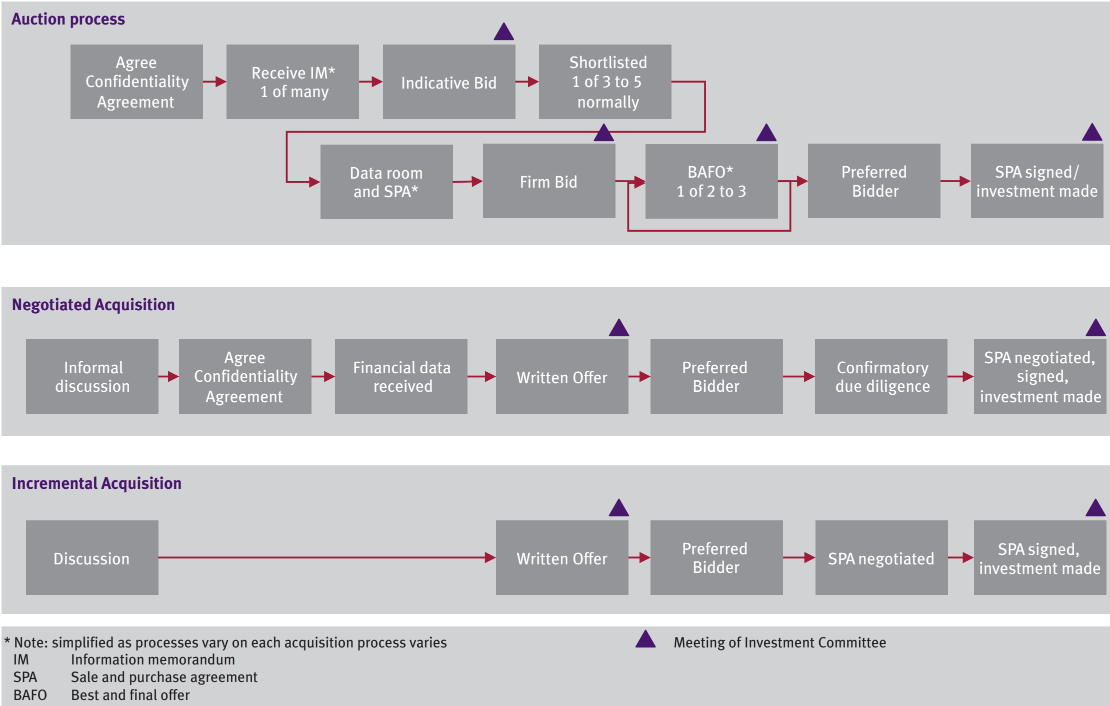
New investments are typically financed by borrowing under the Group's committed revolving debt facility. This allows new investments to be made in a timely manner.

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

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

The typical steps in these processes are set out on the following page:

Typical Acquisition Processes



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

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

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

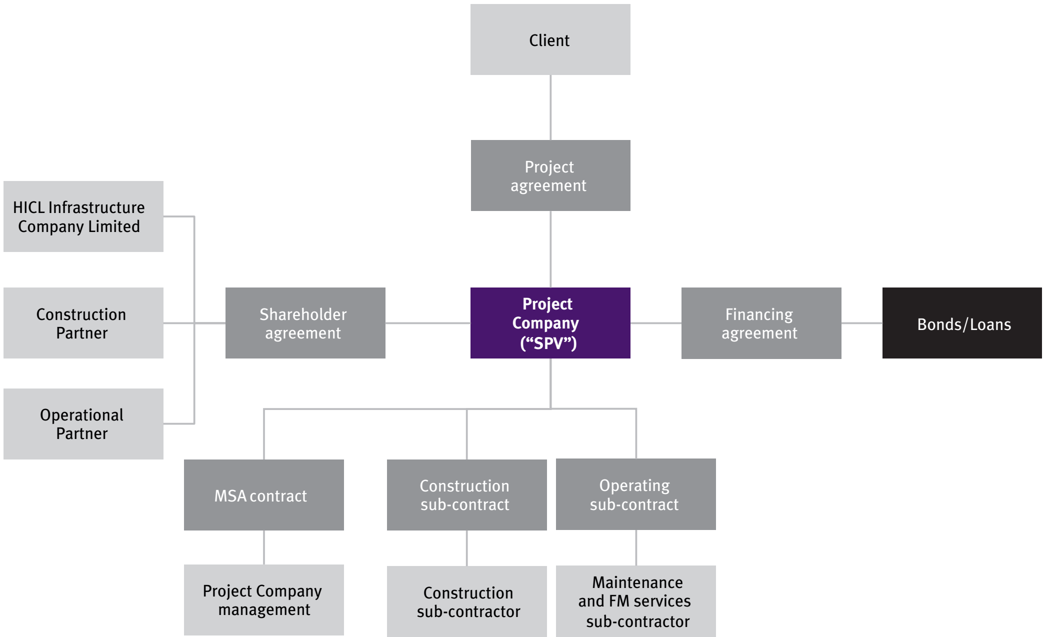
Additional specialist advice is taken when considering investments with variable revenue streams: for example a traffic consultant will be retained when evaluating a toll road investment.

A Typical Infrastructure Project Explained

Each investment is made in a project typically with a long-term concession contract with a finite life and limited, if any, residual value. The counterparty to the concession agreement is a public sector body, such as a local authority for a schools project and a NHS Trust for a hospital project.

The Group's investments are structured as equity, subordinated debt and occasionally mezzanine debt stakes in unlisted single-purpose companies ("SPC"), with the sole purpose of delivering the asset and services in accordance with the terms of the project agreement.

Typical Infrastructure Project Structure



Normally all services specified in the project agreement are subcontracted to specialist providers. Construction is subcontracted to a construction company (or companies in joint venture if a large asset) on a fixed priced, date certain construction contract to design and build the asset required under the project agreement.

The operational services such as the provision of catering, cleaning, maintenance, and similar services are subcontracted to a specialist facilities management ("FM") company. Projects either have a single FM subcontractor or more than one, depending on the services being provided.

Day-to-day management of the SPC is either outsourced on a fixed price contract, or is performed by an in-house team. Contract terms vary but usually the contract lengths are between 3 and 5 years.

The key performance indicators ("KPIs") and the service levels set out in the project agreement are mirrored as far as possible in the subcontracts such that the operating risks of the project are passed down to the individual subcontractors who are best placed to manage those risks. The term of the operating subcontracts normally matches the term of the project agreement and the costs of such services are largely fixed at the outset and subject to increases linked to inflation.

The majority of the Group's investments are in projects structured with an availability-based revenue stream such that the public sector client makes a contractual payment under the project agreement provided the asset, such as a school, hospital, prison or road, is available for use. The availability payments are normally linked to inflation, either wholly or partially, depending on whether the project's costs are indexed or fixed.

Each project is typically leveraged with amortising debt which is fully repaid one to two years prior to expiry of the concession. The majority of the projects do not require refinancing during their concessions lives. The interest rate on the debt is either fixed rate or inflation linked, such that changes in interest rates are largely mitigated. The debt raised for a project is secured against that project's cashflows alone, and so is non-recourse to both the Group and its other investments.

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

Valuation and Group Investment Cash Flows

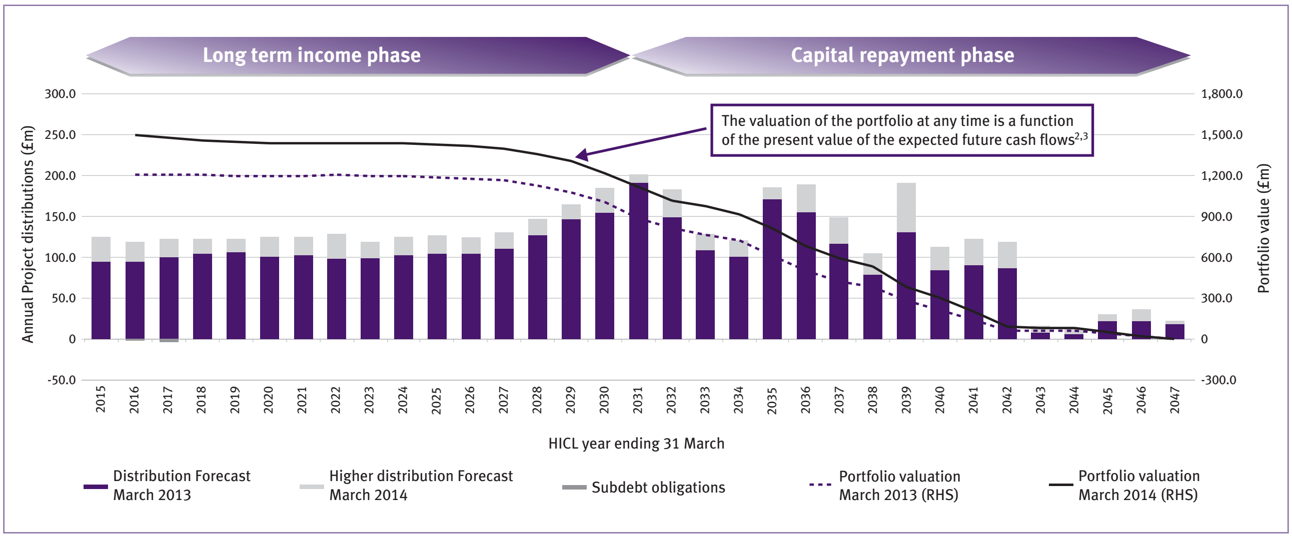
As the Group's investments are in projects with long-term contractual income and cost these investments are valued using a discounted cashflow analysis of the forecast investment cashflows from the project.

The key external drivers when forecasting each project's cashflows are the inflation rate; the deposit interest rate; and the local corporation tax rate. These cashflows are used with a market discount rate to derive the value of each investment.

The Investment Adviser makes forecast assumptions for each of these based on market data and economic forecasts, and the Company publishes twice a year the Directors' valuation, the assumptions used and key sensitivities to the valuation of the portfolio (see Section 2.7). The Directors' valuation is the key component in determining the Company's NAV and so the Directors seek a third party opinion on the valuation prepared by the Investment Adviser.

In the current portfolio, the majority of projects are operational and so the number of investments with construction risk is small (four as at 31 March 2014). An investment in a project under construction can offer a higher overall return compared to buying an investment in an operational project, but it does not usually yield during the construction period and there is the risk that delays in construction affect the investment value.

The chart below shows the expected future cashflows to be received by the Group from the portfolio as at 31 March 2014 and how the portfolio valuation is expected to evolve over time using current forecasts and assumptions.



1. *The chart represents a target only and is not a profit forecast. There can be no assurance that this target will be met.*
2. *Portfolio valuation assumes a Euro to Sterling exchange rate of 0.83, a Canadian Dollar to Sterling Exchange rate of 0.54 and a weighted average discount rate of 8.2% per annum. These assumptions and the valuation of the current portfolio may vary over time.*
3. *The cashflows and the valuation are from the portfolio of 93 investments as at 31 March 2014 and does not include other assets or liabilities of the Group, and assumes that during the period illustrated above, (i) no new investments are purchased, (ii) no existing investments are sold and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains.*

The chart shows the steady long-term nature of the cashflows from the portfolio, coupled with a stable portfolio valuation to 2029. The benefit of the new investments made in the year, increasing forecast cashflows and the valuation over time is also shown. From 2030, based on current forecasts, the portfolio will move into a repayment phase whereby cash receipts from the portfolio will be paid to the Company's shareholders as capital and the portfolio valuation reduces as projects reach the end of their concession term, assuming that the proceeds are not invested in new investments, until 2047 when the last concession ends.

It is these forecast cashflows from the Group's current portfolio of investments that gives the Board the comfort that there should be sufficient cash cover for the target dividend of 7.25 pence per share for the year to 31 March 2015.

2.5 Investment Policy and Current Acquisition Strategy

Investment Objectives

The Company seeks to provide investors with long-term distributions, at levels that are sustainable, and to preserve the capital value of its investment portfolio over the long-term with potential for capital growth. The Company targets an annual distribution of at least 7.10p per Ordinary Share, with the prospect of increasing this figure provided it is sustainable with regard to the portfolio's forecast operational performance and the prevailing macro-economic outlook.

The Company is targeting an IRR of 7 to 8% on the original issue price of its Ordinary Shares in March 2006, to be achieved over the long-term via active management, including the acquisition by the Group (being the Company and its wholly-owned subsidiaries) of further investments to complement the Current Portfolio and by the prudent use of gearing.

Investment Criteria

The Group's Investment Policy is to ensure a diversified portfolio which has a number of similarly sized investments and is not dominated by any single investment. The Group will seek to acquire infrastructure equity with similar risk/reward characteristics to the current portfolio, which may include (but is not limited to):

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

The Group will also seek to enhance returns for Shareholders by acquiring more diverse infrastructure investments. The Directors currently intend that the Group may invest in aggregate up to 35% of its total assets (at the time the relevant investment is made) in:

- project companies which have not yet completed the construction phases of their concessions but where prospective yield characteristics and associated risks are deemed appropriate to the investment objectives of the Company. This may include investment in companies which are in the process of bidding for concessions, to the extent that such companies form part of a more mature portfolio of investments which the Group considers it appropriate to acquire; and/or
- project companies with "demand" based concessions where the Investment Adviser considers that demand and stability of revenues are not yet established, and/or project companies which do not have public sector sponsored/awarded or government-backed concessions; and
- to a lesser extent (but counting towards the same aggregate 35%, and again at the time the relevant investment is made) other funds that make infrastructure investments and/or financial instruments and securities issued by companies that make infrastructure investments, or whose activities are similar or comparable to infrastructure investments.

Geographic Focus

The Directors believe that attractive opportunities for the Group to enhance returns for investors are likely to arise outside as well as within the UK (where the majority of the projects in the current portfolio are based). The Group may therefore make investments in the European Union, Norway, Switzerland, the Americas and selected territories in Asia and Australasia. The Group may also make investments in other markets should suitable opportunities arise.

The Group will seek to mitigate country risk by concentrating on investment opportunities in jurisdictions where it considers that contract structures and enforceability are reliable, where (to the extent applicable) public sector obligations carry a satisfactory credit rating and where financial markets are relatively mature.

Single Investment Limit and Diversity of Clients and Suppliers

For each new acquisition that is made, the Company will ensure that the investment acquired does not have an acquisition value (or, if it is an additional stake in an existing investment, the combined value of both the existing stake and the additional stake acquired) greater than 20% of the total gross assets of the Company immediately post acquisition. The total gross assets will be calculated based on the last published gross investment valuation of the portfolio plus acquisitions made since the date of such valuation at their cost of acquisition.

The purpose of this limit is to ensure the portfolio has a number of investments and is not dominated by any single investment.

In selecting new investments to acquire, the Investment Adviser will seek to ensure that the portfolio of investments has a range of public sector clients and supply chain contractors, in order to avoid over-reliance on either a single client or a single contractor.

Other Investment Restrictions

The Company is subject to certain investment restrictions pursuant to the UKLA Listing Rules. These are as follows:

(a) The Company's primary objective is investing and managing its assets with a view to spreading or otherwise managing investment risk. The Company must, at all times, invest and manage its assets in a way which is in accordance with the Investment Policy;

(b) The Company will not conduct a trading activity which is significant in the context of the Group as a whole. The Company will not cross-finance businesses forming part of the Group's investment portfolio; and

(c) No more than 10%, in aggregate, of the Company's assets will be invested in other listed closed-ended investment funds.

The Listing Rules may be amended or replaced over time. To the extent that the above investment restrictions are no longer imposed under the Listing Rules those investment restrictions shall cease to apply to the Company.

Group Gearing

The Group intends to make prudent use of leverage to finance the acquisition of investments, to enhance returns to investors and to finance outstanding subscription obligations.

Under the Articles, the Group's outstanding borrowings, excluding intra-group borrowings and the debts of underlying investee companies, but including any financial guarantees to support subscription obligations, are limited to 50% of the Adjusted Gross Asset Value (meaning the fair market value, without deductions for borrowed money or other liabilities or accruals, and including outstanding subscription obligations) of its investments and cash balances at any time.

The Group may borrow in currencies other than pounds sterling as part of its currency hedging strategy.

Amendments

Any material amendments to the Investment Policy will require the approval of Shareholders.

New Investments and Conflicts of Interest

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

It is possible that in future the Group may seek to purchase certain investments from funds managed or operated by the Investment Adviser (or its affiliates) once those investments have matured and to the extent that the investments suit the Group'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 include:

- the creation of separate committees within the Investment Adviser. These committees represent the interests of the vendors on the one hand (the "Sellside Committee") and the Group on the other (the "Buyside Committee"), to ensure arm's length decision making and approval processes. The membership of each committee is restricted in such a way as to ensure its independence and to minimise conflicts of interest arising;
- a requirement for the Buyside Committee to conduct an independent due diligence process on the assets proposed to be acquired prior to making an offer for their purchase;
- a requirement for any offer made for the assets to be supported by a report on the Fair Market Value for the transaction from an independent expert;
- the establishment of "Chinese walls" between the Buyside and Sellside Committees with appropriate information barrier procedures to ensure information that is confidential to one or the other side is kept confidential to that side; and
- the provision of a "release letter" to each employee of the Investment Adviser who is a member of the Buyside and Sellside Committees. The release letter confirms that the employee shall be treated as not being bound by his/her duties as an employee to the extent that such duties conflict with any actions or decisions which are in the employee's reasonable opinion necessary for him/her to carry out as a member of the Buyside or Sellside Committee.

In considering any such acquisition the Directors will, as they deem necessary, review and ask questions of the Buyside Committee and the Group's other advisers, to ensure that the Directors are satisfied that the terms of any such acquisitions are negotiated on an arm's length basis.

Current Acquisition Strategy

In seeking new investments, the Group adopts an acquisition strategy which has been consistently applied since May 2009. The focus remains on social and transportation infrastructure (such as PFI/PPP/P3) concessions, predominantly with availability-based contracts and likely to be operational, although projects under construction will be considered. Of possible secondary interest, but only selectively, are:

- debt funding of infrastructure projects (without taking an equity interest), where attractively priced and appropriately structured;
- toll roads where there is proven demand history and an appropriate risk/return profile; and
- regulated utilities and transmission systems, if of an appropriate scale.

The Board and Investment Adviser consider the Acquisition Strategy on a regular basis and there is a specific strategy discussion held at least once a year.

In setting the above strategy, the Board and the Investment Adviser carried out a fundamental analysis of certain market segments to ensure they are complementary or additive to the existing portfolio. All potential investment opportunities are carefully screened by the team, initially to determine whether the opportunity is suitable for the Group, including assessing the counterparties and the jurisdiction.

When seeking to acquire an investment, the proposition needs to be fully assessed and vetted by the Investment Committee of the Investment Adviser, and this committee meets on a number of occasions before an investment is acquired for the Group. Detailed, thorough commercial and technical due diligence is undertaken by the team and includes a peer-group review. Third party legal, technical and insurance due diligence is commissioned as appropriate to support the acquisition.

The characteristics of new investments are not expected to deviate materially from the underlying risk and reward characteristics of the existing portfolio, nor should any new investment cashflows be subject to risk or revenue dynamics which are substantially different from the profile already established.

2.6 Operational and Financial Review

Key Financial Objectives and Performance Indicators

The Company has been targeting a long-term total return (IRR) of 7 to 8% on the original 100p issue price of its Ordinary Shares in March 2006. For the period since IPO until 31 March 2014 the total shareholder return has been 9.7% p.a. as measured by share price appreciation and dividends, or 9.1% p.a. as measured by Net Asset Value (NAV) appreciation and dividends. The difference results from the share price premium to NAV per share.

The Company has paid a progressive dividend which has risen from 6.1p per share in the year to 31 March 2007 to 7.1p per share in the year ended 31 March 2014. It was cash covered 1.5 times in the year to 31 March 2014. (2013: 1.4 times). This equates to a dividend yield of 5.2% based on the share price of 135.9p at 31 March 2014 (2013: 5.3%).

Set out below is a table of the Company's key performance indicators ("KPIs") used by the Board to measure the performance of the Company against targets set.

KPI	31 March 2014	31 March 2013	Target
Dividends declared in year	7.1p per share	7.0p per share	7.0p per share 2013 7.1p per share 2014
Total return in year (NAV per share growth plus dividends per share)	11.9%	9.4%	7% to 8% p.a. as set out at IPO
Total return in year (share price plus dividends per share)	10.3%	14.7%	7% to 8% p.a. as set out at IPO
Total return since IPO (NAV plus dividends per share)	9.1%	8.9%	7% to 8% p.a. as set out at IPO
Total return since IPO (share price plus dividends per share)	9.7%	9.7%	7% to 8% p.a. as set out at IPO
Cash cover in year	1.5 times	1.4 times	To be cash covered
Ongoing Charges Percentage in the year	1.15%	1.19%	To reduce ongoing charges where possible
Weighted average discount rate	8.2%	8.4%	Market rate
Rebased growth	9.5%	8.9%	Seek to outperform the discount rate
Weighted average portfolio life	22.0 years	22.3 years	Seek to maintain, where possible, by suitable acquisitions
Weighted average life of portfolio project debt	20.3 years	20.7 years	Limit the refinancing risk in the portfolio
Ten largest investments as percentage of the portfolio by value	40%	45%	Seek to reduce to increase diversification
Largest investment (as percentage of portfolio valuation)	7%	8%	To be less than 20%
Inflation correlation of the portfolio (See Section 2.7 for details)	0.6% change in gross return for a 1.0% p.a. change in inflation	0.6% change in gross return for a 1.0% p.a. change in inflation	Maintain current correlation

Acquisitions

As noted in the Chairman's Statement, the Group made 16 new investments and six incremental acquisitions in the period for an aggregate consideration of £239.2m including £5.1m commitment for future loan note subscriptions. A summary is set out in the table below and further detail can be found in Note 12b to the accounts.

Amount	Type	Stage	Project	Sector	Stake Acquired	Date
£9.8m [1]	New	Operational	Medway LIFT	Health	60%	April 13
	New	Operational	Redbridge and Waltham Forest LIFT	Health	60%	
£16.0m	New	Operational	Tameside Hospital	Health	50%	May 13
£10.3m	New	Operational	Addiewell Prison	Accommodation	33%	May 13
£41.6m [1]	New	Operational	Enniskillen Hospital	Health	39%	May 13
	New	Operational	University of Sheffield	Accommodation	50%	
£107.9m [1]	New	Operational	Gloucester Fire & Rescue	Fire, Law & Order	75%	July 13
	New	Construction	Allenby & Connaught MoD Accommodation	Accommodation	12.5%	
	New	Operational	Salford Hospital	Health	50%	
	New	Operational	Miles Platting Social Housing	Accommodation	33%	
£1.9m	Follow-on	Operational	Birmingham & Solihull LIFT – Dental Hospital	Health	30%	Aug 13
£10.2m [1]	Follow-on	Operational	Newton Abbott Hospital	Health	50%	Aug 13
	Follow-on	Operational	Connect	Transport	5%	
£9.2m [1]	New	Operational	Falkirk NPD Schools	Education	29%	Oct 13
	New	Operational	Brighton Hospital	Health	50%	
£5.4m [1]	New	Construction	University of Bourgogne	Education	85%	Jan 14
	New	Construction	RD901 Road	Transport	90%	
£3.4m [1]	Follow-on	Operational	Derby Schools	Education	20%	Jan 14
	Follow-on	Operational	Newport Schools	Education	20%	
	Follow-on	Operational	Medway Police	Fire, Law & Order	20%	
£23.5m [1]	New	Construction	Royal School of Military Engineering	Accommodation	26%	Jan 14
	New	Operational	Sheffield BSF Schools	Education	40%	
£239.2m						

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

Since the year end, there has been the following new investment activity:

- a new investment of a 10% interest in the N17/N18 Gort to Tuam PPP Scheme. The project is located in the Republic of Ireland, and has just reached financial close. It involves the financing, design, construction and operation of a new 57km dual carriageway section of the N17/N18 near Galway for the National Roads Authority of Ireland. Construction of the new road will commence in June 2014 and is expected to be completed in November 2017.
- an incremental acquisition of a further 16.7% interest (equity only) in the Miles Platting Social Housing PFI Project ("Miles Platting Project") in Manchester from Adactus Housing Association Limited.
- On 15 April 2014, shareholders approved the acquisition, from a fund managed by the Investment Adviser, of a 5.85% equity stake in the AquaSure desalination PPP Project near Melbourne in The State of Victoria, Australia. The process of acquiring this AUS$ 84.5m investment has commenced and will complete shortly.

Acquisitions during the year increased the Group's portfolio to 93 social and transportation infrastructure investments as at 31 March 2014. The acquisitions completed since the year-end and highlighted above have increased the portfolio to 95 investments, of which five are still in construction.

In 2013, the Group signed a conditional contract to acquire an investment in the Bradford Schools BSF (Phase 1) Project for £6.5m. This has been delayed pending agreement of a settlement agreement between the project parties which has now been signed. This transaction will proceed once third party consents and pre-emption processes are complete.

During the year the Group participated in 18 auction processes and was successful in only four, losing the remainder either through the bidding process or through pre-emption by another shareholder. The remaining investments were secured via the Investment Adviser relationships and direct negotiations with vendors. Recent experience suggests that certain disposal processes are attracting prices well above what the Group and the Investment Adviser is prepared to pay. If this continues, the rate at which further acquisitions are made in the UK is likely to slow.

Portfolio Performance

During the year the portfolio increased from 79 to 93 investments, with the top 10 holdings representing 40% of the Directors' valuation as at 31 March 2014. The portfolio once again performed as expected and delivered strong cashflows supporting an increased dividend which was well covered from portfolio returns. This strong performance is the result of value accretive acquisitions made in the last two years and management across the portfolio.

Each of the projects has a public sector client, such as a local government education department, and users such as teaching staff and pupils. The feedback from these important stakeholders was again, generally, very positive on the level of engagement, interaction and influence of the Group's representatives across the portfolio.

As with any operational business, projects have challenges from time to time and during the year a number of projects incurred deductions due to operational issues which reflected the fact that not all the KPIs in the relevant project agreement had been met at all times. Generally, any deductions will have been reclaimed from the relevant service provider although occasionally there may be a cost to equity. On a portfolio basis, there is negligible impact on investment performance from operating issues and the benefits from cost saving and other incremental revenue-generating initiatives, such as contract variations, significantly outweigh any deductions.

On one road project acquired as part of a portfolio of assets, there are a number of ongoing issues including possible construction defects with the road surface, drainage issues, insufficient forecast lifecycle budget and lower than expected revenues. The asset management team is working though these issues but, as there is no certainty of a successful outcome, the valuation of this investment has been prudently written down. Being a small investment, the impact on the whole portfolio is negligible.

On a quarterly basis the portfolio's counterparty exposure to both the operational supply chain and the financial providers of bank deposit accounts and interest rate swaps is reviewed. The Investment Adviser's risk and control function monitors financial creditworthiness, while the asset management team monitors project performance for service issues which may indicate financial difficulties. The review processes have not identified any significant counterparty concerns for any of the portfolio's construction or facilities management contractors.

Asset Management and Contract Variations

Each project is assigned an asset manager by the Investment Adviser to represent the Group's interests at the project company board meetings by monitoring performance of the project and ensuring the implementation of appropriate remedial action if and when operational issues arise.

The asset managers ensure that new investments are integrated into the governance and reporting processes employed across the portfolio, as well as focusing on implementing asset level business plans. The aim is to drive additional value through such initiatives as incorporating a new project within the Group's group insurance scheme or changing the provider of management services.

The Investment Adviser added two more asset managers to its staff during the year.

Project or contract variations are a way of enhancing value across the portfolio both for the Company and other stakeholders. Clients typically make variation requests to amend the scope of services delivered, be it a capital project or an additional or amended service for which the project earns incremental revenue. These vary considerably in size. During the year the Investment Adviser processed a number of variations including:

- A £20m variation to support the expansion and redevelopment of emergency service, maternity and neo-natal services at Barnet Hospital, North London was completed in December 2013 ahead of the originally agreed programme. The works formed an integral part of a significant re-organisation of NHS facilities within Barnet, Enfield and Haringey to deliver improvements in patient care.
- At Blackburn Hospital, a programme of variations continued during the year. They included the conversion of an existing ward into a specialist Dementia Ward with a "home in hospital" environment designed to help patients feel more calm and relaxed in what can otherwise be a distressing situation.
- At the Medium Support Helicopter Aircrew Training facility at RAF Benson in Oxfordshire, the simulators continue to be upgraded through variations to ensure that the training carried out in the simulators remains at the vanguard of the operational helicopter requirement. Following extensive upgrade the Puma Mk2 simulator is now training pilots full time.

At Stoke Mandeville Hospital a serious fire broke out in one of the wards in June 2013 which resulted in 48 beds being taken out of service across two wards. All of the building systems operated as designed and the Hospital Trust initiated their major accident plan. Despite the incident occurring at a weekend, the project team was able to mobilise surveyors to scope out the remedial works and commence the planning process.

Following round the clock repairs the least damaged ward was returned to full operational service within a week and a total of 85% of affected bed space was back in service within two months. The worse affected bed bays were finally handed back to the client after just three months. The cost of the remedial works was covered by the project insurances. Fortunately no one was injured as a result of the fire. The Investment Adviser and project company staff liaised closely with the Hospital Trust's senior management throughout the incident and remediation period.

Disposals

As part of the ongoing review of the portfolio, the Group undertook the sale of two investments in December 2013 generating aggregate disposal proceeds of £9.2m. These comprised 80% stakes in the Swindon Police and the Dorset Police projects which had been acquired as part of a portfolio from infrastructure funds managed by Barclays. As with a previous disposal, the purchaser of the two stakes was Vinci Pensions Limited, an affiliate of the 20% co-shareholder in the project, Vinci Investments Limited.

Accounting

The Company has adopted IFRS 10, 11 and 12 as well as Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 following their official adoption by the EU in November 2013. These revised accounting standards require the Company to prepare IFRS financial statements which do not consolidate project subsidiaries, in a similar manner to the pro-forma Investment basis tables that the Company prepared previously.

The Company and its advisers have concluded that these revised standards improve stakeholders' understanding of the financial performance and position of the Group. In particular they provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions.

This change in accounting has had a material impact on the Consolidated Group's financial statements as described in Note 2(b) to the financial statements, and the 2013 comparatives have been restated accordingly.

The Finance Act 2009 introduced new legislation in respect of the requirement of large companies to appoint a Senior Accounting Officer ('SAO') to ensure the establishment and maintenance of appropriate tax accounting arrangements. Growth in the revenues and assets in the year has resulted in the Group falling within SAO legislation thresholds. This means the main UK Group will be allocated an HMRC customer relationship manager and be required to confirm to HMRC that it has appropriate tax accounting arrangements and reporting processes in place.

Income and Costs

Summary Income Statement

	Year to 31 March 2014 £million	Year to 31 March 2013 Restated £million
Total Income [1]	175.7	111.1
Fund expenses & finance costs	(21.9)	(18.0)
Profit/(loss) before tax	**153.8**	**93.1**
Tax	(0.2)	(0.1)
Earnings	**153.6**	**93.0**
Earnings per share	**13.1p**	**10.4p**

1. *Includes forex hedging movement of £6.3 gain (2013: £1.8m loss).*

Total Income has increased 58% to £175.7m (2013 restated: £111.1m) which represents the return from the portfolio recognised in the income statement from dividends, sub-debt interest and valuation movements. The drivers for the increase are contributions from acquisitions combined with a 2% reduction in UK corporation tax rates and the 0.2% reduction in the weighted average discount rate applied in the Directors' valuation supported by continued outperformance from the portfolio. Further detail on the valuation movements is given in Section 2.7.

Foreign exchange movements have not materially impacted profits as £6.7m foreign exchange losses (2013 restated: £2.1m gain) on revaluing the non-UK assets in the portfolio using year-end exchange rates have been offset by £6.3m foreign exchange hedging gains (2013 restated: £1.8m loss).

Earnings were £153.6m, an increase of £60.6m against the prior year. This reflected growth in the portfolio, the reduction in the UK corporation tax rate and a fall in the average discount rate, coupled with a good performance from the portfolio. Earnings per share were 13.1p (2013 restated: 10.4p).

Cost Analysis

	Year to 31 March 2014 £million	Year to 31 March 2013 Restated £million
Interest expense	2.3	3.2
Investment Adviser fees	17.2	13.0
Auditor – KPMG – for the Group	0.3	0.3
Directors fees & expenses	0.2	0.2
Project bid costs	0.7	0.2
Professional fees	1.0	1.0
Other expenses	0.2	0.1
Expenses & finance costs	**21.9**	**18.0**

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) were £17.2m (2013: £13.0m) for the year, comprising the 1.1% per annum management fee (1.0% for assets above £750m, 0.9% for assets above £1.5bn and 1.5% for assets in construction – no longer applicable from 1 April 2014), a 1.0% fee on acquisitions made from third parties, and the £0.1m per annum advisory fee.

During the period, the Company and the Investment Adviser agreed to remove the higher management fee for assets in their ramp-up or construction phase such that with effect from 1 April 2014 all assets incur the same management fee per annum as set out above. A new taper level of 0.8% per annum for assets in excess of £2.25bn was also agreed.

In the year, the Group incurred £0.7m of third party bid costs (2013: £0.2m) on unsuccessful bids (mainly legal, technical and tax due diligence). The Investment Adviser earned £2.2m in acquisition fees (2013: £1.7m), for its work on financial, commercial and structuring due diligence on successful acquisitions.

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

Ongoing Charges

	Year to 31 March 2014	Year to 31 March 2013 Restated
	£million	*£million*
Investment Adviser [1]	15.0	11.3
Auditor – KPMG, for the Group	0.2	0.3
Directors' fees and expenses	0.2	0.2
Other ongoing expenses	1.2	1.0
Total expenses	16.6	12.8
Average NAV [2]	1,441.8	1,077.2
Ongoing Charges Percentage	1.15%	1.19%

1. *Excludes acquisition fees of £2.2m (2013: 1.7m).*
2. *Excludes £164.7m net share capital raised in March 2013.*

Ongoing Charges in accordance with 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 1.15% (2013: 1.19%) with the reduction arising from further scale economies as the Company grows in size. There are no performance fees paid to any service provider.

Balance Sheet

Summary Balance Sheet

	Year to 31 March 2014	Year to 31 March 2013 Restated
	£million	*£million*
Investments at fair value	**1,495.5**	**1,200.4**
Working capital	(8.7)	(11.7)
Net cash/(borrowings)	42.7	146.0
Net assets attributable to Ordinary Shares	**1,529.5**	**1,334.7**
NAV per Ordinary Share (before distribution) [1]	126.7p	120.0p
NAV per Ordinary Share (post distribution)	123.1p	116.4p

1. *The NAV per share at 31 March 2013 was that applicable to the 976.4m Ordinary Shares in issue on the record date of 1 March 2013. The 140m Ordinary Shares issued on 27 March 2013 pursuant to the New Ordinary Shares Prospectus of 26 February 2013 were not eligible for the second interim dividend of 3.575p. See Note 11 to the financial statements.*

Investments at fair value were £1,495.5m (2013: £1,200.4m) net of £5.1m of future investment obligations on RD901 Road and University of Bourgogne PPP projects. This is an increase from 31 March 2013 of £295.1m or 25%. Further detail on the movement in Investments at fair value is given in Section 2.7.

The Group had cash at 31 March 2014 of £42.7m (2013: net cash of £146.0m) which covers the 3.6p second interim dividend due for payment in June 2014. An analysis of the movements in net cash is shown in the cashflow analysis below.

NAV per share was 126.7p before the 3.6p distribution (31 March 2013: 120.0p). NAV per share has increased by 0.7p more than retained earnings per share over the period as a result of the 83.7m shares issued in July 2013 and February 2014 at a premium to par.

Analysis of the Growth in NAV per Share

Pence per share			
NAV per share at 31 March 2013 [1]			**116.4p**
Valuation movements			
Reduction in discount rates of 0.2%	3.2p		
Reduction in UK tax rates by 2%	1.5p		
Lower interest rate to 2018	(0.5p)		
		4.2p	
Portfolio Performance			
Budget NAV growth	0.7p		
Project outperformance	1.1p		
		1.8p	
Accretive Tap Issuance of shares		0.7p	
NAV per share at 31 March 2014 [1]			**123.1p**

1. *Post interim dividend declared.*

Cashflow Analysis

Summary Cash Flow

	Year to 31 March 2014		Year to 31 March 2013 Restated	
		£million		*£million*
Net cash at start of year		146.0		129.4
Cash from investments [1]	112.4		78.2	
Operating and finance costs outflow	(17.5)		(13.9)	
Net cash inflow before acquisitions/financing		**94.9**		**64.3**
Disposal of investments [2]		8.1		3.9
Cost of new investments		(251.2)		(270.2)
Share capital raised net of costs		107.7		270.1
Forex movement on borrowings/hedging [3]		4.3		(3.4)
Distributions paid:				
Relating to operational investments	(63.0)		(46.6)	
Relating to investments in construction	(4.1)		(1.5)	
Distributions paid		(67.1)		(48.1)
Net cash at end of year		**42.7**		**146.0**

1. *The year to 31 March 2014 includes £1.1m profit on disposals (2013: £1.4m).*
2. *Disposal of £8.1m and profit on disposal of £1.1m equals the proceeds from disposal of investments of £9.2m.*
3. *Includes amortisation of debt issue costs of £1.1m (2013: £1.7m).*

Cash inflows from the portfolio increased to £112.4m (2013: £78.2m). The growth in cash generation was driven by contributions from acquisitions combined with active cash management across the portfolio.

Cost of investments of £251.2m (2013: £270.2m) represents the cash cost of the 16 new investments, the six incremental acquisitions and the £12.7m subscription payment for Perth and Kinross, net of deferred consideration and acquisition costs of £4.5m (2013: £5.1m).

The £4.3m cash inflow (2013: £3.4m cash outflow) in foreign exchange rate hedging arises from the weakening of the Euro against Sterling in the year. The Group enters forward sales to hedge forex exposure on the Dutch High Speed Rail Link, two Irish assets, two French assets and two Canadian assets.

The placing of 83.7m Ordinary Shares via tap issues in July 2013 and February 2014 provided net cash receipts in the year of £107.7m (2013: £270.1m).

Dividends paid increased £19.0m to £67.1m (2013: £48.1m) for the year (being the payment of 3.575p in April 2013 and the payment of 3.5p per share in December 2013). The dividends declared for the year to 31 March 2014 represent a total of 7.1p per share (2013: 7.0p).

Dividend cash cover, which compares operational cash flow of £94.9m (2013: £64.3m) to dividends attributable to operational assets, was 1.51 times (2013: 1.38 times). The proportion of the total dividend attributable to operational assets (93.9%) and construction assets (6.1%) is based on their respective share of the portfolio valuation during the year.

After taking advice from the Company's corporate broker and the Investment Adviser, the Board has decided to move to paying distributions to shareholders on a quarterly basis. We believe that shareholders, particularly smaller retail holders, will appreciate more regular dividends. It is intended that they will be broadly equal in size and will be declared in July, November, February and May, with corresponding payments at the ends of September, December, March and June. Based on this timetable, the first quarterly distribution for the year to 31 March 2015 will be declared in July 2014 and paid on 30 September 2014.

It remains the Board's intention to offer a scrip alternative and further details will be provided in July when the first interim dividend is declared.

Group Debt Facility

In March 2014 the Group's revolving credit facility ("RCF") was increased and extended. The previous £100m RCF, jointly provided by Royal Bank of Scotland and National Australia Bank, which was due to expire in February 2015, was increased to £150m and its term extended to May 2016 with the margin reduced to 2.20%. Lloyds Bank and Sumitomo Mitsui Banking Corporation were added to the facility as two new lenders.

With the RCF now available until May 2016, the Company will be able to confirm sufficient working capital for the financial years ending 31 March 2014 and 31 March 2015 prior to needing to refinance.

While no leverage exists at the Company in Guernsey, the Group's RCF is in place which had no cash drawings at the year end and which for the purposes of the Level 2 measures of the Alternative Investment Fund Managers Directive, does not constitute substantial leverage.

Foreign Exchange Hedging

Foreign exchange risk from non-Sterling assets has been managed by hedging investment income from overseas assets through the forward sale of the respective foreign currency (for up to 24 months) combined with balance sheet hedging through the forward sale of Euros and Canadian Dollars and by debt drawings under the Group's credit facility. This has minimised the volatility in the Group's NAV from foreign exchange movements. The hedging policy is designed to provide confidence in the near term yield and to limit NAV per share sensitivity to no more than 1.0p for a 10% forex movement.

2.7 Valuation of the Group's Portfolio

The Investment Adviser is responsible for carrying out the fair market valuation of the Group's investments which is presented to the Directors for their approval and adoption. The valuation is carried out on a six monthly basis as at 31 March and 30 September each year.

The Directors receive an independent report and opinion on this valuation from a third party valuation expert.

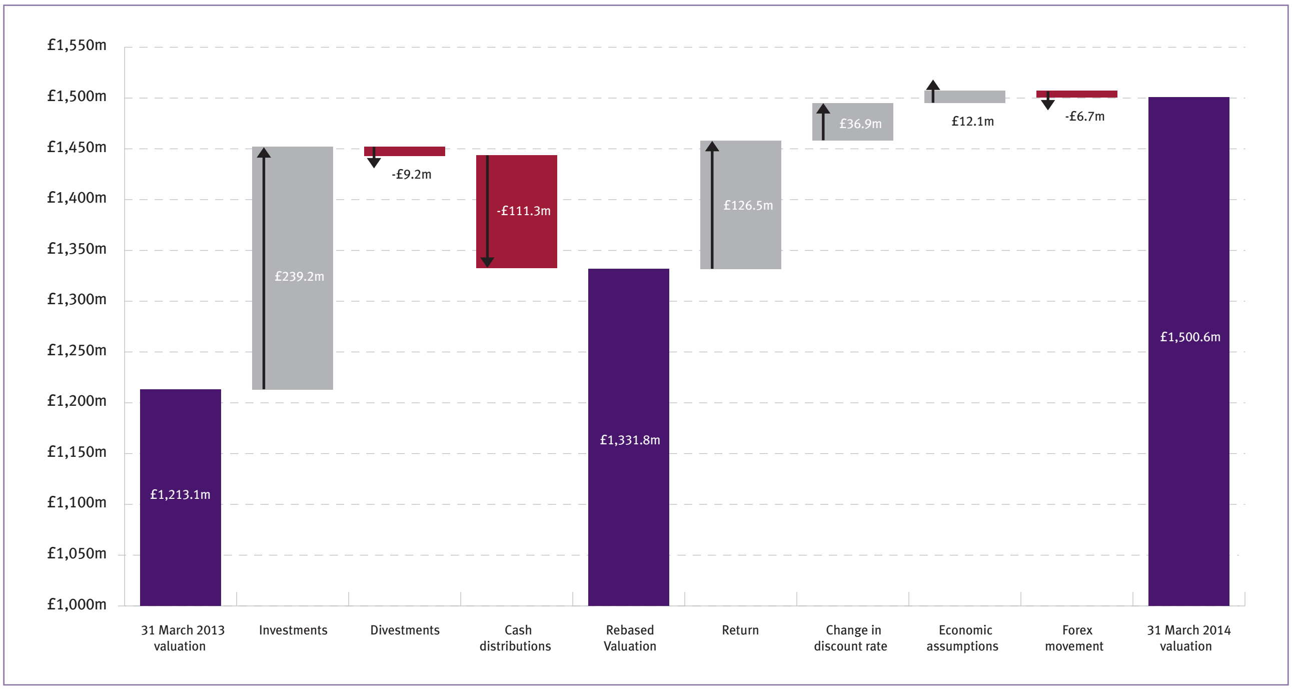
For non-market traded investments (being all the investments in the current portfolio), the valuation principles used are based on a discounted cash flow methodology, and adjusted in accordance with the European Venture Capital Associations' valuation guidelines where appropriate to comply with IAS 39 and IFRS 13, given the special nature of infrastructure investments. If an investment was traded, a market quote would be used.

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

The Directors' Valuation of the portfolio as at 31 March 2014 was £1,500.6m. This valuation compares to £1,213.1m as at 31 March 2013 (up 24%). A reconciliation between the valuation at 31 March 2014 and that shown in the financial statements is given in Note 12a to the consolidated financial statements, the principal difference being the £5.1m outstanding equity commitments on the RD 901 Road and University of Bourgogne PPP projects.

A breakdown in the growth in the Directors' Valuation in the year is tabled on the next page.

Valuation Movement in the year from 31 March 2013 to 31 March 2014



Valuation Movements during the year to 31 March 2014			£'m	Percentage change
Valuation at 31 March 2013			**1,213.1**	
Investments	239.2			
Divestments	(9.2)			
Cash receipts from investments	(111.3)			
		118.7		
Rebased valuation of the portfolio			**1,331.8**	
Return from the portfolio	126.5			9.5%
Change in discount rate	36.9			2.8%
Economic assumptions	12.1			0.9%
Forex movement on non-UK investments	(6.7)			(0.5%)
		168.8		12.7%
Valuation at 31 March 2014			**1,500.6**	

Allowing for the acquisitions during the year of £239.2m, the divestments of £9.2m (Swindon Police and Dorset Fire and Police) and investment receipts of £111.3m, the rebased valuation was £1,331.8m. The growth in the valuation of the portfolio at 31 March 2014 over the rebased value was 12.7%. This increase is a product of the return from the portfolio, the reduction in the discount rate and UK corporate tax rates partly offset by the lowering of deposit rate assumptions and forex movements.

Return from the Portfolio

The return from the portfolio of £126.5m (2013: £97.5m) represents a 9.5% (2013: 8.9%) increase in the rebased value of the portfolio. As expected, the majority of this 'return' (8.3%, being the average) was generated by the unwinding of the weighted average discount rate used to value the portfolio in the year.

The remaining 1.2% (2013: 0.5%) of incremental value arose as a result of the net positive contributions from a number of factors including:

- Contributions from new investments;
- Acquisitions made at, or above, the portfolio discount rate;
- Gains from disposals;
- Net operational out performance including savings from portfolio insurances;
- UK actual inflation in the year being lower than the 2.75% p.a. valuation assumption; and
- Impairment of an operational road project.

Fair value for each investment is derived from the application of an appropriate discount rate to the investment's future cash flows to give the present value of those cashflows. The Investment Adviser exercises its judgment in assessing the expected future cash flows from each investment based on the detailed concession life financial models produced by each Project Company. Cash flows are adjusted where necessary to include the Group's economic assumptions as well as any specific operating assumptions.

Discount Rates

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

When there are limited transactions or information available, and as a second method and sense check, a "bottom up" approach is taken based on the appropriate long-term Government Bond yield and an appropriate risk premium. The risk premium takes into account risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by project phase and market participants' appetite for these risks.

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

Discount rate	31 March 2014	30 September 2013	31 March 2013
Range	7.8% to 11.0%	7.9% to 10.0%	8.0% to 10.0%
Phase			
Operational phase	8.2%	8.3%	8.4%
Construction phase	8.9%	9.0%	n/a
Portfolio – weighted average	**8.2%**	**8.3%**	**8.4%**

The average discount rate reflecting market pricing for an operational asset has been assessed as 8.2% – down 0.2% from the prior year – reflecting market conditions discussed in Section 2.6 above.

An analysis of the weighted average discount rates for the investments in the portfolio analysed by territory is shown below:

Country	31 March 2014			31 March 2013 Discount rate	Movement
	Long-term Government Bond yield	Risk premium	Discount rate		
UK	3.4%	4.8%	8.2%	8.4%	(0.2%)
Canada	2.9%	5.0%	7.9%	8.1%	(0.2%)
France	3.0%	7.6%	10.6%	n/a	n/a
Holland	2.5%	5.8%	8.3%	8.6%	(0.3%)
Ireland	3.2%	5.8%	9.0%	10.0%	(1.0%)
Portfolio	**3.3%**	**4.9%**	**8.2%**	**8.4%**	**(0.2%)**

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

As long-term Government Bond yields in the UK, Canada, France and Holland are currently low, this is reflected in higher country risk premium, which includes an allowance for increases from these historically low yields.

An analysis of the movements in the weighted average risk free rate and risk premium for the social and transportation infrastructure assets is shown below:

Year ending	31 March 2014	31 March 2013	Movement
Government Bond yield	3.3%	2.9%	0.4%
Risk premium	4.9%	5.5%	(0.6%)
Discount rate	**8.2%**	**8.4%**	**(0.2%)**

The 0.2% reduction is attributable to a more competitive environment for social infrastructure assets. While there is a steady supply of new investment opportunities, new market entrants, attracted by the favourable risk-adjusted returns, have driven prices upwards, and hence caused discount rates to fall during the year.

Valuation Assumptions and Sensitivities

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

		31 March 2014	31 March 2013
Inflation	UK (RPI and RPIx) [1]	2.75% p.a.	2.75% p.a.
	Euro (CPI)	2.00% p.a.	2.00% p.a.
	Canada (CPI)	2.00% p.a.	2.00% p.a.
Deposit Rates	UK short-term	1.0% p.a. to March 2018	1.0% p.a. to March 2017
	UK long-term	3.5% p.a. thereafter	3.5% p.a. thereafter
Foreign Exchange Rates	CAD/GBP	0.54	0.65
	EUR/GBP	0.83	0.84
Tax Rate	UK corporation tax	21%	23%

1. *Retail Price Index or Retail Price Index excluding mortgage interest payments.*

These assumptions are judgements in determining the valuation and, as in previous years, the Company prepares certain key sensitivities, which are set out in Note 4 to the accounts.

In the UK, RPI and RPIx were 2.5% for the year ending March 2014. 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 2014 forecasts for RPI out to December 2015 range from 2.6% to 4.2% from 24 independent forecasters as compiled by HM Treasury, with an average forecast of 3.3%.

Changing the assumption for future inflation by a 1.0% p.a. increase (i.e. from 2.75% p.a. to 3.75% p.a. for the UK investments) has the effect of increasing the forecast return from the portfolio from 8.2% (being the weighted average discount rate) to 8.8%.

As at 31 March 2014 cash deposits for the portfolio were earning interest at a rate of 0.5% 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 2015 of 1.2%.

The portfolio valuation assumes UK deposit interest rates are 1% p.a. to March 2018 and 3.5% p.a. thereafter. This extends the period of 1% deposit interest rates as applied in the March 2013 valuation, which assumed 1% deposit interest rates to March 2017 and 3.5% thereafter. These changes have reduced the portfolio valuation by approximately £5.7m and are included within the £12.1m aggregate increase in portfolio value attributable to changes in Economic Assumptions.

The UK corporation tax assumption for the portfolio valuation is 21%, which has reduced by 2% from 23% at March 2013, to reflect the current rate of UK corporation tax. This change has increased the portfolio valuation by approximately £17.8m and is included within the £12.1m aggregate change in portfolio value attributable to changes in Economic Assumptions.

Additional Sensitivities

The Investment Adviser has prepared two additional sensitivities this year, for lifecycle and tax rates.

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. The lifecycle sensitivities consider a +/-10% change to the projected budget for lifecycle where the risk is taken by the project company.

Of the 20 largest assets, only 11 have lifecycle as a project company obligation (i.e. not subcontracted). This is broadly typical of the portfolio as a whole.

The tax sensitivity looks at the effect on changing the tax rates by +/-5% each year and is provided to show that tax can be a material variable in the valuation of investments.

The analysis to prepare the above sensitivities was carried out on the 20 largest investments (60% of the portfolio by value).

Lifecycle – 11 investments [1]	Change in assumption	-10% change p.a.	+10% change p.a.
	Change in value	+4.9% increase	-4.9% decrease
Lifecycle – 20 investments [2]	Change in assumption	-10% change p.a.	+10% change p.a.
	Change in value	+2.6% increase	-2.6% decrease
Tax Rates	Change in assumption	-5% change in rate p.a.	+5% change in rate p.a.
	Change in value	+3.2% increase	-3.3% decrease

1. *Sensitivity on the 11 investments where the project company retains the lifecycle obligation, within the 20 largest investments.*
2. *Sensitivity based on 20 largest investments, of which only 11 have lifecycle as a project company obligation.*

2.8 Outlook

Portfolio

The current portfolio is performing as expected with no material operating issues. This is due in part to the successful value accretive acquisitions made over the last two years which have been operating and performing in-line or ahead of projections.

Provided unforeseen issues do not arise, the Board is confident that the current portfolio can continue to deliver the targeted returns for the Company. Through careful management, outperformance is possible and the Board regularly reviews the opportunities for this with the Investment Adviser.

As noted in Section 2.6, the Company intends to move to paying quarterly interim dividends to give investors a more regular payment. The first quarterly interim dividend for the year to 31 March 2015 will be announced at the end of July 2014 and paid at the end of September 2014.

Infrastructure Market Developments – UK

The Company's focus has been mainly on secondary, or operational, infrastructure assets, particularly in the UK which has a long history of public sector procurement as a consequence of which it now has the largest number of operational social infrastructure projects of any global economy.

With the maturing of the infrastructure asset class and the greater understanding of its positive investment attributes by the broader investment community, more investors have been seeking to acquire stabilised operational assets in the secondary market. Although the Company was one of the first entrants to the market back in 2006, it has been followed by further listed and unlisted infrastructure funds and, more recently, by institutional investors making direct investments into the asset class. At the same time, the majority of the available equity stakes in the 600+ UK social infrastructure projects have been acquired by long-term, buy-and-hold end investors. The result in the UK is a reduced supply of potential new investment opportunities, with a growing number of investors seeking this type of investment.

Procurement of new infrastructure projects in the UK which would be attractive to the Group remains slow and offers limited potential.

However, new investment opportunities continue to arise in the UK secondary market and, even with more intense competition, the Group is cautiously confident of sourcing new investments with similar risk reward dynamics to the existing portfolio.

Infrastructure Market Developments – Europe, Australia and North America

Outside the UK, investment opportunities vary by country, but with active procurement programmes, the number of potential new investment opportunities continues to grow and the Investment Adviser is using its wide network of relationships to source new opportunities, through the InfraRed offices in New York, Paris and Sydney.

In Europe, the Company made its first two investments in France in January. These were originated through the Investment Adviser's relationship with the Bouygues Group and the Company is optimistic of sourcing further investments in France. In May 2014, the Group secured its third investment in Ireland, an availability-revenue road currently under construction.

The number of projects being procured in France, Belgium and the Netherlands continues to grow and we expect further investment opportunities to arise in the secondary market. There are also several larger multi-jurisdictional portfolios expected to be marketed during the coming year as some unlisted funds mature and look to realise gains for their investors. Competition is expected to be fierce and the Company will continue to be cautious rather than risk overpaying.

The Australian market offers promise with the recently-elected Government indicating its intention to use infrastructure investment, including PPP procurement, as a driver of domestic growth. Whilst the Australian economy is well developed and political risk is low, the long-term foreign exchange and inflation rate risks relative to Sterling are less predictable. Nevertheless, provided new investments meet the investment criteria and objectives on a risk adjusted basis, further opportunities will be considered.

In North America, the largest PPP market remains Canada where there continues to be strong support for P3 procurement. Unfortunately, the tax breaks afforded to domestic pension funds make it challenging for foreign investors to compete for many operational infrastructure assets. The US is a potentially much larger but longer term opportunity. The pace of primary procurement is gradually increasing and, as projects become operational, a secondary market of investment opportunities will develop.

The Group's Investment Pipeline and Acquisition Approach

In the UK, the imbalance between supply and demand for these assets has been driving up the pricing of social and transportation infrastructure investments. The Group has been unsuccessful in a number of auction processes in the last year with pricing levels that the Investment Adviser believes would dilute the Company's ability to meet the return objectives to shareholders. Typically these processes have related to larger investments where the scale of the opportunity attracts a broader universe of bidders. Participating in auction processes is time consuming and often fruitless, but this provides valuable insight into how other parties are pricing investments: not just the yield they are prepared to accept but, to a degree, the underlying cashflows which they assume.

The Investment Adviser is successfully deploying an acquisition strategy built on long-established relationships and direct negotiations with potential vendors. Together with buying incremental stakes in existing projects, the Company has been able to make value-accretive acquisitions without compromising on returns or by making unrealistic assumptions on future forecast cashflows. The Group has also considered assets which some consider too small or too complex, but which can often offer attractive returns.

In addition, the Investment Adviser is actively exploring new investment opportunities outside the UK in developed markets. Only those which fit the Company's Investment Policy and pricing disciplines are considered. Significant due diligence is undertaken in-house by the Investment Adviser before any third-party costs are incurred.

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

The Company's current portfolio mix geographically is not expected to alter materially, and similarly, the Group's exposure to investments under construction will not materially increase. This is due, in part, to the Group's largest asset in construction, the Allenby and Connaught MoD accommodation project, being expected to achieve final completion this summer.

Overall, the Group still believes it will be able to make further investments in the UK and, selectively, overseas but the rate of growth will be determined by the extent to which price competition impacts value.

2.9 Ten Largest Investments

Set out below are details of the ten largest investments in the portfolio and details of each project. As at 31 March 2014, the largest investment (the Home Office project) accounted for less than 7% (2013: 8%) of the portfolio.

Project	Directors' Valuation 31 March 2014 Valuation as a percentage of Directors' portfolio valuation *£million*	Directors' Valuation 31 March 2013 Valuation as a percentage of Directors' portfolio valuation *£million*
Directors' Valuation – £m	**1,500.6**	**1,213.1**
Allenby & Connaught	5%	n/a
Birmingham Hospitals	3%	3%
Colchester Garrison	4%	4%
Connect	4%	5%
Dutch High Speed Rail Link	5%	7%
Edinburgh Schools	2%	3%
Highland Schools	3%	3%
Home Office	7%	8%
Oxford John Radcliffe Hospital	2%	3%
Queen Alexandra Hospital	5%	6%
Total – ten largest investments	**40%**	**45%**

Allenby and Connaught Ministry of Defence Accommodation

% of Portfolio: 5%
Equity interest: 12.5%
Payment Basis: 100% availability
Co-Shareholder(s): Innisfree, InfraRed Yield Fund, KBR

The Allenby and Connaught MoD PFI Project is a 35 year concession to design, build, finance and operate 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. The Project reached financial close in April 2006 and construction is being undertaken by a joint venture between subsidiaries of Carillion and KBR Holdings LLC ("KBR").

Some limited works remain to be delivered over the next six months to complete the construction obligations of the project. A services joint venture between subsidiaries of Carillion and KBR is providing the FM services to the project

HICL acquired a 12.5% stake in the project in June 2013 from a subsidiary of Carillion plc.

Birmingham Hospitals

% of Portfolio: 3%
Equity interest: 30.0%
Payment Basis: 100% availability
Co-Shareholder(s): Balfour Beatty, InfraRed Yield Fund

The Birmingham Hospitals project is a 40 year concession to design, construct, finance and maintain a new acute hospital and six new mental health facilities in Birmingham for the University Hospitals Birmingham NHS Foundation Trust and the Birmingham and Solihull Mental Health NHS Foundation Trust respectively.

The new acute hospital and mental health facilities were built by a joint venture between Balfour Beatty Construction Limited and Balfour Beatty Engineering Services Limited under a £553 million fixed-price construction contract. The new buildings were built in phases over 5 years. The mental health facilities were handed over in 2008 and provide for 235 beds across 6 new psychiatric facilities.

The acute hospital was substantially completed and handed over in September 2011, with the remaining works finished in August 2012. The hospital provides for 1,213 inpatient beds and 30 operating theatres.

HICL acquired a 30% stake in the project in May 2012 from a subsidiary of Royal Bank of Scotland shortly before final completion of construction.

Colchester Garrison

% of Portfolio: 4%
Equity interest: 56.0%
Payment Basis: 100% availability
Co-Shareholder(s): Sir Robert McAlpine, Sodexo, InfraRed Yield Fund

The Colchester Garrison project is a 35 year concession to design, construct, finance and maintain a new garrison facility at Colchester, Essex for The Secretary of State for Defence (the "MOD"). The new garrison has been built partly on an existing garrison site and partly on an adjacent brownfield site owned by the MOD. The project involved capital expenditure of approximately £550 million, the project reached financial close in February 2004.

The completed garrison facility provides accommodation for approximately 3,500 military and 750 civilian personnel. Construction was by Sir Robert McAlpine Limited and is now complete.

Catering, cleaning and transport services are provided by Sodexo Defence Services Limited. Sodexo Property Solutions Ltd (formerly known as WS Atkins Facilities Management Limited) is responsible for estate and grounds maintenance, contract management and security, waste management and lifecycle.

Strong partnership relationships continue with the garrison remaining at peak capacity. Operations continue in a "steady state" with minimal deductions and good customer satisfaction. There is ongoing work to identify operational savings including energy efficiencies.

Connect, London

% of Portfolio: 4%
Equity interest: 33.5%
Payment Basis: 100% availability
Co-Shareholder(s): Thales, John Laing Infrastructure Fund

CityLink Telecommunications Limited ("CityLink"), the project company, has a 20 year concession which runs until November 2019 to upgrade London Underground Limited's existing radio and telecommunications systems and implement and operate a new system.

Fluor Enterprises was subcontracted to provide the engineering, procurement, design and construction for installation of the new transmission network and radio systems. Thales Transport and Security Limited is subcontracted to operate the existing and new systems for the life of the project under an operations and maintenance contract.

Dutch High Speed Rail Link

% of Portfolio: 5%
Equity interest: 43.0%
Payment Basis: 100% availability
Co-Shareholder(s): Innisfree, Fluor, Royal BAM

The project is a 25 year concession with the State of the Netherlands, represented by the Minister of Transport, Public Works and Water Management and the Minister of Finance and is the largest PPP contract ever awarded by the Dutch State. More specifically the project involves the design, construction, financing, operation and maintenance of one of the largest high speed railway projects in Europe. The project involved capital expenditure of over £625 million on the construction of track, noise attenuation, catenary, signalling, traction power distribution and command-control-communication systems infrastructure. The project reached financial close in October 2001 and construction was completed in 2007.

The project is responsible for maintenance of the system (and substructure) and the undertaking of renewals works during the concession period. The provision of rolling stock is constructed outside the scope of this project. The availability-based revenues due from the Dutch State are measured, inter alia, by reference to any delays to trains, and are independent of the level of traffic. The project has additional obligations in relation to safety management and liaison with the State, the regulator, traffic allocator, traffic controller, the owner of the existing and connecting infrastructure as well as the substructure contracts.

Maintenance obligations are carried out by a joint venture comprising Siemens Nederland By, Koninklijke BAM NBM NV and Fluor Infrastructure BV. Availability has been at 100% for almost the entire period and only minor deductions have been incurred.

Edinburgh Schools

% of Portfolio: 2%
Equity interest: 100.0%
Payment Basis: 100% availability
Co-Shareholder(s): n/a

The Edinburgh Schools project is a 31.5 year concession for the design, construction, finance and maintenance of six secondary and two primary schools, along with routine and major lifecycle maintenance for the life of the concession on behalf of the Edinburgh City Council.

The new schools are located on seven sites in and around Edinburgh, Scotland and have capacity for 6,580 pupils (including 80 nursery, 800 primary and 5,700 secondary) and have a built up area of 97,000m^2.

The schools were constructed by Laing O'Rourke under a £165m fixed-price construction contract between 2007 and 2010 and have been operational since between November 2008 and January 2010.

Mitie PFI Limited provides both the hard and soft facilities management services and lifecycle obligations to the Project, under a concession life contract.

Highland Schools

% of Portfolio: 3%
Equity interest: 100.0%
Payment Basis: 100% availability
Co-Shareholder(s): n/a

The Highland Schools PFI project is a 30 year concession with the Highland Council to design, build, finance and operate eleven urban and rural schools with a total capital value of £143 million. The project comprises five primary schools, three secondary schools, a combined primary and secondary school, and a special needs school. The project reached financial close in April 2006.

Morrison Construction commenced the building phase in 2006 on the 11 new schools and community facilities built through the Highland Council's second Public Private Partnership (PPP) programme.

Facilities management is the responsibility of Morrison Facilities Services and the project is financed through long-term fixed-rate guaranteed senior secured bonds and a EIB loan. The contractual payment mechanism is an availability payment based on availability of accommodation facilities and the level of service performance.

The Home Office, London

% of Portfolio: 7%
Equity interest: 100.0%
Payment Basis: 100% availability
Co-Shareholder(s): n/a

The Home Office Headquarters project is a 29 year concession commissioned by the Home Office to design, build, finance, operate and maintain a new headquarters building to replace their existing London office accommodation with purpose-built serviced offices. The new building occupies the site of the former Department of Environment in Marsham Street in Westminster.

The project involved capital expenditure of approximately £200 million and the demolition of the existing offices on a 4.3 acre site and the construction of a Terry Farrell Partners-designed building comprising three purpose built interconnecting office blocks totalling c. 75,000m^2, for up to c. 4,000 staff. Construction was carried out by Byhome Limited, a joint venture between Bouygues (UK) Limited and its sister facilities management company Bouygues Energies and Services ("BES"), both subsidiaries of Bouygues Construction S.A.

Construction was completed and has been occupied by the Home Office since January 2005. The services being provided include security, health and safety, cleaning, catering and energy management. Operations are managed by BES.

The Project Company, the Authority and BES are working in partnership to reconfigure the existing office space to facilitate the move of the Department for Communities and Local Government (DCLG) into 2 Marsham Street by September 2014.

Oxford John Radcliffe Hospital

% of Portfolio: 2%
Equity interest: 100.0%
Payment Basis: 100% availability
Co-Shareholder(s): n/a

This project involves the design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary in Oxford. The concession runs until December 2036.

The new wing was constructed by Carillion Construction Ltd and reached operational completion in December 2006. The new facilities built under the contract formed the 'West Wing' and the 'New Children's Hospital'.

A number of adult and children services were relocated from the Radcliffe Infirmary and other sites within the Oxford Radcliffe Hospitals NHS trust to centralise them into one facility.

Facilities management services are subcontracted to Carillion Services Ltd.

Queen Alexandra Hospital, Portsmouth

% of Portfolio: 5%
Equity interest: 100.0%
Payment Basis: 100% availability
Co-Shareholder(s): n/a

The Queen Alexandra Hospital project is a 35 year concession to design, build, finance and maintain a combination of new-build and retained estates for the Portsmouth Hospitals NHS Trust.

The new hospital buildings were developed and built by Carillion Construction Ltd, a subsidiary of Carillion. The majority of the new facilities have been operational since June 2009, with capital expenditure of approximately £255 million.

The completed hospital has 1,026 inpatient beds, 34 neonatal intensive care cots, 3 endoscopy suites and 20 main operating theatres. The concession contract runs until December 2040.

A subsidiary of Carillion provides facilities management services to the project under a long-term services agreement.

Whilst facilities management project performance continues to be generally satisfactory, service levels in the Estates Maintenance service are still being monitored closely and recommendations from an improvement plan commissioned by the project company are being implemented.

2.10 Risks and Risk Management

Overview

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

Under direction from the Board, the identification, assessment and management of risk are integral elements of the Investment Adviser's and the Operator's work in both the management of the existing portfolio and in seeking new investment opportunities.

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

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

Given the limited number of disposals from the portfolio and the similar risk profile of new investments compared to the existing portfolio (i.e. they are all social and transportation infrastructure projects and the majority are in the UK with broadly similar contractual structures), the type and nature of the risks in the Group do not materially change from year to year.

The Risk Committee

As noted in Section 2.4, the Company is deemed to be an AIF under AIFMD currently being implemented across Europe. Having taken appropriate advice the Board has determined the most appropriate status for the Company is to be a self-managed AIF and expects to complete its registration with the appropriate regulatory authorities prior to the expiry of the AIFMD transitional period on 22 July 2014.

The current working practices that the Board has with the Investment Adviser and other key service providers mean that only a small number of changes are needed to implement being a self-managed AIF. The Board has decided to formalise its oversight of the risk management function through new documentation and amending certain procedures. As previously, the Investment Adviser is required to consult with the Board and seek approval, prior to carrying out third party due diligence or making an investment which falls outside the parameters agreed with the Board previously.

At the most recent Board meeting in May 2014, the Directors resolved to establish a formal sub-committee of the Board, the Risk Committee, which would meet at least every quarter to discuss all matters relating to the risks to which the Group is exposed and their management and mitigation. The relevant agenda items would no longer be part of the main Board meeting or the other Board sub-committees but fall within the remit of the Risk Committee which will consider the matters and make appropriate recommendations to the Board. Mr Ian Russell will be the Chairman of the Risk Committee whose first meeting will be held in July 2014.

The Directors set out the material risks relating to the Group's portfolio and to individual investments in the Company as at 26 February 2013 in the Company's New Ordinary Shares Prospectus, which is available from the Company's website. These risks and possible mitigants are summarised below under five key risk areas – External; Strategic; Management; Investment; and Financial and Treasury.

External Risks		
The Group currently has a broad exposure to social and transportation infrastructure markets in the UK, Australia, Canada and the EU (currently France, Ireland and the Netherlands). The Group has investments, business activities, registered companies and limited partnerships in the UK, Luxembourg and Guernsey. These activities and entities can be affected by changes in economic factors, local legislation, taxation and regulatory frameworks.		
	Risk	**Mitigants**
Economic Factors	The performance of the portfolio is affected by a number of economic factors including inflation rates, interest rates, and foreign exchange rates.	Most, if not all of the projects mitigate to some extent against changes in inflation rates by seeking to match their indexation of contractual revenues to their indexation of contractual costs. This is not always achievable where costs are not indexed, an example being where bank debt interest rate exposure has been swapped into a fixed rate. Since 2009 UK RPI has been positive; however, if the UK were to enter an environment of falling inflation such that RPI was below 2.75% p.a. on average for the remainder of the current projects' lives, or deflation took hold for a sustained period, the valuation of the portfolio would be adversely impacted, and in a period of sustained deflation, projects could suffer defaults under their loan arrangements as the free cashflows to service debt in a deflation period would decline in nominal terms.

External Risks *(continued)*	Risk	Mitigants
Changes in Law and Legislation	New laws and regulations are introduced which could negatively impact the operation of the underlying investments.	Most social and transportation infrastructure concessions provide some or total protection, through their contractual structures, in relation to changes in legislation which affect either the project asset or the way the services are provided.
Tax and Accounting	Changes in tax legislation and accounting practices can affect both the individual investments and have an impact on the Group's corporate subsidiaries and corporate structure.	Where possible, this will be mitigated, but there will be instances where this may not be possible and in these instances there could be an adverse impact on the financial performance of the Group.
Political	There is UK Government initiative to find efficiency savings in UK PFI/PPP projects which could affect the Group's investments.	The Investment Adviser's asset management team continues to pro-actively assist clients with this objective. Where possible we transfer our knowledge of potential efficiencies from one project to others within the Group's portfolio for the benefit of all stakeholders.
	There is a risk, albeit low, that a political decision could be taken to seek to unilaterally change the terms of a contract.	Each of the Group's projects is structured with a legally binding contract with a public sector client. Although such a development would have wide ranging implications for the market, if it were attempted and was successful, the value of the Group's investment portfolio and its ability to meet target distributions would be affected.
	If a public sector client has financial difficulties and is unable to meet its obligations to pay under a concession agreement, this could have a material impact on that project's cashflows.	Although rare, there have been cases in the health sector, for a UK healthcare trust to find itself running a budget deficit and potentially unable to meet its ongoing liabilities. Where this occurs, the local health economy has typically been reorganised such that the PFI/PPP obligations are met by a solvent entity for the remainder of the contract. However, there is a risk that such situations may not always result in an outcome which is favourable to the investors of the project.
	If there is Scottish independence resulting from a yes vote in the September 2014 referendum this could have an impact on the Group's Scottish investments.	The Group currently has 12 investments located in Scotland representing 14% of the portfolio by value as at 31 March 2014. If Scotland becomes independent from the UK at some point thereafter, it is currently unclear exactly what the economic impact this could have on the Group's Scottish investments. Once the outcome is known the Board will take the appropriate steps to protect the value of these investments.

External Risks *(continued)*	Risk	Mitigants
Regulatory	If there are changes to regulations, these could have a negative impact or cost for the Company, Group or the Investment Adviser.	The Company is an Authorised Closed-Ended Investment Scheme. The Investment Adviser is authorised and regulated by the Financial Conduct Authority in the UK. Both the Company and its advisers continually monitor any potential or actual changes to regulations to ensure both the Group and its service providers remain compliant. On 1 January 2014 the Financial Conduct Authority ("FCA") introduced new rules relating to the restrictions on the retail distribution of unregulated collective investment schemes and close substitutes. Following the receipt of legal advice, the Board has confirmed that it is exempt from these rules as it conducts the Company's affairs, such that the Company would qualify for approval as an investment trust if it were resident in the United Kingdom. There is a risk that the FCA may, at some point in the future, not permit this form of exemption from the rules which could potentially have a negative impact on the demand for the Company's shares.
Cyber Threat	There is a risk of a cyber-attack which affects either the Group's or an a Project Company's IT systems, causing theft or loss of data.	The Group has no dedicated IT systems as it relies on those of its services providers. The Investment Adviser has IT systems designed to withstand a cyber-attack and these systems are tested annually against these threats by a specialist third party. Project Companies tend not to have their own IT systems and rely on their subcontractors and management companies. Data is normally backed up and the risk should data be corrupted or stolen is considered low.

Financial Risks		
The ability of the Company to achieve further growth in its annual dividend and to maintain and grow its NAV is dependent on a number of economic factors outside the Company's control.		
	Risk	**Mitigants**
Financial Objectives	The Company fails to achieve its published financial objectives.	Whilst reasonable assumptions have been factored into business plans, significant external factors could materially affect the Company and impede its ability to deliver its financial objectives. Examples of such events include a prolonged period of deflation, a rise in corporation tax rates, and changes in tax legislation affecting the Group and its investments.

Financial Risks *(continued)*		
	Risk	**Mitigants**
Share Price Premium/Discount to NAV	The Company's shares trade at a large premium or discount to the last published NAV per share.	The Company publishes a NAV per share twice a year. The method of valuing the Group's investments is described in detail in Section 2.7. To assist in managing the share price premium or discount to NAV, the Board has the powers to both buy back shares as well as issue additional shares via tap issues or full equity raisings. There is no guarantee that these measures will minimise the discount or premium to NAV.

Management Risks		
The Management Engagement Committee reviews the performance of each service provider on an annual basis and seeks to ensure that each service provider has adequate systems and controls in place in relation to the services they provide to the Group. The most recent review was in February 2014. Any performance issues are monitored carefully, and if the Board is not satisfied with the level of service delivery, the Board will seek to change service providers.		
	Risk	**Mitigants**
Reliance of Service Providers	The Group is heavily reliant on the Investment Adviser for the day-to-day management of the Group and to achieve the Group's objectives. The Investment Adviser is supported by other service providers to the Group. Failure by the Investment Adviser or another service provider could have a material impact on the Group. Equally a loss of key personnel from a service provider may have an impact on the performance of the Group.	The Board takes comfort from the fact that the Investment Adviser has a track record in managing infrastructure investments and has developed an appropriate and detailed set of policies, procedures, compliance systems, and risk controls. The Investment Adviser has recruited additional staff within its infrastructure team over the last year, and this has increased the team on which the Group relies. The Investment Adviser is subject to routine review and the Board is satisfied that there is sufficient depth of expertise within the Investment Adviser's team for the Group not to be reliant on any single individual. For good governance purposes the Board has also decided to periodically conduct independent assurance reviews of the Investment Adviser's current policies, procedures, compliance systems, and risk controls.

Investment Risks		
There are a number of risks associated with making and managing new investments, which are set out below with possible mitigants.		
	Risk	**Mitigants**
Due Diligence	Acquiring a new investment in an infrastructure project via a trade sale involves a certain level of risk. These are mitigated where possible by a structured process of thorough due diligence, the agreement of suitable protections in the sale and purchase agreements with the vendor, and site visits to view and inspect the project's assets. However due diligence may fail to identify risks and the business plan assumptions in the acquisition model may not subsequently be achieved.	The Investment Adviser and Operator has internal processes and controls, developed from its experience of managing funds and investing in infrastructure, to minimise these risks through regular peer group review and internal approval processes. All investment decisions are made by an Investment Committee which has approved terms of reference to ensure that only those staff with appropriate skill sets have been appointed, any conflicts should they arise are suitably managed, and an appropriate quorum is achieved. Investment approval is subject to unanimous consent. Specialist advisers (such as lawyers, technical consultants, and tax advisers) are retained to carry out specific due diligence on potential acquisitions to minimise this risk.
Operational Budgets	Projects have operational budgets which include a number running costs, the largest of which are insurance premiums and lifecycle costs (if not subcontracted). There is a risk these budgets may prove insufficient.	As part of the due diligence process, all operating budgets are reviewed to determine if they are adequate. In the case of insurance premiums, there is often some protection through contractual premium risk sharing agreements with the public sector client such that when an agreed cap is met the increased premium is mostly, or wholly, taken by the client. The Group regularly assesses the adequacy of lifecycle budgets where the risk sits with the Project Companies.
Underperformance	Once acquired, investments need to perform in line with their business plans. Underperformance can be caused by a number of factors, the most likely of which is the underperformance of a service delivery partner.	The Group seeks active oversight of its investments to ensure any trends in performance are picked up and if necessary, corrected accordingly. In a severe case, the project 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, be recovered from the previous supplier.
Early Termination	There is a risk that an existing project might be terminated, either voluntarily or for default. In these circumstances, the compensation payable may not cover the carrying value of the investment.	This risk is not considered to be high due, in part, to the requirement for the public sector client to fund these termination costs which include the cost of repaying the debt secured to finance the project.

Investment Risks *(continued)*		
	Risk	**Mitigants**
Counterparty Default	A key risk within a project is the various counterparty exposures: the client, the subcontractors, and the providers of finance and financial services.	The Group is careful to manage its concentration exposures to any one party carefully. Whilst the Group's portfolio is currently predominantly made up of UK PFI/PPP investments, the Group has eight (with AquaSure) non-UK investments. Subcontractor and financial counterparties exposures are monitored and the Group seeks a balanced portfolio with no over-reliance on a single party.

Financial and Treasury		
	Risk	**Mitigants**
Funding and Liquidity	The Group's investments and the Group itself require debt finance to achieve its business objectives. Lack of funding or liquidity can create cashflow issues.	All of the Group's PFI/PPP/P3 investments have long-term funding in place and do not need refinancing to meet their financial plans. The Group has a £150m credit facility which was due to mature in May 2016. This facility is utilised to make further acquisitions of new investments and there is a risk that it will not be possible to raise equity capital to pay down this facility. If this proves to be the case, the Group will either need to extend or refinance the facility or dispose of selected investments to enable it to meet its repayment obligations.
Currency	The Group has a number of non-UK investments in local currencies and movements in foreign exchange rates could have a negative impact on the Group.	To date the Group has used a combination of balance sheet hedging, through multi-currency drawings under its credit facility or through rolling forward sales of the respective currency, and hedging prospective income on a short-term basis through outright forward currency sales.
Interest Rates	The Group is exposed to interest rate fluctuations, both on its borrowing and cash deposits.	When the Group draws on its credit facility, consideration given to hedging the interest rate, dependent on how long the debt is likely to be drawn. The PFI/PPP/P3 projects which are bank funded have fixed-rate or inflation-linked interest rate hedges in place on their borrowings for the life of the debt to minimise interest volatility. For other types of loan, such as bond issues, the debt has been issued on a fixed rate or inflation-linked basis for the full term of the instrument. There are limited ways to mitigate the low interest rates being earned on cash deposits and this is reflected in the Group's valuation and cash inflows.

2.11 Corporate Social Responsibility

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

Principles of Responsible Investment

The Investment Adviser is a signatory to the Principles for Responsible Investment (the "Principles"), formerly known as the United Nations Principles for Responsible Investment, which are widely recognised and regarded around the world. The principles can be summarised as follows:

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

The Investment Adviser has incorporated the Principles within its business where relevant. As part of this, it has also been using the Group's role as a shareholder in each project to request that each project company report against the Group's approved ESG policies. The Board believes the Group's ESG policies are appropriate for a company investing in infrastructure assets and conform to current good practice in relation to corporate responsibility.

Environmental, Social and Governance Policies

All of the Group's investments are in project companies which provide services to their clients and which subcontract the provision of these services to specialist facilities management companies. The Group is entitled to appoint at least one director to the board of each project company and these positions have all been filled by a person nominated by the Group. Board meetings are not quorate without the Group's nominated director being present and this is part of the Group's active oversight of the underlying investments. The governance structures also provide for matters which are reserved for shareholders to determine, those items which directors determine and the routine day-to-day matters that are delegated to the project's general manager and his or her team. In circumstances where board representation on the underlying investment company with appropriate voting rights and reserved matters to ensure it will be possible to manage the investment and achieve the projected returns is not achievable, it is unlikely that the investment will be approved.

All directors' fees paid by the projects are for the benefit of the Group, and not the Investment Adviser.

On a routine basis (normally annually), the Investment Adviser undertakes a review to ensure that each key contractor (or their group) has appropriate ESG policies in place and that these are being adhered to in delivery of the services to the project and that further, there have been no material breaches of their policies. During the year the periodic reviews carried out found no issues of concern.

As part of the detailed due diligence carried out by the Investment Adviser and the advisers, the trading history of potential investment will be assessed to ensure compliance with the Group's ESG policies and that there have been no breaches. When it is not possible to get comfortable with either a key contractor's ESG record or the project's ESG performance to date, the investment will not be made. There were no circumstances in the year where this was the case.

Health and Safety performance of each investment is monitored and each year a number of Health and Safety audits were carried out by Health and Safety consultants to ensure appropriate procedures and policies were in place and being adhered to. Information on Health and Safety is reported to the Board on a quarterly basis.

Rather than being project-specific, the Company's ESG policies and procedures have been implemented across the whole portfolio. This includes standing agenda items such as:

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

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

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

Specific ESG Initiatives

The Investment Adviser's asset managers work with both clients and key stakeholders to develop new ESG initiatives and, where possible and appropriate, implement them more widely across the Group's portfolio of investments. Examples of initiatives in the year include:

- At the University of Sheffield Student Accommodation project, the project sponsors the University's Elite Sports Performance Scheme by providing a year's free accommodation for a student selected by the University for their gold level award. To be selected for the scheme a student must be at a level where they represent their country in one of Sport England's recognised sports.
- The Allenby and Connaught Ministry of Defence Accommodation project has a charity support culture that focuses on military charities. It encompasses direct contributions from the project as well as direct contributions from supply chain partners. There is extensive voluntary support by the local project management team including local community activity across schools, scout groups and a bird sanctuary. As part of the estate redevelopment programme, micro combined heat and power units and solar thermal systems have been included in the latest phases that have resulted in combined savings of c.1,300 tonnes of CO_2 per annum.
- The Highland Schools project in Scotland has maintained its allocation of £5,000 per annum for various community initiatives. This year a sensory garden has been developed at a special school and a piano provided for a primary school, as well as other smaller contributions. There has also been an agreement with the schools to reduce the temperature in much of the school areas by 2ºC which has contributed to a significant reduction in energy usage and consequent cost saving for the local authority client.
- In Manchester, the Miles Platting Housing project is active in the local community and employs dedicated personnel that purely focus on regeneration activities to deliver long lasting community support. Two community garden projects have been completed in 2013 that are already proving to be a significant focus for links between local schools and the Miles Platting residents.
- In Wales, the Rhonnda Schools project has had another active year with c.£12,500 of direct sponsorship and extensive volunteering support that has contributed to the development of a wildlife garden and allotment in the local feeder school network, sponsored a rugby tournament, provided kit bags for a local men's and women's rugby team and enabled the schools' facilities to be open over two summer weekends for the local summer event programme.

Section 3: Board of Directors

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

Mr Graham Picken (65) – Chairman

Appointed to the Board 12 January 2006

Graham Picken (British), resident in the UK, is an experienced banker and financial practitioner and has been Chairman of the Company since its launch. Appointed a non-executive director of Skipton Building Society in January 2012, he was formerly, a non-executive director of the Derbyshire Building Society, where he became Chief Executive in February 2008 and led the society to a merger with Nationwide Building Society in December 2008, before standing down at the end of March 2009. Until 2003, Graham's career spanned over thirty years with Midland and HSBC Banks where, before he retired, he was General Manager of HSBC Bank plc responsible for commercial and corporate banking (including specialised and equity finance). Before that Graham was Chief Executive of Forward Trust Group, an authorised bank, and Chairman of First Direct, a division of HSBC Bank plc.

Graham has no other listed company directorships

Mrs Sally-Ann Farnon (54)

Appointed to the Board on 1 May 2013

Sally-Ann Farnon (known as Susie) (Guernsey), resident in Guernsey, is a fellow of the Institute of Chartered Accountants in England and Wales and qualified in 1983. She 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 The Guernsey Public Accounts Committee. She is Vice-Chairman of The Guernsey Financial Services Commission and a non-executive director of a number of property and investment companies.

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

Breedon Aggregates Limited (listed on AIM)
Dexion Absolute Limited
Ravenscroft Ltd (formerly CCIL, listed on CISE)
Standard Life Investments Property and Income Trust Limited
Threadneedle UK Select Trust Ltd

Mrs Sarah Evans (58)

Appointed to the Board 9 June 2008

Sarah Evans (British), resident in Guernsey, is a Chartered Accountant and a non-executive director of several other listed investment funds, as well as the Guernsey subsidiary of a global bank and an unlisted fund of hedge funds. She spent over six years with the Barclays Bank PLC group from 1994 to 2001. During that time she was a treasury director and from 1996 to 1998 she was Finance Director of Barclays Mercantile, where she was responsible for all aspects of financial control and operational risk management. Prior to joining Barclays she ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 she was with Kleinwort Benson, latterly as head of group finance. She is a member of the Institute of Directors.

Other public company directorships (listed in London)*

Crystal Amber Fund Limited (listed on AIM)
CQS Diversified Fund Limited
Harbourvest Senior Loans Europe Limited
JPMorgan Senior Secured Loan Fund Limited

Mr John Hallam (65) – Senior Independent Director

Appointed to the Board 12 January 2006

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

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

BH Global Limited (listed on London, Bermuda and Dubai)
Dexion Absolute Limited
NB Distressed Debt (listed on SFM London)
NB Private Equity Partners Limited
(listed on SFM London and Amsterdam)
Partners Group Global Opportunities Limited (listed in Ireland)

MR CHRIS RUSSELL (65)

Appointed to the Board on 1 June 2010

Chris Russell (British), is a Guernsey resident non-executive director of investment and financial companies in the UK, Hong Kong and Guernsey. He is Chairman of F&C Commercial Property Trust Ltd and Deputy Chairman of the UK trade body, the Association of Investment Companies. Chris was formerly a director of Gartmore Investment Management Plc, where he was Head of Gartmore's businesses in the US and Japan. Before that he was a holding board director of the Jardine Fleming Group in Asia. He is a Fellow of the UK Society of Investment Professionals and a Fellow of the Institute of Chartered Accountants in England and Wales.

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

F&C Commercial Property Trust Ltd
JP Morgan Japan Smaller Companies Trust plc
Macau Property Opportunities Fund Limited

MR IAN RUSSELL (61)

Appointed to the Board on 1 May 2013

Ian Russell CBE (British), is resident in the UK and is a qualified accountant. He worked for Scottish Power plc between 1994 and 2006, initially as Finance Director and from 2001 as its CEO. Prior to this he spent 8 years as Finance Director at HSBC Asset Management in Hong Kong and London.

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

Johnston Press plc
British Polythene Industries plc
Mercantile Investment Trust plc
British Assets Trust plc

Both Mrs Susie Farnon and Mr John Hallam are directors of Dexion Absolute Limited.

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

Section 4: Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report and Corporate Governance Statement that comply with company law and regulations.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and Group included in the consolidation as a whole; and
- the management report (comprising the Chairman's Statement, the Strategic Report and Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company and Group included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that it faces.

The annual report and consolidated financial statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Disclosure of Information to the Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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

By order of the Board
Authorised signatory
Dexion Capital (Guernsey) Ltd
Company Secretary
20 May 2014

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

Section 5: Report of the Directors

The Directors present their report and accounts of the Group for the year to 31 March 2014.

Principal Activity

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

Results

The results for the year are summarised in the Financial Review and Valuation (part of the Strategic Report) and set out in detail the audited financial statements.

Distributions and Share Capital

The Company declared two interim dividends for the year ended 31 March 2014 as follows:

- 3.50p declared on 14 November 2013, to shareholders on the register as at 22 November 2013, paid on 31 December 2013; and
- 3.60p declared on 13 May 2014, to shareholders on the register as at 23 May 2014, to be paid on 30 June 2014

The Company has one class of share capital, Ordinary Shares, of which there were 1,116,360,139 in issue as at 31 March 2013. This number increased to 1,207,428,625 as at 31 March 2014 as a result of tap issuance and scrip dividends during the year.

On 10 July 2013 and 27 February 2014 a total of 83.7m new Ordinary Shares were issued by way of tap issues at 129.0p and 135.0p per share respectively.

At the Annual General Meeting on 23 July 2013 shareholders renewed their approval to the Board, at its discretion, to offer a scrip dividend alternative. This alternative was offered to shareholders for both of the interim dividends declared for the year ended 31 March 2014.

- As a result of the scrip dividend alternative announced on 24 February 2013 (normally declared in May but was earlier due to capital raising), the Company issued 3,891,968 new Ordinary Shares of 0.01p each in the Company, in lieu of the 3.575p dividend, to those shareholders who had elected to receive the same.
- As a result of the scrip dividend alternative announced on 14 November 2013, the Company issued 3,472,848 new Ordinary Shares of 0.01p each in the Company, in lieu of the 3.50p dividend, to those shareholders who had elected to receive the same.

The Board is proposing to seek shareholder approval for renewal of the scrip authority at the Annual General Meeting on 22 July 2014.

As at 20 May 2014 there were 1,207,428,625 Ordinary Shares in issue.

Directors

The Directors who held office during the year to 31 March 2014 were:

Director	Date of Appointment	Years of Service
G Picken	12 January 2006	8 years 2 months
S Evans	9 June 2008	5 years 10 months
S Farnon	1 May 2013	11 months
J Hallam	12 January 2006	8 years 2 months
C Russell	1 June 2010	3 years 10 months
I Russell	1 May 2013	11 months

Biographical details of each of the Directors are shown on pages 45 and 46.

Corporate Governance

The Corporate Governance Statement on pages 50 and 55 sets out in detail the code of corporate governance against which the Company reports and its compliance, or otherwise with the individual principles. It includes detail on the various committees of the Board, their composition and their terms of reference.

Investment Adviser and Operator

InfraRed Capital Partners Limited (the "Investment Adviser" or "IRCP") is authorised and regulated by the Financial Conduct Authority. IRCP acts as Investment Adviser to the Company and acts as Operator of the limited partnership which holds and manages the Group's investments. A summary of the contract between the Company, its subsidiaries and IRCP in respect of services provided is set out in Note 16 to the accounts.

IRCP is an independent investment management group owned 80.1% by its 27 partners and 19.9% by HSBC Holdings plc following the completion in April 2011 of a management buy-out.

The Management Engagement Committee met in February 2014 to consider the performance of, and services provided by, IRCP. This took the form of a written paper in which the Investment Adviser explained its activities in the year and summarised its performance against the agreed targets set by the Group as part of its annual budget and strategy approval process. The Committee discussed the paper with the Investment Adviser and took soundings from other service providers, shareholders and advisers.

Based on the growth of the portfolio, the Company engaged with the Investment Adviser and negotiated a further taper in respect of the annual management fee such that for all assets in excess of £2.25bn the annual management fee would reduce from 0.9% p.a. to 0.8% p.a. IRCP also agreed to remove the higher annual management fee of 1.5% for those assets under construction or in their ramp-up phase. As such all existing and new assets will be subject to the simplified fee profile and taper arrangements.

The revised fee arrangements, as from 1 April 2014, are as follows:

Advisory fee for advice to Board	£100,000 p.a.
Operator fee for Assets under Management ("AUM")	
■ For AUM up to £750m	1.1% p.a.
■ For AUM between £750m and £1,500m	1.0% p.a. of incremental AUM
■ For AUM between £1,500m and £2,250m	0.9% p.a. of incremental AUM
■ For AUM over £2,250m	0.8% p.a. of incremental AUM
Acquisition fee (paid on acquisitions from third parties)	1.0% of acquisition price

After careful consideration of IRCP's performance, primarily in terms of advice, managing the portfolio, securing additional investments, and communicating effectively with all stakeholders, the Committee recommended to the Board that it would be in the best interests of the Company that IRCP continue on the agreed contractual terms, but incorporating the revised fee arrangements with effect from 1 April 2014. This was approved by the Board and the necessary agreements have been amended.

Broker, Administrator and Company Secretary

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

Substantial Interests in Share Capital

As at 20 May 2014, the Company has received notification in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5 of the following interests in 5% or more of the Company's Ordinary Shares to which voting rights are attached:

	Number of Ordinary Shares Held	Percentage Held
Investec Wealth and Investment Limited	91,021,439	7.53%
Newton Investment Management Limited	61,313,440	5.08%

Donations

The Company made no political donations during the year.

Payment of Suppliers

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 9 to 44. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Financial Review and Valuation on pages 19 to 30. In addition, Notes 1 to 4 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully given the current economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Share Repurchases

No shares have been bought back in the year. The latest authority to purchase Ordinary Shares for cancellation was granted to the Directors on 23 July 2013 and expires on the date of the next Annual General Meeting. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming Annual General Meeting on 22 July 2014.

Treasury Shares

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

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

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

Section 6: Corporate Governance Statement

Introduction

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

Guernsey Regulatory Environment

On 30 September 2011 the Guernsey Financial Services Commission (the 'Commission') issued the Finance Sector Code of Corporate Governance. The Code comprises Principles and Guidance, and provides a formal expression of good corporate practice against which shareholders, boards and the Commission can better assess the governance exercised over companies in Guernsey's finance sector.

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

The AIC Code of Corporate Governance

As a member of the AIC the Company has been reporting against the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and the accompanying AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). In February 2013 both the AIC Code and AIC Guide were updated to take into account the new UK Corporate Governance Code issued by the Financial Reporting Council.

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

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

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code 2012 and 2010 (as required by the Listing Rules), except as set out below.

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

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

The Board

Principle 1. The chairman should be independent.

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

Although not a requirement of the AIC Code, in accordance with guidance in Principle 1, the Board has a Senior Independent Director ("SID"), Mr Hallam, who was appointed as SID on 11 February 2010. In his role as the SID, Mr Hallam takes the lead in the annual evaluation of the Chairman at which the Chairman's performance and continuing independence is discussed.

Principle 2. A majority of the board should be independent of the manager.

Following the appointment of two new directors from 1 May 2013, the Board currently consists of six non-executive Directors, all of which are independent of the Investment Adviser. None of the Directors sit on the Boards of other entities managed by the Investment Adviser. The independence of each of the Directors is considered during the annual self-evaluation of the Board. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to any Board discussion.

Principle 3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.

The Articles of Incorporation currently provide that at least one third of the Directors retire by rotation at each annual general meeting. If their number is not three or a multiple of three, the number nearest to, but not exceeding, one third, shall retire from office.

At the most recent AGM of 23 July 2013 all of the Directors retired and offered themselves for re-election. All six Directors were re-elected with at least 99% of the votes cast in every case approving the re-election of each individual.

As in previous years, all six Directors intend to retire and offer themselves for re-election at the forthcoming AGM in July. Following the annual Director evaluation process in February, the Board recommends the re-election of each Director.

Principle 4. The board should have a policy on tenure, which is disclosed in the annual report.
As the Company was formed in 2006 no Director has yet served for nine years or more. A Director who retires at an annual general meeting may, if willing to act, be reappointed. The Directors are not subject to automatic re-appointment.

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

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

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

The Board meets at least four times a year and between these formal meetings there is regular contact with the Investment Adviser, the Secretary and the Company's Broker. The primary focus at Board meetings is a review of investment performance and associated matters such as marketing/investor relations, risk management, gearing, general administration and compliance, peer group information and industry issues. The Board constantly considers the Company's strategy with regard to market conditions and feedback from shareholders. The Investment Policy and the Investment Strategy, which are set out in the Strategic Review, are also reviewed regularly with the Investment Adviser.

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

The Chairman and members of each committee as at 31 March 2014 are as follows:

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

Mrs Susie Farnon and Mr Ian Russell were appointed to the Audit Committee, the Remuneration Committee, the Nomination Committee and the Management Engagement Committee at the Board Meeting held on 15 May 2013.

The attendance record of Directors for the year to 31 March 2014 is set out below:

	Quarterly board meetings	Audit Committee	Management Engagement Committee	Remuneration Committee	Nomination Committee
Number of meetings	4	4	1	1	2
Meetings Attended:					
G Picken	4	N/A	1	1	2
J Hallam	4	4	1	1	2
S Evans	4	4	1	1	2
S Farnon	4	4	1	1	1
C Russell	4	4	1	1	2
I Russell	4	4	1	1	1

During the year a further 8 ad hoc Board/Committee meetings were held to deal with matters substantially of an administrative nature and these were attended by those Directors available.

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

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

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

The formal terms of reference for each of the committees of the Board are available to view on the Company's website at http://hicl.com/investor-relations/publications under the 'Corporate Documents' section.

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

Principle 6. The board should aim to have a balance of skills, experience, length of service and knowledge of the company.
Following the appointment of the two new directors on 1 May 2013, the Board believes that 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. Moreover, the Directors believe that any changes to the Board's composition can be managed without undue disruption.

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

Principle 7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
The most recent external evaluation of the Board in relation to its skills and workings was conducted by Trust Associates in November 2011. It was agreed at the time that the composition of the Board and its Committees reflected a suitable mix of skills and experience, and that the Board, as a whole, and its Committees were functioning effectively.

However, given the growth in size of the Group's investment portfolio, the Board decided in 2012 that it would be in shareholders' best interests to recruit additional directors to strengthen the Board further by adding appropriate skills and experience, and to facilitate succession planning. Trust Associates was engaged to conduct a search for suitable candidates which culminated in the appointment of Mrs Farnon and Mr I Russell, whose summary biographic details are in Section 3.

The Board evaluates its performance and considers the tenure and independence of each Director on an annual basis. The annual evaluation for the year ended 31 March 2014 has been completed by the Chairman and took the form of one to one interviews with each Director holding office in the year. For the evaluation of the Chairman, the Senior Independent Director discussed the results of a questionnaire with the Chairman following consultation with the other Directors.

The Board believes that the composition of the Board and its Committees reflects a suitable mix of skills and experience, and that the Board, as a whole, and its Committees functioned effectively during the last 12 months. Nevertheless, the Board believes a regular external evaluation of the Board is important, especially with two new Directors, and therefore intends to engage an appropriate independent advisor in this respect during the course of the current financial year to 31 March 2015.

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

Principle 9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.
The Board has a Nomination Committee the terms of reference of which are available on the Company's website http://hicl.com/investor-relations/publications under 'Corporate Documents'.

It is composed of all six Board Directors and chaired by Mr G Picken, who is also the Board Chairman. All six members are independent. The main terms of reference of the Committee are:

- to review the structure, size and composition required of the Board and make recommendations to the Board with regard to any changes (including skills, knowledge and experience in accordance with Principle 6 of the AIC Code);
- to give full consideration to succession planning for directors taking into account the challenges and opportunities facing the Company; and
- to be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Nomination Committee had two meetings in the year to 31 March 2014 the first of which recommended the recruitment of the two additional directors to the Board in order to enhance the current composition of the Board and facilitate succession planning.

Principle 10. Directors should be offered relevant training and induction.
The two new Directors appointed to the Board undertook a formal induction process including individual meetings with the Investment Adviser at which detailed discussions on the Company, its business model, strategy, policies and portfolio took place.

All the Directors have undertaken anti-bribery and anti-money laundering training, and have had the opportunity to meet with shareholders. The Investment Adviser has also arranged for all Directors to visit at least one of the Company's investments during the year. These included the Dutch High-Speed Rail project, the Metropolitan Police Specialist Training Facility, the Health and Safety Laboratories, Addiewell Prison and Highland Schools, this programme of visits is ongoing.

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

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

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

Board Meetings and the Relationship with the Manager

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

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

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

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

Representatives of the Investment Adviser and the Company Secretary and Administrator attend all Board meetings and, when requested by the respective Chairman, meetings of the Audit, Remuneration, Nomination and Management Engagement committees. The relationship between the parties is very good and highly professional.

At the Board meeting on 25 April 2014, the Board determined it was appropriate that the Company should be designated as a self-managed Alternative Investment Fund in accordance with Alternative Investment Fund Management Directive, and the relevant documentation is being submitted to ensure compliance by 22 July 2014 (the end of the transitional arrangements period).

In reaching this conclusion, the Board took legal advice and considered how it has managed the Company and its investment portfolio. The procedures and working practices that the Board has adopted to date mean that there will be modest changes only to ensure compliance with the Directive.

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

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

- A review of the infrastructure market detailing key developments;
- Investment activity in the period and the pipeline of potential new investment opportunities;
- A review of portfolio performance in the period with material issues identified and discussed;
- A review of any Health and Safety matters in the period;
- An updated Company and Group risk register;
- Details of current CSR initiatives;
- A detailed financial review, including detailed management accounts, valuation, and treasury matters;
- Compliance reports; and
- Reports from the Broker and from the Financial PR company.

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

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

Principle 14. Boards should give sufficient attention to overall strategy.
The Board considers a formal strategy report prepared by the Investment Adviser at a separate meeting at least once a year. Adherence to the Investment Strategy is discussed regularly, and where a change of strategy is thought appropriate, it is communicated to shareholders in advance of implementation. As well as considering acquisitions, the Board also considers disposals, portfolio performance, levels of gearing and likely achievable dividend growth.

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

The MEC met once in the year to 31 March 2014, to review the performance of the key service providers. No material weaknesses were identified, some recommendations were conveyed to certain providers, and the recommendation to the Board was that the current arrangements are appropriate and provide good quality services and advice to the Company and the Group.

Principle 16. The board should agree policies with the manager covering key operational issues.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness, and the Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

The process is based on a risk-based approach to internal control through a matrix which identifies the key functions carried out by the Investment Adviser and other key service providers, the various activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise and mitigate those risks. A scoring based on 1 to 5 for Likelihood and 1 to 5 for Impact is used and these are multiplied together to give a total score. Mitigation is considered on a scale of 1 to 5 and this leads to a residual risk rating being derived. The matrix is updated quarterly and the Board is provided with regular reports highlighting all material changes to the risk ratings and the action which has been, or is being taken. By their nature, these procedures will provide a reasonable, but not absolute, assurance against material misstatement or loss.

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

Further, at each Board meeting, the Board receives reports from the Company Secretary and Administrator in respect of compliance matters and duties performed by them on behalf of the Company.

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

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 relies on the operating controls established by both the Company Administrator and the Investment Adviser.

The Board decided for good governance in 2013 to engage a third-party assurance provider to conduct a review of the Company's valuation process, as performed by the Investment Adviser, as this involves a number of procedures and judgements. The assurance provider's report concluded that, while there were some minor amendments which it recommended be implemented, the Investment Adviser's control systems were in line with best practice. The Investment Adviser has adopted the amendments proposed.

The Board intends to consider on a periodic basis whether further third party assurance is appropriate.

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

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

Principle 17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.

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

Should the Company's shares trade at a discount at some point in the future, the Board's authority to purchase Ordinary Shares for cancellation was granted at the most recent Annual General Meeting on 23 July 2013 and the Directors are proposing that it is renewed when it expires at the forthcoming Annual General Meeting on 22 July 2014.

Principle 18. The board should monitor and evaluate other service providers.

As outlined in Principle 15 the Management Engagement Committee (MEC) of the Board is responsible for reviewing all major service providers to the Group at least once a year.

Shareholder Communications

Principle 19. The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders.

The Company welcomes the views of shareholders and places great importance on communication with its shareholders.

Ahead of each quarterly Board meeting, the Board receives a detailed breakdown of the current shareholder register from its registrar by individual shareholding, type of shareholder and geographic location. The Board commissions a specialist report which analyses the Shareholdings, collating them into holdings by investment group to determine the largest shareholders on the register as well as by trading activity to identify the largest buyers or sellers in the previous quarter.

This data is reviewed by the Investment Adviser and the Company's Broker in the context of discussions which have taken place with shareholders in the prior quarter. The conclusions are discussed with the Board and where appropriate, follow up actions are agreed. The Company's Financial PR Company provides the Board with a quarterly report on press and media coverage of the Company and the sectors in which it invests. All reports also reference the peer group for comparison purposes.

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

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

Two Interim Management Statements are published each year and any material new information is published via an RNS announcement.

In November 2013 the Board hosted an asset management seminar at the Company's flagship asset, The Home Office. This event provided those present with the opportunity to meet Directors and the presentation given by the Investment Adviser's asset management team provided an insight into the role and importance of asset management in managing the Group's portfolio of infrastructure investments. The Company has previously organised site visits, and a number of case studies are available from the Company's website www.hicl.com

In addition, the Chairman held individual meetings with certain large shareholders, in part facilitated by the Company's Broker. It is the Board's intention to continue to meet with shareholders periodically so that open two-way communication on the development of the Company is maintained.

Shareholders may contact any of the Directors via the Company Secretary, whose contact details are on the Company's website (www.hicl.com).

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

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

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

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

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

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

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

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

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

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

As a regular issuer of further share capital, the Company has published a number of prospectuses with detailed information on the investment portfolio and the potential risks. The most recent prospectus was published on 26 February 2013.

Section 7: Directors' Remuneration Report

The Remuneration Committee, chaired by Mr C Russell, 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 once in the year to 31 March 2014.

The terms of reference of the Committee (which are available to view on the Company's website at http://hicl.com/investor-relations/publications under Corporate Documents) are to determine and agree the Board policy for the remuneration of the directors of the Company, including the approval of any ad hoc payments in respect of additional corporate work required such as the issuance of new shares.

This Directors' Remuneration Report complies with Listing Rule 9.8.8 of the UK Listing Authority's rules which require certain information to be disclosed in the annual report.

Statement of the Chairman of the Remuneration Committee

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

Following the appointment of two additional Directors with effect from 1 May 2013 on the same remuneration levels as the other Directors, the principal discussion during the year has been the level of Directors' remuneration relative to other investment companies of a similar size, complexity and structure.

Ahead of the scheduled triennial review scheduled for 2015, the Remuneration Committee decided to appoint an independent professional consultant to conduct an interim review of the Directors' remuneration.

The Remuneration Committee has considered the findings of this review (set out below), agrees with the conclusions and has recommended to the Board that the independent advisor's recommendations be implemented subject to shareholder approval.

Directors' Remuneration Policy Report

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

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

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

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

- reflects their duties, responsibility, experience, time commitment and position on the Board;
- allows the Chairman and Chairman of the Audit Committee to be remunerated in excess of the remaining board members to reflect their increased roles of responsibility and accountability;
- includes remuneration for additional, specific corporate work which shall be carefully considered and only become due and payable on completion of that work; and
- be reviewed by an independent professional consultant with experience of Investment Companies and their fee structures, at least every three years.

Directors' Current and Proposed Remuneration Report

The most recent formal review of Directors' remuneration was undertaken in May 2012 and the recommendations of the report of the independent consultant were subsequently implemented. The next review is due to take place in 2015. However, in view of the growing size of the Company and the changing market conditions, the Board commissioned an interim review (for a fee of £3,000) by Trust Associates, an independent consultant. They were briefed by the Chairman of the Board and spoke with the Chairman of the Remuneration Committee in order to understand specific factors affecting the Company.

The conclusions of Trust Associates' report were that:

- there has been a strong rise in investment company board remuneration since their previous review;
- the effect of size continues to have a significant impact on the level of remuneration and the Company is now one of the largest London-listed investment companies; and
- the work load and time involved had increased since the last review.

Taking account of these factors and the remuneration paid to directors of investment companies of a similar size and with similar characteristics, Trust Associates recommended the following changes to remuneration for routine business:

- Directors' fees to be increased to £35,000 p.a.;
- The Chairman of the Audit Committee's fees to rise to £42,000 p.a., reflecting a 20% premium to the Directors' fees, to recognise the additional responsibility; and
- The Chairman of the Board's fees to rise to £58,000 p.a., reflecting a 66% premium to the Directors' fees, in recognition not only of the considerably greater weight of responsibility but also his involvement in a number of meetings with shareholders and potential investors each year as well as hosting events on behalf of the Company.

For comparative purposes the table below sets out the Directors' remuneration approved and actually paid for the year to 31 March 2014 as well as proposed for the year ending 31 March 2015.

Director	**Role**	**Total fees proposed for year ending 31 March 2015**	**Total remuneration paid in year ended 31 March 2014**	**Total fees approved for year ended 31 March 2014**
G Picken	Chairman	£58,000	£52,500	£52,500
J Hallam	Senior Independent Director	£42,000	£36,750	£36,750
S Evans [1]	Director	£40,000	£36,500	£36,500
C Russell	Director	£35,000	£31,500	£31,500
S Farnon	Director	£35,000	£28,875 [2]	£31,500
I Russell	Director	£35,000	£28,875 [2]	£31,500

1. *The figures for Mrs Evans include an additional £5,000 for work in connection with two Luxembourg subsidiaries.*
2. *The figures for Mrs Farnon and Mr I Russell are based on a service period of 11 months from 1 May 2013 to 31 March 2014.*

As in previous years, should the Company require Directors to work on specific corporate actions such as a further C Share or New Ordinary Share raising, or should a Director undertake incremental work such as that currently undertaken by Mrs Evans in relation to the Luxembourg subsidiaries, then this is remunerated appropriately as determined by the Remuneration Committee.

A remuneration payment or payment for loss of office can only be made to a current or former Director with approval of the Remuneration Committee, subject to the Company's Articles unless approved by a separate shareholder resolution.

The total fees paid to Directors in the year were within the annual fee cap of £350,000, which was approved by shareholders at the AGM on 23 July 2013. The Remuneration Committee is not proposing to increase the annual fee cap as it is deemed to be sufficient, even allowing for potential corporate actions during the year to 31 March 2015.

Statement of Implementation of Remuneration Policy in the Current Financial Year

The Remuneration Committee has considered the recommendations of the independent consultant and recommended them to the Board. After taking into account the views, if any, on remuneration expressed by shareholders, the Board has approved the proposed increase and is seeking shareholder approval for the Directors' Remuneration Policy at the AGM on 22 July 2014 with a view to implementing it back-dated to 1 April 2014.

Other Disclosures

The Directors of the Company on 31 March 2014, and their interests in the Ordinary Shares of the Company, are shown in the table below.

	31 March 2014 Ordinary	**31 March 2013 Ordinary**
Graham Picken*	236,663	120,443
Sarah Evans**	251,496	249,680
Susie Farnon	19,000	0
John Hallam	117,736	117,736
Chris Russell***	93,895	93,895
Ian Russell	37,880	0

* *of which 110,000 were held by his spouse*

** *of which 181,665 were held by her spouse*

*** *of which 31,930 were held by his family*

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

At the last AGM held on 23 July 2013, the following resolutions relating to the Directors' remuneration were approved. The number of votes cast and the percentage of votes cast for, against or withheld are stated below.

10. Ordinary Resolution

Directors Remuneration

To approve the proposed annual remuneration for routine business for of each Director, for the year ended 31 March 2014, as set out in the Report and Financial Statements.

The Chairman reported that the following votes had been received:

For	453,602,778	99.96%
Against	173,058	0.04%
Withheld	38,286	

13. Special Resolution

Aggregate Remuneration Cap

To approve the proposed increase in the Directors' aggregate remuneration cap from £250,000 to £350,000 effective from 1 April 2013.

The Chairman reported that the following votes had been received:

For	452,600,393	99.74%
Against	1,186,905	0.26%
Withheld	26,824	

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 ("TSR") for an investment in the Company for the 8 year period from inception at the end of March 2006 until 31 March 2014 compared with an investment in the FTSE All Share Index over the same period. During that period the TSR for the Company was 9.7% p.a. compared with the FTSE All Share Index which was 5.7% p.a.

Outperformance of HICL against the FTSE All Share Index

Source: Thomson Reuters.

Section 8: Audit Committee Report

The following pages set out the Committee's report on its activities in respect of the year ended 31 March 2014. I chair the Audit Committee which has been in operation throughout the year and operates within clearly defined terms of reference. It comprises all the Directors except for Mr G Picken, Chairman of the Board and it met four times in the year to 31 March 2014.

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

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

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

John Hallam
Audit Committee Chairman
20 May 2014

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

The external auditors 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 the external auditors and to key senior staff of the Investment Manager and it reports its findings and recommendations to the Board which retains the ultimate responsibility for the financial statements of the Company.

Significant Issues Considered

After discussions with both the Investment Adviser and the external auditors, the Audit Committee determined that the key risks of material misstatement of the Group's financial statements related to:

1. Valuation of investments – key forecast assumptions;
2. Valuation of investments – valuation discount rates; and
3. Adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

Valuation of Investments

As outlined in Note 12a to the financial statements, the total carrying value of financial assets at fair value at 31 March 2014 was £1,495.5m. Market quotations are not available for these financial assets such that their valuation is undertaken using a discounted cash flow methodology. This requires a series of material judgements to be made as further explained in Note 3 and Note 4 to the financial statements.

The Audit Committee discussed the valuation process and methodology with the Investment Adviser in July 2013 and November 2013 as part of the review of the Interim Report and again in February 2014 and May 2014 as part of the review of the Annual Report and Accounts. The Investment Adviser carries out a valuation semi-annually and provides a detailed valuation report to the Company. The Audit Committee also receives a report and opinion on the half year and year-end valuation from a third party valuation expert.

In order to provide further assurance regarding the valuation, the Company engaged a third party assurance firm to undertake a review of the control environment underpinning the Investment Adviser's valuation process. The Audit Committee recommended to the board the scope and terms of engagement of the third party assurance firm. The report produced and reviewed in detail by the Audit Committee in July 2013 showed that there was a robust control environment supporting the valuation.

The Audit Committee met with the external auditors at the time at which the Audit Committee reviewed and agreed the external auditors' Group audit plan in February 2014 and also at the conclusion of the audit of the financial statements in May 2014 and in particular discussed the audit approach to the valuation.

Valuation of Investments – Key Forecast Assumptions

The Audit Committee considered in detail those assumptions that are subject to judgement that have a material impact on the valuation. The key assumptions are considered to be future inflation rates, deposit interest rates and tax rates. These assumptions are set out and explained in Section 2.7 – Valuation of the Group's Portfolio and Note 4 to the financial statements.

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

The Investment Adviser provided sensitivities showing the impact of changing these assumptions and these have been reviewed by the Audit Committee and the auditor. The auditor considered the judgements on these assumptions using their own expertise and experience and comparisons to observable market data. On the basis of their audit work there were no adjustments proposed that were material in the context of the financial statements as a whole.

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

Valuation of Investments – Discount rates

The discount rates adopted to determine the valuation are selected and recommended by the Investment Adviser. The discount rate is applied to the expected future cash flows for each investment's financial forecasts derived adopting the assumptions explained above to arrive at a valuation (discounted cashflow valuation). The resulting valuation is sensitive to the discount rate selected. The Investment Adviser is experienced and active in the area of valuing these investments and adopts discount rates reflecting their current and extensive experience of the market. The Investment Adviser sets out the discount rate assumptions and the sensitivity of the valuation of the Investments to this discount rate in Section 2.7 – Valuation of the Group's Portfolio and Note 4 of the financial statements.

In particular the Audit Committee considered in detail the reductions of 0.1% and 0.2% in the reference discount rate applied at 31 March 2014 compared with that applied respectively in the 30 September 2013 and 31 March 2013 valuations. The Investment Adviser explained this was principally as a consequence of increased competition in the secondary market for social and transportation infrastructure assets, which had been seen during bidding and general market activity. This was also corroborated by the third party valuation expert.

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

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

Adoption of the New Investment Entities Accounting Standard

The Directors have agreed to adopt the new Investment Entities accounting standards (Amendments to IFRS 10, IFRS 12 and IAS 27) early as permitted following EU endorsement. As explained in Note 2c to the financial statements on page 75, the Directors are of the opinion that the Company and certain of its subsidiaries meet the requirements of an "Investment Entity".

Assessing whether the Company and certain subsidiaries met the criteria of Investment Entities in accordance with Investment Entities Amendments was seen as a key judgement as it has resulted in a significant change in the way the Company measures and recognises interests in subsidiaries that it previously consolidated or would have had to consolidate on a line-by-line basis.

The adoption of this standard requires the consolidated financial statements to include the investments at fair value rather than consolidating their results on a line-by-line basis. The Directors and the Investment Adviser agree that this results in more meaningful financial statements for users of the accounts and have concluded that early adoption is appropriate.

The external auditors have considered the adoption of the standard by the Company and the definition of an "Investment Entity" and have accepted the application of the standard is appropriate.

The Audit Committee debated both the appropriateness of adopting the new standard and the early adoption thereof with the Investment Adviser and auditor. The Audit Committee concluded that the new standards will improve stakeholders' understanding of the financial performance and position of the Group.

Appointment of the External Auditors

KPMG Channel Islands Limited ("KPMG") has been the external auditor for the HICL group since the Company listed on the London Stock Exchange in March 2006. The lead audit partner has changed once, in 2010, to Mr Stormonth, in accordance with normal audit partner rotation arrangements.

The Audit Committee has noted the revisions to the UK Corporate Governance Code introduced by the Financial Reporting Council ("FRC") in September 2012 and the AIC Code of Corporate Governance issued in February 2013, in particular, the recommendation in each, to put the external audit out to tender at least every ten years. Consequently, the committee has considered its tendering arrangements and intends to tender the external audit function in 2015 following the conclusion of Mr Stormonth's period in office – or earlier if it has cause to do so.

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

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

The Audit Committee reviews the scope and results of the audit, its effectiveness and the independence and objectivity of the external auditors, with particular regard to the level of non-audit fees. Total fees paid amounted to £0.7m for the year ended 31 March 2014 of which £0.3m related to audit and audit related services to the Group, £0.3m related to the audit of the Group's project subsidiaries (which are paid to the UK associate of KPMG Channel Islands Limited) and other audit related services, and £0.1m was in respect of taxation advisory and non-audit services.

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

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

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

To assess the effectiveness of the external auditors, 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; and
- feedback from the Investment Adviser evaluating the performance of the audit team.

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. As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditors. Having carried out the review described above and having satisfied itself that the external auditors remain independent and effective, the Audit Committee has recommended to the Board that KPMG be reappointed as auditor for the year ending 31 March 2015.

Opinions and conclusions arising from our audit opinion on financial statements

We have audited the Group financial statements (the "financial statements") of HICL Infrastructure Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 March 2014 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement and the related notes. In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply with the Companies (Guernsey) Law, 2008.

Our assessment of risks of material misstatement

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

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

- **Accounting treatment for subsidiaries arising from the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (the "Investment Entities Amendments").**

  Refer to page 59 (Audit Committee Report), page 69 (accounting policy) and page 70 (financial disclosures).

  The risk: The Company has applied IFRS 10-12 including the Investment Entities Amendments for the first time in the year. The directors have concluded that the Company meets the definition of an Investment Entity in IFRS 10 and, as a result, the Company no longer consolidates its subsidiaries except for those that provide services relating to its investment activities. Whether the Company is an Investment Entity is a key judgement made by the Directors and has resulted in a significant change to the recognition and measurement of interests in subsidiaries in its financial statements. One of the requirements for a company to meet the definition of an Investment Entity is that it commits to its investors that its business purpose is to invest for returns solely from capital appreciation and/or investment income. The Directors concluded that the fact that the Company generally expects to hold its investments to maturity does not preclude the Company from being an Investment Entity. The Directors have also made a judgement as to which entities in the Group provide investment related services and are consolidated within the financial statements. The risk addressed is whether the Directors have made appropriate judgements in applying the Investment Entities Amendments.

  Our response: Our audit procedures with respect to the above judgements included but were not limited to, forming an independent evaluation of the relevant facts and circumstances, the purpose and design of the Company and of the documentation supporting the Directors' assessment that the Company meets the definition of an Investment Entity. Specifically, we challenged the Directors' conclusion that the Company's business purpose is to invest for returns solely from capital appreciation and/or investment income. We used our knowledge of the Group to challenge the Directors' assessment as to which entities provided investment related services and so are consolidated within the financial statements. We have considered the adequacy of the Company's disclosures in respect of the application of the Investment Entities Amendments and the consequent restatement of comparative figures (see Note 2b) as well as the IFRS 12 disclosure requirements (see Note 2c).

- **Valuation of unlisted investments (£1,495.5 million):**

  Refer to page 59 (Audit Committee Report), page 69 (accounting policy) and page 78 (financial disclosures).

  The risk: The Group measures its investments in subsidiaries holding PFI/PPP/P3 projects at fair value based on discounted cashflow valuations. The Investment Adviser performs a valuation of the project portfolio. The Company also engaged an independent third party valuation expert to perform a valuation of the project portfolio. The Directors consider the valuations performed by the Investment Adviser and the third party valuation expert and decide on the appropriate valuation to include in the financial statements.

  The Investment Adviser performs the valuations using forecast cashflows generated by each project over a long-term period and selects key assumptions such as the discount rate and macroeconomic assumptions such as inflation, interest and tax rates. The assessment of long-term forecast cashflows and the selection of appropriate assumptions surrounding uncertain future events as set out in the key judgements and estimates section of the financial statements are key judgements made by the Directors. The risk addressed is that changes to the forecast cashflows and the selection of different assumptions may result in a materially different valuation for unlisted investments.

  Our response: Our audit procedures with respect to the valuation of unlisted investments included but were not limited to, communicating directly with the project entities for each of the individual investments and meeting the Investment Adviser's asset managers who act as directors on the PFI/PPP/P3 project companies to identify circumstances which would impact the cashflows and the assumptions. We tested the Investment Adviser's controls over the cashflow models used to perform the valuations of the subsidiaries holding the PFI/PPP/P3 projects. We challenged adjustments made to the underlying project models by the Investment Adviser as part of the valuation exercise. We also challenged the key assumptions for discount rates, inflation, interest and tax rates using our own valuation specialists and performing benchmarking and sensitivity tests. We evaluated the competency of the external valuation expert in the context of their ability to generate a reliable estimate of the fair value, by assessing their professional qualifications, experience and independence from the Group. We also held discussions with the third party valuation expert and considered whether their findings were consistent with the results of the audit work we had performed. We have considered the adequacy of the Group's disclosures in respect of the valuation in accordance with IFRS 13 (see Note 4) about the use of estimates and judgments in arriving at the fair value of unlisted investments, including sensitivities and reviewed the disclosure of the Group's investment valuation policies presented in the Annual Report.

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

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

The materiality for the financial statements as a whole was set at £15 million. This has been determined with reference to a benchmark of the Group's gross assets (of which it represents 1%), which we consider to be one of the principal considerations used by members of the Company in assessing the financial performance of the group.

In addition we applied a materiality of £1 million to interest and dividend income and fund expenses in the income statement as we believe for these specific items misstatements of lesser amounts than the £15 million materiality as a whole could reasonably be expected to influence the economic decisions of the members of the Company in respect of these specific items.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.75 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

For the purposes of the Group audit, the audit of the Company's consolidated subsidiaries were all performed by the group audit team based on the materiality levels set out above.

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matters on which we are required to report by exception

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

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

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies (Guernsey) Law, 2008, we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the part of the Corporate Governance Statement on pages 50 to 55 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Steven D. Stormonth
For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

20 May 2014

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

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 31 March 2014

	Note	Year ended 31 March 2014 Total £million	Year ended 31 March 2013 Restated* Total £million
Investment income	5	169.3	112.7
Total income		169.3	112.7
Fund expenses	6	(19.6)	(14.8)
Profit before net finance costs and tax		149.7	97.9
Finance costs	7	(2.3)	(5.0)
Finance income	7	6.4	0.2
Profit before tax		153.8	93.1
Income tax expense	8	(0.2)	(0.1)
Profit for the year		153.6	93.0
Attributable to:			
Equity holders of the parent		153.6	93.0
		153.6	93.0
Earnings per share – basic and diluted *(pence)*	9	13.1	10.4

All results are derived from continuing operations. There is no other comprehensive income or expense apart from those disclosed above and consequently a consolidated statement of comprehensive income has not been prepared.

* *Comparative information, including relevant Notes, has been restated as a result of applying IFRS 10, including Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). See Note 2 (b) for details.*

Consolidated Balance Sheet

as at 31 March 2014

	Note	31 March 2014	31 March 2013 Restated* £million	1 April 2012 Restated* £million
Non-current assets				
Investments at fair value through profit or loss	*12*	1,495.5	1,200.4	902.0
Total non-current assets		1,495.5	1,200.4	902.0
Current assets				
Trade and other receivables		1.1	0.2	1.8
Other financial assets		0.8	0.8	–
Cash and cash equivalents		42.7	172.9	267.9
Total current assets		44.6	173.9	269.7
Total assets		1,540.1	1,374.3	1,171.7
Current liabilities				
Trade and other payables	*13*	(10.1)	(12.2)	(12.7)
Other current financial liabilities		(0.5)	(0.5)	–
Loans and borrowings	*14*	–	(26.9)	(138.5)
Total current liabilities		(10.6)	(39.6)	(151.2)
Total liabilities		(10.6)	(39.6)	(151.2)
Net assets		1,529.5	1,334.7	1,020.5
Equity				
Ordinary Share capital	*15*	0.1	0.1	0.1
Share premium	*15*	1,110.0	992.4	717.6
Retained reserves		419.4	342.2	302.8
Total equity attributable to equity holders of the parent		1,529.5	1,334.7	1,020.5
Total equity		1,529.5	1,334.7	1,020.5
Net assets per Ordinary Share *(pence)* [1]	*11*	126.7	120.0	116.3
Net assets per C Share *(pence)*		–	–	98.7

* *Comparative information, including relevant Notes, has been restated as a result of applying IFRS 10, including Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). See Note 2 (b) for details.*

1. *The Net assets per share at 31 March 2013 is that applicable to the 976.4 million Ordinary Shares in issue on the record date of 1 March 2013. The 140 million Ordinary Shares issued on 27 March 2013 pursuant to the New Ordinary Share Prospectus of 26 February 2013 were not eligible for the second interim dividend of 3.575p.*

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 20 May 2014, and signed on its behalf by:

J Hallam
Director

G Picken
Director

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 March 2014

Year ended 31 March 2014

	Attributable to equity holders of the parent			Non-controlling interests	Total equity
	Share capital and share premium £million	Retained reserves £million	Total shareholders' equity £million	£million	£million
Restated shareholders' equity at beginning of year	992.5	342.2	1,334.7	–	1,334.7
Profit for the year	–	153.6	153.6	–	153.6
Distributions paid to Company shareholders	–	(76.4)	(76.4)	–	(76.4)
Ordinary Shares issued	118.3	–	118.3	–	118.3
Costs of Ordinary Share issue	(0.7)	–	(0.7)	–	(0.7)
Shareholders' equity at end of year	1,110.1	419.4	1,529.5	–	1,529.5

Year ended 31 March 2013*

	Attributable to equity holders of the parent			Non-controlling interests	Total equity
	Share capital and share premium £million	Retained reserves £million	Total shareholders' equity £million	£million	£million
Previously reported at beginning of year	717.7	307.2	1,024.9	8.4	1,033.3
Movements as a result of adopting new IFRS standard	–	(4.4)	(4.4)	(8.4)	(12.8)
Restated shareholders' equity at beginning of year	717.7	302.8	1,020.5	–	1,020.5
Profit for the year	–	93.0	93.0	–	93.0
Distributions paid to Company shareholders	–	(53.6)	(53.6)	–	(53.6)
Ordinary Shares issued	278.2	–	278.2	–	278.2
Costs of Ordinary Share issue	(3.4)	–	(3.4)	–	(3.4)
Restated Shareholders' equity at end of year	992.5	342.2	1,334.7	–	1,334.7

* *Comparative information, including relevant Notes, has been restated as a result of applying IFRS 10, including Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). See Note 2 (b) for details.*

Consolidated Cash Flow Statement

for the year ended 31 March 2014

	Year ended 31 March 2014 Total £million	Year ended 31 March 2013 Restated* Total £million
Cash flows from operating activities		
Profit before tax	153.8	93.1
Adjustments for:		
Investment income	(169.3)	(112.7)
Finance costs	2.3	5.0
Finance income	(6.4)	(0.2)
Operator acquisition investment fees	2.3	1.7
Operating cash flow before changes in working capital	(17.3)	(13.1)
Changes in working capital:		
(Increase)/Decrease in receivables	(0.9)	0.8
(Decrease)/Increase in payables	2.1	–
Cash flow from operations	(16.1)	(12.3)
Interest received on bank deposits	0.1	0.2
Interest paid	(1.1)	(1.9)
Corporation tax paid	(0.7)	–
Interest received on investments	70.7	51.1
Dividends received	28.3	16.0
Fees and other operating income	7.4	8.1
Loanstock and equity repayments received	4.9	1.6
Net cash from operating activities	93.5	62.8
Cash flows from investing activities		
Proceeds from disposal of investments	9.2	5.3
Purchases of investments	(251.2)	(270.2)
Net cash used in investing activities	(242.0)	(264.9)
Cash flows from financing activities		
Proceeds from issue of share capital	107.7	270.1
Proceeds from issue of loans and borrowings	89.6	64.5
Repayment of loans and borrowings	(118.0)	(177.8)
Distributions paid to Company shareholders	(67.1)	(48.1)
Net cash from financing activities	12.2	108.7
Net increase in cash and cash equivalents	(136.3)	(93.4)
Cash and cash equivalents at beginning of year	172.9	267.9
Exchange gains on cash	6.1	(1.6)
Cash and cash equivalents at end of year	42.7	172.9

* *Comparative information, including relevant Notes, has been restated as a result of applying IFRS 10, including Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). See Note 2 (b) for details.*

1. Reporting Entity

HICL Infrastructure Company Limited (the "Company") is a company domiciled in Guernsey, Channel Islands, whose shares are publicly traded on the London Stock Exchange. The consolidated financial statements of the Company as at and for the year ended 31 March 2014 comprise the Company and its consolidated subsidiaries, together referred to as the "Consolidated Group" (see Note 20).

As a result of changes in International Financial Reporting Standards ("IFRS") which have been implemented in these financial statements, there has been a significant change in the way the Company presents its consolidated financial statements. The Company has early adopted IFRS 10, 11 and 12 as well as early adopted Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments require that entities categorised as "Investment Entities" exclude certain investments from consolidation. The impact of this amendment is described in more detail in Note 2(b).

These changes have resulted in a number of entities that were previously consolidated into the financial statements not being consolidated in these financial statements and in the opinion of the Directors this presents the financial statements in a more consistent manner with the objectives and commercial substance of the Consolidated Group's investments. The Consolidated Group invests in infrastructure projects in the UK, Canada and Europe.

Of the Consolidated Group's portfolio of 93 investments at 31 March 2014, all have been treated as investments, including 29 entities which would have been consolidated prior to the changes to IFRS 10 for Investment Entities as described in more detail in Note 2.

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

2. Key Accounting Policies

(a) Basis of preparation

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 May 2014.

The consolidated financial statements, which give a true and fair view, have been prepared in compliance with the Companies (Guernsey) Law, 2008 and in accordance with IFRS as adopted by the European Union ("EU") using the historical cost basis, except that the financial instruments classified at fair value through profit or loss are stated at their fair values. The accounting policies have been applied consistently in these consolidated financial statements. The consolidated financial statements are presented in Sterling, which is the Company's functional currency.

The preparation of financial statements, in conformity with IFRS as adopted by the EU, requires the Directors and advisers to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that year or in 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.

The Consolidated Group's business activities, together with the factors likely to affect its future development, performance and position are set out in Sections 2.4 and 2.5 on pages 16 to 18. The financial position of the Consolidated Group, its cash flows, liquidity position and borrowing facilities are described in Sections 2.6 and 2.7 on pages 19 to 29. In addition, Notes 1 to 4 of the financial statements include the Consolidated Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Consolidated Group has considerable financial resources together with long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. The financing for these projects is non-recourse to the Consolidated Group. As a consequence, the Directors believe that the Consolidated Group is well placed to manage its business risks successfully.

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

2. KEY ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

New standards effective for the current year

The Consolidated Group has early adopted IFRS 10 and Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) which has had a material impact on the Consolidated Group's financial statements as described in Note 2(b).

The Consolidated Group has early adopted IFRS 11 and 12 which has not had a material impact on the Consolidated Group's financial statements.

The above standards are all effective from 1 January 2014. As permitted, the Company has early adopted these standards for this financial year.

The Consolidated Group also adopted IFRS 13 Fair Value Measurement – IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements. IFRS 13 replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. The adoption of IFRS 13 has had no material impact on the fair value of any assets or liabilities.

Standards not yet applied

The Consolidated Group anticipate that the adoption of the following new, revised, amended and improved published standards and interpretations, which were in issue at the date of authorisation of these Financial Statements, will have no material impact on the Financial Statements of the Consolidated Group when they become applicable in future periods:

- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014).
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting' (mandatory for year commencing on or after 1 January 2014).

(b) Comparatives

Comparatives have been restated to reflect the early adoption of IFRS 10 Consolidated Financial Statements and Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

The impact of adopting the amended Investment Entities standard is that a number of entities consolidated in previous periods are no longer consolidated as explained in Note 2(c) and as a result the net assets of the Consolidated Group as at 31 March 2013 have increased by £15.0 million with profit after tax increasing by £25.5 million for the year to 31 March 2013. It has not been practical to calculate the impact on net assets as at 31 March 2014 and profit after tax for the year to 31 March 2014.

Below is a reconciliation for each of the Consolidated income statement and Consolidated cash flow showing the results as reported originally for 31 March 2013 compared to the restated results for 31 March 2013. The reconciliation for the Consolidated balance sheet is showing results as reported originally for 31 March 2013 and 31 March 2012 compared to the restated results for 31 March 2013 and 1 April 2012.

The movements shown in the adjustments column are all as a result of the adoption of IFRS 10 and Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

CONSOLIDATED INCOME STATEMENT

	Year ended 31 March 2013			
	Original £million	Adjustments £million	£million	Restated
Services revenue	190.4	(190.4)	–	Services revenue
Gains on finance receivables	149.0	(149.0)	–	Gains on finance receivables
Gains/(loss) on investments	68.1	44.6	112.7	Investment income
Total income	407.5	(294.8)	112.7	**Total income**
Services costs	(169.2)	169.2	–	Services costs
Administrative expenses	(20.0)	5.2	(14.8)	Fund expenses
Profit before net finance costs and tax	218.3	(120.4)	97.9	**Profit before net finance costs and tax**
Finance costs	(163.9)	158.9	(5.0)	Finance costs
Finance income	1.0	(0.8)	0.2	Finance income
Profit/(loss) before tax	55.4	37.7	93.1	**Profit/(loss) before tax**
Income tax (expense)/credit	12.1	(12.2)	(0.1)	Income tax (expense)/credit
Profit for the year	67.5	25.5	93.0	**Profit for the year**
Attributable to:				Attributable to:
Equity holders of the parent	65.2	27.8	93.0	Equity holders of the parent
Non-controlling interests	2.3	(2.3)	–	Non-controlling interests
	67.5	25.5	93.0	
Earnings per share – basic and diluted *(pence)*	**7.3**	**3.1**	**10.4**	

All results are derived from continuing operations. There is no other comprehensive income or expense apart from those disclosed above and consequently a consolidated statement of comprehensive income has not been prepared.

Consolidated Balance Sheet

	31 March 2013		
	Original *£million*	**Adjustments** *£million*	**Restated** *£million*
Non-current assets			
Investments at fair value through profit or loss	670.5	529.9	1,200.4
Finance receivables at fair value through profit or loss	2,435.0	(2,435.0)	–
Intangible assets	420.7	(420.7)	–
Deferred tax assets	153.4	(153.4)	–
Total non-current assets	3,679.6	(2,479.2)	1,200.4
Current assets			
Trade and other receivables	26.6	(26.4)	0.2
Other financial assets	0.8	–	0.8
Finance receivables at fair value through profit or loss	40.2	(40.2)	–
Cash and cash equivalents	326.6	(153.7)	172.9
Total current assets	394.2	(220.3)	173.9
Total assets	4,073.8	(2,699.5)	1,374.3
Current liabilities			
Trade and other payables	(61.3)	49.1	(12.2)
Other current financial liabilities	(0.5)	–	(0.5)
Current tax payable	(1.6)	1.6	–
Loans and borrowings	(79.5)	52.6	(26.9)
Total current liabilities	(142.9)	103.3	(39.6)
Non-current liabilities			
Loans and borrowings	(1,871.4)	1,871.4	–
Other financial liabilities (fair value of derivatives)	(452.2)	452.2	–
Deferred tax liabilities	(287.6)	287.6	–
Total non-current liabilities	(2,611.2)	2,611.2	–
Total liabilities	(2,754.1)	2,714.5	(39.6)
Net assets	1,319.7	15.0	1,334.7
Equity			
Shareholders' equity	1,311.3	23.4	1,334.7
Non-controlling interests	8.4	(8.4)	–
Total equity	1,319.7	15.0	1,334.7
Net assets per Ordinary Share *(pence)*	**117.9**	**2.1**	**120.0**

Consolidated Balance Sheet

	1 April 2012		
	Original *£million*	Adjustments *£million*	Restated *£million*
Non-current assets			
Investments at fair value through profit or loss	524.3	377.7	902.0
Finance receivables at fair value through profit or loss	1,739.4	(1,739.4)	–
Intangible assets	375.2	(375.2)	–
Deferred tax assets	109.7	(109.7)	–
Total non-current assets	2,748.6	(1,846.6)	902.0
Current assets			
Trade and other receivables	29.2	(27.4)	1.8
Other financial assets	–	–	–
Finance receivables at fair value through profit or loss	31.2	(31.2)	–
Cash and cash equivalents	373.7	(105.8)	267.9
Total current assets	434.1	(164.4)	269.7
Total assets	3,182.7	(2,011.0)	1,171.7
Current liabilities			
Trade and other payables	(48.1)	35.6	(12.5)
Other current financial liabilities	–	–	–
Current tax payable	(1.4)	1.2	(0.2)
Loans and borrowings	(191.4)	52.9	(138.5)
Total current liabilities	(240.9)	89.7	(151.2)
Non-current liabilities			
Loans and borrowings	(1,409.9)	1,409.9	–
Other financial liabilities (fair value of derivatives)	(259.9)	259.9	–
Deferred tax liabilities	(238.7)	238.7	–
Total non-current liabilities	(1,908.5)	1,908.5	–
Total liabilities	(2,149.4)	1,998.2	(151.2)
Net assets	1,033.3	(12.8)	1,020.5
Equity			
Shareholders' equity	1,024.9	(4.4)	1,020.5
Non-controlling interests	8.4	(8.4)	–
Total equity	1,033.3	(12.8)	1,020.5
Net assets per Ordinary Share *(pence)*	**117.0**	**(0.7)**	**116.3**
Net assets per C Share *(pence)*	**98.7**	**–**	**98.7**

CONSOLIDATED CASH FLOW

	Year ended 31 March 2013			
	Original *£million*	**Adjustments** *£million*	*£million*	**Restated**
Cash flows from operating activities				**Cash flows from operating activities**
Profit/(loss) before tax	55.4	37.7	93.1	Profit/(loss) before tax
Adjustments for:				Adjustments for:
(Gains)/loss on investments	(68.1)	(44.6)	(112.7)	Income from investments
Gains on finance receivables	(149.0)	149.0	–	
Interest payable and similar charges	94.0	(89.0)	5.0	Finance costs
Changes in fair value of derivatives	69.9	(69.9)	–	
Operator acquisition investment fees	1.7	–	1.7	Operator acquisition investment fees
Interest income	(1.0)	0.8	(0.2)	Finance income
Amortisation of intangible assets	17.6	(17.6)	–	
Operating cash flow before changes in working capital	20.5	(33.6)	(13.1)	Operating cash flow before changes in working capital
Changes in working capital:				Changes in working capital:
(Increase)/decrease in receivables	0.6	0.2	0.8	(Increase)/decrease in receivables
(Decrease)/increase in payables	(1.5)	1.5	–	(Decrease)/increase in payables
Cash flow (used in)/from operations	19.6	(31.9)	(12.3)	Cash flow (used in)/from operations
Interest received on bank deposits and finance receivables	1.0	(0.8)	0.2	Interest received on bank deposits
Cash received from finance receivables	134.3	(134.3)	–	
Interest paid	(81.4)	79.5	(1.9)	Interest paid
Corporation tax received/(paid)	(0.6)	0.6	–	Corporation tax received/(paid)
Interest received on investments	38.9	12.2	51.1	Interest received on investments
Dividends received	12.9	3.1	16.0	Dividends received
Fees and other operating income	6.4	1.7	8.1	Fees and other operating income
Loanstock and equity repayments received	1.6	–	1.6	Loanstock and equity repayments received
Net cash from operating activities	132.7	(69.9)	62.8	**Net cash from operating activities**
Cash flows from investing activities				**Cash flows from investing activities**
Proceeds from disposal of investment	5.3	–	5.3	Proceeds from disposal of investment
Purchases of investments	(188.1)	(82.1)	(270.2)	Purchases of investments
Acquisition of subsidiaries net of cash acquired	(54.6)	54.6	–	
Net cash (used in)/from investing activities	(237.4)	(27.5)	(264.9)	**Net cash (used in)/from investing activities**
Cash flows from financing activities				**Cash flows from financing activities**
Proceeds from issue of share capital	270.1	–	270.1	Proceeds from issue of share capital
Proceeds from issue of loans and borrowings	64.5	–	64.5	Proceeds from issue of loans and borrowings
Repayment of loans and borrowings	(224.9)	47.1	(177.8)	Repayment of loans and borrowings
Distributions paid to Company shareholders	(48.1)	–	(48.1)	Distributions paid to Company shareholders
Distributions paid to non-controlling interests	(2.4)	2.4	–	
Net cash from/(used in) financing activities	59.2	49.5	108.7	**Net cash from/(used in) financing activities**
Net increase in cash and cash equivalents	(45.5)	(47.9)	(93.4)	**Net increase in cash and cash equivalents**
Cash and cash equivalents at beginning of year	373.7	(105.8)	267.9	Cash and cash equivalents at beginning of year
Exchange gains on cash	(1.6)	–	(1.6)	Exchange gains on cash
Cash and cash equivalents at end of year	326.6	(153.7)	172.9	**Cash and cash equivalents at end of year**

2. Key Accounting Policies *(continued)*

(c) Basis of consolidation

In these consolidated financial statements the Company has early adopted IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other entities'. IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements'. The International Accounting Standards Board ("IASB") has also issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) which requires entities that meet the definition of an investment entity to fair value relevant subsidiaries through the profit or loss rather than consolidate their results for periods beginning on or after 1 January 2014. The Company has chosen to early adopt the Investment Entities amendment. Under the amendment, those entities that provide investment related services or activities to the Company will continue to be consolidated. This change in accounting policy means that a number of entities previously consolidated are not consolidated in these financial statements. This change also aligns the Consolidated Group to the "Investment Group" as defined for risk management purposes in previous financial statements. The impact of this change is described in more detail in Note 2(b) and comparatives have been restated accordingly.

The consolidated financial statements of the Consolidated Group include the financial statements of the Company and its subsidiaries, except those required to be held at fair value, up to 31 March 2014. Subsidiaries are those entities controlled by the Company. The Company has control of an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee as defined in IFRS 10 'Consolidated Financial Statements'. The financial statements of subsidiaries, except those held at fair value, are included in the consolidated financial statements on a line by line basis from the date that control commences until the date control ceases.

The Directors note that following its meeting on 29/30 January 2014, the International Financial Reporting Interpretations Council (IFRIC) has proposed that the IASB should clarify the position on accounting for investment entity subsidiaries engaged in investment related activities themselves. At present it is uncertain as to whether the accounting standard will be amended.

The Directors are of the opinion that the Company has all the typical characteristics of an investment entity and the three essential criteria specific in the standard. In addition, certain subsidiaries provide specific investment management services and undertake investment activities that require the results of those subsidiaries to be consolidated in the Group financial statements.

The three essential criteria are that the entity must:

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

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

3. Measure and evaluate the performance of substantially all of its investments on a fair value basis.

In respect of the first essential criteria, typically an investment entity would have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Investing in PFI/PPP/P3 infrastructure, as per the Company's investment policy, would be considered an investment that is not generally available to individual investors due to the high capital costs, large barriers to entry and other regulatory issues. The Company, being listed on the London Stock Exchange main market, obtains "funds" from a diverse group of external shareholders.

In respect of the second essential criteria, investments are managed in order to achieve desired investment returns and value enhancement opportunities are created where possible. An investment entity should not hold its investments indefinitely. Although the Consolidated Group invests in equity interests that have an indefinite life, the underlying PFI/PPP/P3 contracts have fixed terms and no residual value. Once the PFI/PPP/P3 contracts have reached the end of their terms, the investment entities will have no purpose and will be wound up in order to return all capital to the Consolidated Group to provide the full return to investors.

In respect of the third criteria, the Consolidated Group measures and evaluates the performance of all of its investments as one portfolio. Subsidiaries are consolidated into the Consolidated Financial Statements when they provide investment management services to the Company or investment activities are undertaken while all other subsidiaries and investments are held at fair value – similar to the Investment Basis of accounting previously reported separately to the Company's accounts.

Associates are those entities over which the Company has significant influence as defined in IAS 28 'Investments in Associates'. By virtue of the Company's status as an investment fund and the exemption provided by IAS 28.1, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit or loss.

2. Key Accounting Policies *(continued)*

(c) Basis of consolidation *(continued)*

In these consolidated financial statements the Company has early adopted IFRS 11 'Joint Arrangements'. IFRS 11 supersedes IAS 31 'Interests in Joint Ventures'. Joint arrangements are those entities over which the Consolidated Group has joint control as defined by IFRS 11 'Joint Arrangements'. By virtue of the Company's status as an investment fund and the exemption provided by IAS 28.1, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit or loss.

Intra-Consolidated Group receivables, liabilities, revenue and expenses are eliminated in their entirety when preparing the consolidated financial statements. Gains that arise from intra- Consolidated Group transactions and that are unrealised from the standpoint of the Consolidated Group on the balance sheet date are eliminated in their entirety. Unrealised losses on intra-group transactions are also eliminated in the same way as unrealised gains, to the extent that the loss does not correspond to an impairment loss.

(d) Financial instruments

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

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value including directly attributable transaction costs, except for financial instruments measured at fair value through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Investments in equity and debt securities

Investments in the equity and loanstock of entities engaged in infrastructure activities which are not classified as subsidiaries of the Consolidated Group or which are subsidiaries not consolidated in the Consolidated Group are designated at fair value through profit or loss since the Consolidated Group manages these investments and makes purchase and sale decisions based on their fair value.

The initial difference between the transaction price and the fair value, derived from using the discounted cash flows methodology at the date of acquisition, is recognised only when observable market data indicates there is a change in a factor that market participants would consider in setting the price of that investment. After initial recognition, investments at fair value through profit or loss are measured at fair value with changes recognised in the income statement.

Loans and borrowings

Borrowings are recognised initially at fair value of the consideration received, less transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

(ii) Derivative financial instruments

The Consolidated Group holds derivative financial instruments to mitigate their foreign currency risk exposure. All derivatives are recognised initially at fair value with attributable transaction costs recognised in the income statement as incurred. Thereafter, derivatives are measured at fair value with changes recognised in the income statement as part of finance costs or finance income. Fair value is based on price quotations from financial institutions active in the relevant market. The Consolidated Group does not use hedge accounting.

(iii) Fair values

The fair values are determined using the income approach, except for derivative financial instruments, which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values. In determining the appropriate discount rate, regard is had to relevant long-term government bond yields, the specific risks of each investment and the evidence of recent transactions.

(iv) Effective interest

The effective interest rate is that rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the relevant asset's carrying amount.

2. Key Accounting Policies *(continued)*

(e) Share capital and share premium

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

(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. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(g) Revenue

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

Dividends are recognised when the Consolidated Group's rights to receive payment have been established.

Fees and other operating income are recognised when the Consolidated Group's rights to receive payment have been established.

Gains on investments relates solely to the investments held at fair value.

(h) Income tax

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

(i) Foreign exchange gains and losses

Transactions entered into by the Consolidated Group in a currency other than their 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 retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement.

(j) Segmental reporting

The Chief Operating Decision Maker (the "CODM") is of the opinion that the Consolidated Group is engaged in a single segment of business, being investment in infrastructure which is currently predominately in private finance initiatives and public private partnership companies in one geographical area, the United Kingdom.

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

(k) Expenses

All expenses and the profit share of the General Partner of Infrastructure Investments Limited Partnership are accounted for on an accruals basis (refer to Note 16). The Consolidated Group's investment management and administration fees, finance costs and all other expenses are charged through the consolidated income statement.

(l) Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends, this is when they are paid. In the case of final dividends, this is when they are approved by the shareholders at the AGM. For scrip dividends where the Company issues shares with an equal value to the cash dividend amount as an alternative to the cash dividend, a credit to equity is recognised when the shares are issued.

(m) Provisions

Provisions are recognised when the Consolidated Group has a present obligation as a result of a past event, and it is probable that the Consolidated Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(n) Statement of compliance

Pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987 the Company is an Authorised Closed-Ended Investment Scheme. As an authorised scheme, the Company is subject to certain ongoing obligations to the Guernsey Financial Services Commission.

Following formal implementation of the Alternative Investment Fund Managers Directive ("AIFMD"), the Company is taking advantage of the transitional provisions which extend the deadline for authorisation or registration until 22 July 2014. As the Company is regarded as an Alternative Investment Fund ("AIF"), the Board has taken legal and regulatory advice, and intends to register the Company as a self-managed AIF.

3. Critical Accounting Judgements, Estimates And Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) Investments at fair value through profit or loss

By virtue of the Company's status as an investment fund and the exemption provided by IAS 28.1 and IFRS 11 as well as the early adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), investments are designated upon initial recognition to be accounted for at fair value through profit or loss.

Fair values for those investments for which a market quote is not available are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to relevant long-term government bond yields, specific risks and the evidence of recent transactions. The Directors have satisfied themselves that the PFI/PPP/P3 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 2014 valuation was 8.2%. The discount rate is considered one of the most significant unobservable inputs through which an increase or decrease would have a material impact on the fair value of the investments at fair value through profit or loss.

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

(ii) Investment Entities

The Directors have agreed to adopt IFRS 10, 11, 12 and Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) early as permitted following EU endorsement. As explained in Note 2(c) to the accounts on page 75, the Directors are of the opinion that the Company meets the requirements of an "Investment Entity". The Company has subsidiaries that provide investment management services or undertake investment activities which require that their results are consolidated by the Company – together the Company and these subsidiaries form the Consolidated Group.

The adoption of this standard requires the consolidated financial statements to include the investments at fair value rather than consolidating their results.

4. Financial Instruments

Fair value estimation

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

Financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Consolidated Group uses the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values. In determining the discount rate, regard is had to relevant long-term government bond yields, the specific risks of each investment and the evidence of recent transactions.

Note 2 discloses the methods used in determining fair values on a specific asset or liability basis. Where applicable, further information about the assumptions used in determining fair value is disclosed in the Notes specific to that asset or liability.

4. Financial Instruments *(continued)*

Classification of financial instruments

	31 March 2014 *£million*	31 March 2013 *£million*
Financial assets		
Investments designated at fair value through profit or loss	1,495.5	1,200.4
At fair value through profit or loss		
Other financial assets (fair value of derivatives)	0.8	0.8
Financial assets at fair value through profit or loss	1,496.3	1,201.2
Trade and other receivables	1.1	0.2
Cash and cash equivalents	42.7	172.9
Financial assets – loans and receivables	43.8	173.1
Financial liabilities		
At fair value through profit or loss		
Other financial liabilities (fair value of derivatives)	(0.5)	(0.5)
Financial liabilities at fair value through profit or loss	(0.5)	(0.5)
Trade and other payables	(10.1)	(12.2)
Loans and borrowings	–	(26.9)
Other financial liabilities	(10.1)	(39.1)

The Directors believe that the carrying values of all financial instruments are not materially different 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 2014			
	Level 1 *£million*	Level 2 *£million*	Level 3 *£million*	Total *£million*
Investments at fair value through profit or loss (Note 12)	–	–	1,495.5	1,495.5
Other financial assets	–	0.8	–	0.8
	–	0.8	1,495.5	1,496.3
Other financial liabilities	–	(0.5)	–	(0.5)
	–	(0.5)	–	(0.5)

	As at 31 March 2013 (Restated)			
	Level 1 *£million*	Level 2 *£million*	Level 3 *£million*	Total *£million*
Investments at fair value through profit or loss (Note 12)	–	–	1,200.4	1,200.4
Other financial assets	–	0.8	–	0.8
	–	0.8	1,200.4	1,201.2
Other financial liabilities (fair value of derivatives)	–	(0.5)	–	(0.5)
	–	(0.5)	–	(0.5)

There were no transfers between Level 1 and 2 during the year.

4. Financial Instruments *(continued)*

Level 2

Valuation methodology

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

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

Level 3

Valuation methodology

The Directors have satisfied themselves as to the methodology used, the discount rates and key assumptions applied, and the valuation. All investments in PFI/PPP/P3 projects are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior period. 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 6 monthly basis every September and March for all investments.

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

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

Discount rates

The discount rates used for valuing each social infrastructure investment are based on the appropriate long-dated government bond yield and a risk premium. The risk premium takes into account risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by project phase, and market participants appetite for these risks.

Judgement is used in arriving at the appropriate discount rate. This 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.

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

Period ending	Range	Weighted average
31 March 2013	8.0% to 10.0%	8.4%
30 September 2013	7.9% to 10.0%	8.3%
31 March 2014	**7.8% to 11.0%**	**8.2%**

A change to the weighted average rate of 8.2% by plus or minus 0.5% has the following effect on the valuation.

Discount rate	-0.5% change	Total portfolio value	+0.5% change
Directors' valuation	**+£72.1m**	**£1,495.5m**	**-£66.7m**
Implied change in Net Asset Value per Ordinary Share	**+6.0 pence**		**+5.5 pence**

1. Net Asset Value per Ordinary Share based on 1,207 million Ordinary Shares at 31 March 2014.

4. Financial Instruments *(continued)*

Inflation rates

The social infrastructure projects in the portfolio have contractual income streams with public sector clients, which are rebased every year for inflation. UK projects tend to use either RPI (Retail Price Index) or RPIx (RPI excluding mortgage payments), and revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing). Facilities management sub-contracts have similar indexation arrangements.

The portfolio valuation assumes long-term UK inflation of 2.75% per annum for both RPI and RPIx, the same assumption as used at 30 September 2013. For non-UK investments, long-term CPI of 2.0% per annum is used for Holland, Ireland, Canada and France, the same assumption as used at 30 September 2013.

Inflation assumption	-0.5% p.a. change	Total portfolio value	+0.5% p.a. change
Changing inflation assumption across whole portfolio [1]			
Directors' valuation	**-£44.1m**	**£1,495.5m**	**+£48.1m**
Implied change in Net Asset Value per Ordinary Share	**-3.7 pence**		**+4.0 pence**

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

2. Net Asset Value per Ordinary Share based on 1,207 million Ordinary Shares at 31 March 2014.

Deposit rates

Each PFI/PPP/P3 project in the portfolio has cash held in bank deposits, which is a requirement of their senior debt financing. As at 31 March 2014 cash deposits for the portfolio were earning interest at a rate of 0.5% per annum on average.

The portfolio valuation assumes UK deposit interest rates are 1% p.a. to March 2018 and 3.5% p.a. thereafter.

Each project's interest costs are either inflation-linked or fixed rate. This is achieved through fixed rate or inflation-linked bonds, or bank debt which is hedged with an interest rate swap. A project's sensitivity to interest rates relates to the cash deposits required as part of the project funding.

Cash deposit rate Base case is 1.0% p.a. till March 2018, then 3.5% p.a.	-0.5% p.a. change	Total portfolio value	+0.5% p.a. change
Directors' valuation	**-£18.5m**	**£1,495.5m**	**+£18.6m**
Implied change in Net Asset Value per Ordinary Share	**-1.5 pence**		**+1.5 pence**

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

2. Net Asset Value per Ordinary Share based on 1,207 million Ordinary Shares at 31 March 2014.

Tax rates

The profits of each UK PFI project company are subject to UK corporation tax. On 1 April 2014 the prevailing rate of corporation tax fell from 23% to 21%. The Finance Act 2013 enacted a further reduction of 1% to 20% effective from 1 April 2015.

The UK corporation tax assumption for the portfolio valuation at 31 March 2014 was 21% for all future periods with no further step down.

Tax rate assumption	-1% p.a. change	Total portfolio value	+1% p.a. change
Directors' valuation	**+£9.7m**	**£1,495.5m**	**-£9.9m**
Implied change in Net Asset Value per Ordinary Share	**+0.8 pence**		**+0.8 pence**

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

2. Net Asset Value per Ordinary Share based on 1,207 million Ordinary Shares at 31 March 2014.

4. Financial Instruments *(continued)*

Market risk

Returns from the Consolidated Group's investments are affected by the price at which they are acquired. The value of these investments will be a function of the discounted value of their expected future cash flows, and as such will vary with, inter alia, movements in interest rates, market prices and the competition for such assets.

Financial risk management

The objective of the Consolidated Group's financial risk management is to manage and control the risk exposures of its investment portfolio. The Board of Directors has overall responsibility for overseeing the management of financial risks, however the review and management of financial risks are delegated to the Investment Adviser and the Operator of the Consolidated Group which has documented procedures designed to identify, monitor and manage the financial risks to which the Consolidated Group is exposed. This Note presents information about the Consolidated Group's exposure to financial risks, its objectives, policies and processes for managing risk and the Consolidated Group's management of its financial resources.

The Consolidated 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 Consolidated Group invests in subordinated loanstock of project companies, usually with fixed interest rate coupons. Where floating rate debt is owned the primary risk is that the Consolidated 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 reforecasted both over the near future (five year time horizon) and the long-term (over whole period of projects' concessions) to analyse the cash flow returns from investments. The Consolidated Group has made limited use of borrowings to finance the acquisition of investments and the forecasts are used to monitor the impact of changes in borrowing rates against cash flow returns from investments as increases in borrowing rates will reduce net interest margins.

The Consolidated Group's policy is to ensure that interest rates are sufficiently hedged to protect the Consolidated Group's net interest margins from significant fluctuations when entering into material medium/long-term borrowings. This includes engaging in interest rate swaps or other interest rate derivative contracts.

The Consolidated Group has an indirect exposure to changes in interest rates through its investment in project companies, which are financed by senior debt. Senior debt financing of project companies is generally either through floating rate debt, fixed rate bonds or index linked bonds. Where senior debt is floating rate, the projects typically have concession length hedging arrangements in place, which are monitored by the project companies' managers, finance parties and boards of directors. Floating rate debt is hedged using fixed floating interest rate swaps.

Inflation risk

The Consolidated Group's project companies are generally structured so that contractual income and costs are either wholly or partially linked to specific inflation where possible to minimise the risks of mismatch between income and costs due to movements in inflation indexes. The Consolidated Group's overall cashflows vary with inflation, although they are not directly correlated as not all flows are indexed. The effects of these inflation changes do not always immediately flow through to the Consolidated Group's cashflows, particularly where a project's loanstock debt carries a fixed coupon and the inflation changes flow through by way of changes to dividends in future periods. The sensitivity of the portfolio valuation is shown in Note 4.

Currency risk

The projects in which the Consolidated Group invests all conduct their business and pay interest, dividends and principal in sterling other than its investments in Dutch High Speed Rail, Cork School of Music, Irish Grouped Schools, RD901 Road and University of Bourgogne PPP/PFI projects (comprising 6% of the portfolio by value), which conduct their business and pay their interest, dividends and principal in Euros and its investments in North West Anthony Henday P3 and Kicking Horse Canyon P3 projects (comprising 2% of the portfolio by value), which conduct their business and pay interest, dividends and principal in Canadian dollars. The Consolidated 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 to the level of sterling distributions that the Consolidated Group expects to receive over the medium term, where considered appropriate. This may involve the use of forward exchange and other currency hedging contracts, as well as the use of Euro, Canadian and other currency denominated borrowings. The Group at 31 March 2014 hedged its currency exposure through Euros and Canadian dollar forward contracts.

4. Financial Instruments *(continued)*

Credit risk

Credit risk is the risk that a counterparty of the Consolidated Group will be unable or unwilling to meet a commitment that it has entered into with the Consolidated Group.

The Consolidated Group's key direct counterparties are the project companies in which it makes investments. The Consolidated Group's near term cash flow forecasts are used to monitor the timing of cash receipts from project counterparties. Underlying to the cash flow forecast 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 Consolidated Group's investment and subsidiary entities receive revenue from government departments, and public sector or local authority clients. Therefore a significant portion of the Consolidated Group's investments' revenue is with counterparties of good financial standing.

The Consolidated 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 Investment Adviser 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. The Consolidated Group's largest credit risk exposure to a project at 31 March 2014 was to the Home Office project (7% of portfolio by value) and the largest subcontractor counterparty risk exposure was to subsidiaries of the Carillion group which provided facilities management services in respect of 17% of the portfolio by value.

The Consolidated Group is subject to credit risk on its loans, receivables, cash and deposits. The Consolidated Group's cash and deposits are held with well-known banks. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due, it is believed that the risk of default is small and capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the investment. Fair value adjustments, or "loan impairments", are made when the net present value of the future cash flows predicted to arise from the asset, discounted using the effective interest rate method, implies non-recovery of all or part of the Consolidated Group's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall.

At 31 March 2014 there were no loans and other receivables considered impaired (2013: £Nil) for the Consolidated Group.

The Consolidated Group's maximum exposure to credit risk over financial assets is the carrying value of those assets in the balance sheet. The Consolidated Group does not hold any collateral as security.

Liquidity risk

Liquidity risk is the risk that the Consolidated Group will not be able to meet its financial obligations as these fall due. The Consolidated 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 Consolidated Group ensures it maintains adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Consolidated Group investments are predominantly funded by share capital and medium term debt funding.

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

The Consolidated 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 Consolidated Group's bankers in favour of the senior lenders to the investment companies. Such subscription obligations are met from the Consolidated Group's cash resources when they fall due. Such obligations totalled £5.1 million (2013: £12.7 million) at the year end.

The next table analyses the Consolidated Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contracted undiscounted cashflows (including the impact of netting agreements).

4. Financial Instruments *(continued)*

31 March 2014	Less than 1 year *£million*	Between 1 and 2 years *£million*	Between 2 and 5 years *£million*	More than 5 years *£million*
Bank borrowings	–	–	–	–
Trade and other payables	10.1	–	–	–
Other financial liabilities	0.5	–	–	–
Total	10.6	–	–	–

31 March 2013 (Restated)	Less than 1 year *£million*	Between 1 and 2 years *£million*	Between 2 and 5 years *£million*	More than 5 years *£million*
Bank borrowings	26.9	–	–	–
Trade and other payables	12.2	–	–	–
Other financial liabilities	0.5	–	–	–
Total	39.6	–	–	–

Capital management

The Consolidated Group has a £150 million revolving acquisition facility which had no cash drawings at year end. Further equity raisings are considered when debt drawings are at an appropriate level. The proceeds from the share issues are used to repay debt and to fund future investment commitments.

The Consolidated Group makes prudent use of its leverage. Under the Articles the Consolidated Group's outstanding borrowings, including any financial guarantees to support outstanding subscription obligations but excluding internal Consolidated Group borrowings of the Consolidated Group's underlying investments, are limited to 50% of the Adjusted Gross Asset Value of its investments and cash balances at any time.

The ratio of the Consolidated Group's debt to Adjusted Gross Asset Value at the end of the year was as follows:

	31 March 2014 *£million*	31 March 2013 *£million*
Outstanding drawings		
Bank borrowings	–	27.9
Letter of credit facility	5.1	12.8
	5.1	40.7
Adjusted Gross Asset Value		
Portfolio valuation (Note 12a)	1,500.6	1,213.1
Cash and cash equivalents	42.7	172.9
	1,543.3	1,386.0
Borrowing concentration	0.33%	2.90%

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

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

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

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

5. Investment Income

	For year ended 31 March 2014 Total £million	For year ended 31 March 2013 (Restated) Total £million
Interest from investments	60.2	47.9
Dividend income from investments	22.2	11.6
Fees and other operating income	7.4	8.2
Gains on investments (Note 12)	79.5	45.0
	169.3	112.7

Included within the gains on investments is an unrealised exchange loss of £6.7 million on the Consolidated Group's Euro and Canadian investments (2013: £2.1 million gain). The following exchange rates were used at the year end:

	31 March 2014	31 March 2013
Euro	0.83	0.84
Canadian	0.54	0.65

6. Fund Expenses

	For year ended 31 March 2014 £million	For year ended 31 March 2013 (Restated) £million
Fees payable to the Consolidated Group's auditors for the audit of the Consolidated Group accounts	0.2	0.2
Fees payable to the Consolidated Group's auditors and its associates for other services:		
Audit-related assurance services	0.1	0.1
Operator fees (Note 16)	14.9	11.2
Investment fees (Note 16)	2.3	1.8
Directors' fees (Note 16)	0.2	0.2
Project bid costs	0.7	0.2
Professional fees	1.0	1.0
Other costs	0.2	0.1
	19.6	14.8

In addition to the above an amount of £0.6 million (2013 restated: £0.5 million) was paid to associates of the Consolidated Group's auditors in respect of audit and tax services provided to project companies (and therefore not included within consolidated administrative expenses).

The Consolidated Group had no employees during the year.

7. Net Finance Income

	For year ended 31 March 2014 Total £million	For year ended 31 March 2013 (Restated) Total £million
Interest on bank loans	(0.2)	(0.2)
Foreign exchange loss	–	(1.8)
Other finance costs	(2.1)	(3.0)
Total finance costs	(2.3)	(5.0)
Interest on bank deposits	0.1	0.2
Foreign exchange gain	6.3	–
Total finance income	6.4	0.2
Net finance income	4.1	(4.8)

8. Income Tax

Guernsey

Under the current system of taxation in Guernsey, the Company itself is exempt from paying taxes on income, profits or capital gains. Therefore, income from investments is not subject to any further tax in Guernsey.

Overseas tax jurisdictions

The income tax expense in the Consolidated Income Statement relates to the tax charge for the four subsidiaries of the Company which form the Consolidated Group, of which two are subject to taxes in Luxembourg and two in the UK.

The Consolidated Financial Statements do not include the tax charges for any of the Consolidated Group's 93 investments as these are held at fair value. All of these investments are subject to taxes in the countries in which they operate.

9. Basic and Diluted Earnings per Share

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	2014	**2013**
Profit attributable to equity holders of the Company	£153.6 million	£93.0 million
Weighted average number of Ordinary Shares in issue	1,170.4 million	898.3 million
Basic and diluted earnings per Ordinary Share	13.1 pence	10.4 pence

Further details of shares issued in the year are set out in Note 15.

10. Dividends

	For year ended 31 March 2014 *£million*	**For year ended 31 March 2013** *£million*
Amounts recognised as distributions to equity holders during the year:		
Second interim dividend for the year ended 31 March 2013 of 3.575p (2012: 3.5p) per share	34.9	23.3
Interim dividend for the year ended 31 March 2014 of 3.5p (2013: 3.425p) per share	41.5	30.3
	76.4	53.6
Second interim dividend for the year ended 31 March 2014 of 3.6p (2013: 3.575p) per share	43.5	34.9

The second interim dividend was approved by the Board on 13 May 2014 and is payable on 30 June 2014 to shareholders on the register as at 23 May 2014. The second interim dividend is payable to shareholders as a cash payment or alternatively as a scrip dividend. The dividend has not been included as a liability at 31 March 2014.

The 2013 second interim dividend of 3.575p and the first 2014 interim dividend of 3.5p are included in the statement of changes in shareholder equity.

	For year ended 31 March 2014	**For year ended 31 March 2013**
Interim dividend for the period ended September	3.5p	3.425p
Interim dividend for the period ended March	3.6p	3.575p
	7.1p	7.0p

11. Net Assets per Ordinary Share

	2014 *£million*	2013 (Restated) *£million*
Shareholders' equity at 31 March	1,529.5	1,334.7
Less: second interim dividend	(43.5)	(34.9)
	1,486.0	**1,299.8**
Number of shares at 31 March	**1,207.4**	**1,116.3**
Net assets per share after deducting second interim dividend	**123.1p**	**116.4p**
Add second interim dividend	**3.6p**	**3.575p**
Net assets per Ordinary Share at 31 March	**126.7p**	**120.0p**

The Net assets per share at 31 March 2013 is that applicable to the 976.4 million Ordinary Shares in issue on the record date of 1 March 2013. The 140 million Ordinary Shares issued on 27 March 2013 pursuant to the New Ordinary Share Prospectus of 26 February 2013 were not eligible for the second interim dividend of 3.575p.

The Net assets per share at 31 March 2013 applicable to the 140 million Ordinary Shares issued on 27 March 2013 was 116.4p.

12A. Investments at Fair Value Through Profit or Loss

	2014 *£million*	2013 (Restated) *£million*
Opening balance	1,200.4	902.0
Investments in the year	234.1	278.8
Disposals in the year	(9.4)	(4.0)
Accrued interest	(2.3)	(2.1)
Repayments in the year	(23.9)	(16.9)
Subscription obligations	12.7	–
Gains on valuation	80.7	44.1
Other movements	3.2	(1.5)
Carrying amount at year end	1,495.5	1,200.4
This is represented by:		
Less than one year	–	–
Greater than one year	1,495.5	1,200.4
Carrying amount at year end	1,495.5	1,200.4
Gains on valuation as above	80.7	44.1
Gain on disposal	–[1]	1.3
Less: transaction costs incurred	(1.2)	(0.4)
Gains on investments	79.5	45.0

1. Gain measured against carrying value as at 31 March 2013

The gains on investment have been included in Investment income presented in the Consolidated Income Statement. Gains on investments also include an immaterial movement as a result of the disposal in December 2013 when measured against the carrying value. A gain on disposal of £1.1 million was realised against the original cost of the investments.

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2014. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. The Directors have also obtained an independent opinion from a third party with experience in valuing these types of investments, supporting the reasonableness of the valuation. All investments in PFI/PPP/P3 projects are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior year. Discount rates applied range from 7.8% to 11.0% (weighted average of 8.2%) (2013: 8.0% to 10.0% (weighted average of 8.4%)).

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

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

UK inflation rates	2.75%
Holland, Ireland and Canada inflation rates	2.0%
UK deposit interest rates	1% to March 2018 and 3.5% thereafter
UK corporation tax rate	21%
Euro/Sterling exchange rate	0.83 for all future periods
Can$/Sterling exchange rate	0.54 for all future periods

The economic assumptions for the year ended 31 March 2013 were as follows:

UK inflation rates	2.75%
Holland, Ireland and Canada inflation rates	2.0%
UK deposit interest rates	1% to March 2017 and 3.5% thereafter
UK corporation tax rate	23%
Euro/Sterling exchange rate	0.84 for all future periods
Can$/Sterling exchange rate	0.65 for all future periods

The valuation of the Consolidated Group's portfolio at 31 March 2014 reconciles to the consolidated balance sheet as follows:

	31 March 2014 *£million*	31 March 2013 *£million*
Portfolio valuation	1,500.6	1,213.1
Less: future commitments	(5.1)	(12.7)
Investments per Consolidated Balance Sheet	1,495.5	1,200.4

Investments are generally restricted on their ability to transfer funds to the Consolidated Group under the terms of their senior funding arrangements for that investment. Significant restrictions include:

- Historic and projected debt service and loan life cover ratios exceed a given threshold;
- Required cash reserve account levels are met;
- Senior lenders have agreed the current financial model that forecasts the economic performance of the project company;
- Project company is in compliance with the terms of its senior funding arrangements; and
- Senior lenders have approved the annual budget for the company.

Details of percentage holdings in investments recognised at fair value through profit or loss were as follows:

	Percentage Holding					
	31 March 2014			31 March 2013		
Investments (project name)	Equity	Subordinated debt	Mezzanine debt	Equity	Subordinated debt	Mezzanine debt
A249 Road	50.00%	50.00%	–	50.00%	50.00%	–
A92 Road	50.00%	50.00%	–	50.00%	50.00%	–
Addiewell Prison	33.30%	33.30%	–	–	–	–
Allenby & Connaught PFI Project	12.50%	12.50%	–	–	–	–
Barking and Dagenham Schools	85.00%	100.00%	–	85.00%	100.00%	–
Barnet Hospital[1]	100.00%	100.00%	–	100.00%	100.00%	–
Birmingham and Solihull LIFT	30.00%	44.00%	–	30.00%	44.00%	–
Birmingham Hospitals	30.00%	30.00%	–	30.00%	30.00%	–
Bishop Auckland Hospital	36.00%	37.00%	100.00%	36.00%	36.00%	100.00%
Blackburn Hospital[1]	100.00%	100.00%	–	100.00%	100.00%	–

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

	Percentage Holding					
	31 March 2014			31 March 2013		
Investments (project name)	Equity	Subordinated debt	Mezzanine debt	Equity	Subordinated debt	Mezzanine debt
Blackpool Primary Care Facility	75.00%	75.00%	–	75.00%	75.00%	–
Boldon School[1]	100.00%	100.00%	–	100.00%	100.00%	–
Bradford BSF Phase 2	34.00%	34.00%	–	34.00%	34.00%	–
Brentwood Community Hospital	75.00%	75.00%	–	75.00%	75.00%	–
Brighton Hospital	50.00%	50.00%	–	–	–	–
Central Middlesex Hospital[1]	100.00%	100.00%	–	100.00%	100.00%	–
Colchester Garrison	56.00%	56.00%	–	56.00%	56.00%	–
Connect PFI	33.50%	33.50%	–	28.50%	28.50%	–
Conwy Schools[1]	90.00%	90.00%	–	90.00%	90.00%	–
Cork School of Music[2]	50.00%	50.00%	–	50.00%	50.00%	–
Croydon Schools[1]	100.00%	100.00%	–	100.00%	100.00%	–
Darlington Schools	50.00%	50.00%	–	50.00%	50.00%	–
Defence Sixth Form College	45.00%	45.00%	–	45.00%	45.00%	–
Derby Schools[1]	100.00%	100.00%	–	80.00%	80.00%	–
Doncaster Mental Health	50.00%	50.00%	–	50.00%	50.00%	–
Dorset Fire and Rescue[1]	100.00%	100.00%	–	100.00%	100.00%	–
Dorset Police[6]	–	–	–	80.00%	80.00%	–
Durham and Cleveland Police Tactical Training Centre[1]	72.90%	72.90%	–	72.90%	72.90%	–
Dutch High Speed Rail Link[3]	43.00%	43.00%	–	43.00%	43.00%	–
Ealing Care Homes	84.00%	84.00%	–	84.00%	84.00%	–
Ealing Schools	50.00%	50.00%	–	50.00%	50.00%	–
Edinburgh Schools[1]	100.00%	100.00%	–	100.00%	100.00%	–
Exeter Crown Court[1]	100.00%	100.00%	–	100.00%	100.00%	–
Falkirk NPD Schools	29.10%	29.10%	–	–	–	–
Fife Schools 2 PPP	30.00%	30.00%	–	30.00%	30.00%	–
Fife Schools	50.00%	64.00%	100.00%	50.00%	50.00%	–
Glasgow Hospital	25.00%	25.00%	–	25.00%	25.00%	–
Gloucester Fire and Rescue	75.00%	75.00%	–	–	–	–
Greater Manchester Police Authority[1]	72.90%	72.90%	–	72.90%	72.90%	–
Haverstock School	50.00%	50.00%	–	50.00%	50.00%	–
Health and Safety Executive (HSE) Merseyside Headquarters	50.00%	50.00%	–	50.00%	50.00%	–
Health and Safety Laboratory	80.00%	90.00%	–	80.00%	90.00%	–
Helicopter Training Facility Asset Co[1]	87.60%	7.20%	–	87.60%	7.20%	–
Helicopter Training Facility Op Co	23.50%	74.10%	–	23.50%	74.10%	–
Highland Schools[1]	100.00%	100.00%	–	100.00%	100.00%	–
Home Office Headquarters[1]	100.00%	100.00%	–	100.00%	100.00%	–
Irish Grouped Schools[2]	50.00%	50.00%	–	50.00%	50.00%	–
Kent Schools PFI	50.00%	50.00%	–	50.00%	50.00%	–
Kicking Horse Canyon Transit P3[4]	50.00%	–	–	50.00%	–	–
Lewisham Hospital[1]	100.00%	100.00%	–	100.00%	100.00%	–
M80 DBFO	50.00%	50.00%	–	50.00%	50.00%	–
Manchester School	50.00%	50.00%	–	50.00%	50.00%	–
Medway LIFT	60.00%	60.00%	–	–	–	–
Medway Police[1]	100.00%	100.00%	–	80.00%	80.00%	–
Metropolitan Police Specialist Training Centre[1]	72.90%	72.90%	–	72.90%	72.90%	–
Miles Platting Social Housing	33.30%	33.30%	–	–	–	–
Newcastle Libraries	50.00%	50.00%	–	50.00%	50.00%	–
Newport Schools[1]	100.00%	100.00%	–	80.00%	80.00%	–
Newton Abbot Hospital[1]	100.00%	100.00%	–	50.00%	100.00%	–
North Tyneside Schools	50.00%	50.00%	–	50.00%	50.00%	–
Northwest Anthony Henday Ring Road P3[4]	50.00%	50.00%	–	50.00%	50.00%	–
Northwood MoD HQ	50.00%	50.00%	–	50.00%	50.00%	–

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

	Percentage Holding					
	31 March 2014			31 March 2013		
Investments (project name)	**Equity**	**Subordinated debt**	**Mezzanine debt**	**Equity**	**Subordinated debt**	**Mezzanine debt**
Norwich Area Schools PFI Project	75.00%	75.00%	–	75.00%	75.00%	–
Nuffield Hospital	25.00%	25.00%	–	25.00%	25.00%	–
Oldham Library	50.00%	50.00%	–	50.00%	50.00%	–
Oldham Secondary Schools PFI Project	75.00%	75.00%	–	75.00%	75.00%	–
Oxford Churchill Oncology	40.00%	40.00%	–	40.00%	40.00%	–
Oxford John Radcliffe PFI Hospital [1]	100.00%	100.00%	–	100.00%	100.00%	–
Perth and Kinross Schools [1]	100.00%	100.00%	–	100.00%	100.00%	–
Pinderfields and Pontefract Hospitals	50.00%	50.00%	–	50.00%	50.00%	–
Queen Alexandra Hospital Portsmouth [1]	100.00%	100.00%	–	100.00%	100.00%	–
Queen's (Romford) PFI Hospital	66.70%	66.70%	–	66.70%	66.70%	–
RD901 Road [5]	90.00%	–	–	–	–	–
Redbridge & Waltham Forest LIFT	60.00%	60.00%	–	–	–	–
Renfrewshire Schools	30.00%	30.00%	–	30.00%	30.00%	–
Rhonnda Cynon Taf Schools [1]	100.00%	100.00%	–	100.00%	100.00%	–
Royal School of Military Engineering PPP Project	26.00%	32.10%	–	–	–	–
Salford Hospital	50.00%	50.00%	–	–	–	–
Sheffield BSF	40.00%	40.00%	–	–	–	–
Sheffield Hospital	75.00%	75.00%	–	75.00%	75.00%	–
Sheffield Schools	37.50%	37.50%	–	37.50%	37.50%	–
South Ayrshire Schools [1]	100.00%	100.00%	–	100.00%	100.00%	–
South East London Police stations	50.00%	50.00%	–	50.00%	50.00%	–
South West Hospital, Enniskillen	39.00%	39.00%	–	–	–	–
Staffordshire LIFT	30.00%	44.00%	–	30.00%	44.00%	–
Stoke Mandeville Hospital [1]	100.00%	100.00%	–	100.00%	100.00%	–
Sussex Custodial Services [1]	100.00%	100.00%	–	100.00%	100.00%	–
Swindon Police [6]	–	–	–	80.00%	80.00%	–
Tameside General Hospital	50.00%	50.00%	–	–	–	–
Tyne and Wear Fire Stations [1]	100.00%	–	–	100.00%	–	–
University of Bourgogne France [5]	85.00%	–	–	–	–	–
University of Sheffield Project	50.00%	50.00%	–	–	–	–
West Lothian Schools	75.00%	75.00%	–	75.00%	75.00%	–
West Middlesex Hospital [1]	100.00%	100.00%	–	100.00%	100.00%	–
Willesden Hospital	50.00%	50.00%	–	50.00%	50.00%	–
Wooldale Centre for Learning	50.00%	50.00%	–	50.00%	50.00%	–

1 The company is a subsidiary that has not been consolidated.

2 The company is incorporated in Ireland.

3 The company is incorporated in the Netherlands.

4 The company is incorporated in Canada.

5 The company is incorporated in France.

6 The investment was sold in December 2013.

7 A further 16.70% equity was acquired in May 2014, see Note 18.

12B. Investments – Acquisitions and Disposals

Acquisitions

In April the Company acquired a 60% shareholding in two LIFT (Local Improvement Finance Trusts) companies, the Medway LIFTCo and the Redbridge and Waltham Forest LIFTCo, for a combined consideration of £9.8 million.

In May 2013 the Company announced four new investments:

- The acquisition of a 50% stake in the Tameside General Hospital PFI project from Balfour Beatty Infrastructure Investments Limited for £16.0 million and the acquisition of a 33.3% interest in the Addiewell Prison PFI project from a division of RBS for £10.3 million.
- The acquisition of a 39% equity and loan note interest in the South West Hospital Enniskillen PFI Project for £20.8 million from FCC Construcción SA. It is a 33 year concession to design, construct, finance and maintain a new acute hospital and key worker accommodation on a greenfield site at Enniskillen in Northern Ireland and was completed in May 2012. The facilities include outpatient facilities, an Accident and Emergency unit, a new energy centre and key worker.
- The acquisition of a 50% equity and loan note interest for £20.8 million in the University of Sheffield Student Accommodation Project from InfraRed Infrastructure Fund II. This fully operational project was identified in February 2013 as one of the two Conditional Investments described in the Company's Ordinary Share prospectus issued in February 2013. In making this acquisition the Group complied with its stated policies for dealing with conflicts of interest.

On 1 July 2013 the Company announced four new investments with an aggregate consideration of £107.9 million:

- The Salford Hospital PFI Project: The Group acquired a 50% equity and loan note interest in this 35 year concession to design, construct and commission new-build hospital facilities and associated site infrastructure in Salford, Greater Manchester. The project reached financial close in 2007 and construction of the new facilities was completed in 2012.
- The Miles Platting Social Housing PFI Project: The Group acquired a 33.33% equity and loan note interest in this 30 year concession, procured by the City of Manchester Council, to 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. The project reached financial close in 2007 and construction was completed in 2012.
- The Gloucester Fire and Rescue PFI Project: The Group acquired a 75% equity and loan note interest in this 26 year concession, procured by the Gloucester Fire Authority, to finance, design, construct and subsequently operate and maintain four community fire stations and a "SkillZone" in Gloucestershire. The project reached financial close in 2011 and construction of the new facilities was completed in 2012.
- The Allenby and Connaught Ministry of Defence ("MoD") Accommodation PFI Project: The Group acquired a 12.5% equity and loan note interest in this 35 year concession to design, build and finance new and refurbished MoD accommodation across four garrisons on Salisbury Plain and at Aldershot, comprising working, leisure and living quarters as well as ancillary buildings. The Project reached financial close in April 2006 and construction is being undertaken by a joint venture between subsidiaries of Carillion and KBR Holdings LLC. Construction is due for completion in 2014.

In August 2013 the Company invested £1.9 million in the new Birmingham Dental Hospital and School of Dentistry which is to be developed by Birmingham Community Healthcare NHS Trust together with its partners the University of Birmingham, Birmingham and Solihull LIFT ("BaS LIFT") (in which the Group has a 30% equity interest) and Calthorpe Estates, and will be one of the largest facilities to have been developed under the NHS LIFT initiative. It involves the construction of a new 15,465sqm four-storey dental hospital and school of dentistry. Construction is expected to be completed in 2015.

In August 2013 the Company completed two acquisitions for a combined consideration of £10.2 million:

- A 50% equity stake in the Newton Abbot Community Hospital Project concession which runs until December 2038 for the construction and operation of a community hospital for Torbay and Southern Devon Health and Care NHS Trust. This takes the Company's equity stake to 100%.
- A further 5% equity and loan notes interest in the Connect Project giving it a 33.5% interest overall. Connect is a 20 year concession which runs until November 2019 to upgrade and operate London Underground Limited's radio and telecommunications systems.

In October 2013 the Company completed two acquisitions for a combined consideration of £9.2 million:

- A 50% equity and loan note stake in the Brighton Children's Hospital Project, a £37.1 million scheme which involved the design, construction, financing and subsequent maintenance of a new children's hospital on behalf of the Brighton and Sussex University Hospitals NHS Trust. The hospital reached Financial Close in June 2004 and has been operational since May 2007 and comprises 100 beds, diagnostic facilities, ambulatory care, teaching areas, two operating theatres and an X-ray facility. The vendor was Kajima Partnerships.

12b. Investments – Acquisitions and Disposals *(continued)*

Acquisitions *(continued)*

- A 29.1% subordinated loan note in the Falkirk Schools NPD project, a £120 million scheme which involved the design, construction, financing and subsequent operation of four secondary schools in Falkirk, Scotland on behalf of Falkirk Council. The Project reached Financial Close in May 2007 and the schools became operational in phases up to July 2009. The stake was acquired from Royal Bank Project Investments Limited.

In December 2013 the Company acquired for a consideration of £3.4 million the final 20% stakes in the Derby Schools, Newport Schools and Medway Police projects which it did not already own taking its ownership in all three projects to 100%.

In January 2014 the Company completed four acquisitions for a combined consideration of £28.9 million:

- An 85% stake in the University of Bourgogne PPP project in France which achieved financial close in July 2013 and is a contract to design, construct, finance and maintain four new academic buildings on the Bourgogne university campus, and to refurbish an existing building, with a total gross internal floor area of 7,000sqm. The Group acquired its stake from Pertuy Construction who is undertaking the c.£17 million construction programme over the next two years following which there is a 25 year operational period.

- A 90% interest in the Troissereux by-pass RD901 PPP project in France which achieved financial close in January 2014 and comprises the design, construction, finance and maintenance of a new 7km dual carriageway bypassing the small town of Troissereux, near Beauvais.

- A 26% interest from a subsidiary of Carillion plc in the Royal School of Military Engineering PPP project, a 30-year concession to 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.

- A 40% interest from Vinci Investments Limited in the Sheffield BSF Schools project, a 27-year PFI concession to design, build, finance, maintain and operate two new secondary schools and one new special educational needs secondary school in Sheffield for Sheffield City Council. The project was signed in July 2007 and has been fully operational since September 2009.

As part of the consideration for the Perth and Kinross Schools PFI project acquisition in December 2012, the Company had a contractual investment obligation of £12.7 million which was paid in April 2013.

These investments are all held at fair value.

Disposals

The Group undertook the sale of two investments in December 2013 generating aggregate disposal proceeds of £9.2 million. These comprised 80% stakes in the Swindon Police and the Dorset Police projects.

13. Trade and Other Payables

	31 March 2014 *£million*	31 March 2013 (Restated) *£million*
Trade payables	9.6	9.2
Other payables	0.5	3.0
Trade and other payables	10.1	12.2

14. Loans and Borrowings

	31 March 2014 *£million*	31 March 2013 (Restated) *£million*
Current liabilities		
Bank borrowings	–	26.9
Total loans and borrowings	–	26.9

14. Loans and Borrowings *(continued)*

Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

	Carrying amount	
	2014 *£million*	**2013 (Restated)** *£million*
Secured Bank borrowings	–	26.9
	–	26.9

The currency profile of the Consolidated Group's loans and borrowings is as follows:

	2014 *£million*	**2013 (Restated)** *£million*
Pound Sterling	–	21.2
Euro	–	6.7
	–	27.9

The Consolidated Group has the following undrawn borrowing facilities at 31 March:

Floating rate	**2014** *£million*	**2013** *£million*
Secured		
– expiring within one year	–	59.3
– expiring between 1 and 2 years	–	–
– expiring between 2 and 5 years	144.7	–
– expiring after 5 years	–	–
	144.7	59.3

During the year, the Consolidated Group was required to meet certain bank covenants on its £100 million three year revolving bank facility (which was renewed and increased to £150 million on 28 March 2014), the most significant of which were maintaining a Forward and Historic Interest Cover Ratio above 3:1 and Gearing Ratio not greater than 0.275:1.

15. Share Capital and Reserves

	Ordinary Shares	
	31 March 2014 *£million*	**31 March 2013** *£million*
Issued at 1 April	1,116.3	665.4
C Shares converted to Ordinary Shares	–	218.1
Issued for cash	83.7	228.3
Issued as a scrip dividend alternative	7.4	4.5
Issued at 31 March – fully paid	1,207.4	1,116.3

The holders of the 1,207,428,625 Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company (2013: 1,116,360,139 Ordinary Shares).

15. Share Capital And Reserves *(continued)*

Ordinary Share capital and share premium

	31 March 2014 £million	31 March 2013 £million
Opening balance	992.5	470.9
Premium arising on issue of equity shares	118.3	525.0
Expenses of issue of equity shares	(0.7)	(3.4)
Balance at 31 March	1,110.1	992.5

Share capital is £120.7 thousand (2013: £111.6 thousand).

For the year ended 31 March 2014
On 22 April 2013 3.9 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend of 3.575p in respect of the year ending 31 March 2013.

On 31 December 2013 3.5 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the first interim dividend of 3.5p in respect of the year ending 31 March 2014.

In the year ending 31 March 2014 83.7 million new Ordinary Shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 129.0p and 135.0p.

For the year ended 31 March 2013
250,000,000 C Shares were converted to 218,050,000 Ordinary Shares on 27 April 2012 at a conversion rate of 0.8722 Ordinary Shares for each C Share.

On 30 June 2012 1.5 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend of 3.5p in respect of the year ending 31 March 2012.

On 31 December 2012 3.0 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the first interim dividend of 3.425p in respect of the year ending 31 March 2013.

In the year ending 31 March 2013 88.3 million new Ordinary Shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 119.0p and 119.5p.

On 22 March 2013, the Company announced the results of its Placing, Open Offer and Offer for Subscription of Ordinary Shares. The Company raised £167.3 million (before expenses) through the issue of 140,000,000 Ordinary Shares at a price of 119.5p per Ordinary Share, of which 61,968,542 Ordinary Shares were issued pursuant to the Open Offer, 9,558,673 Ordinary Shares were issued pursuant to the Offer for Subscription and 68,472,785 Ordinary Shares were issued by way of the Placing. The Ordinary Shares were admitted to trading on the London Stock Exchange on 27 March 2013.

Retained reserves
Retained reserves comprise retained earnings and the balance of the share premium account, as detailed in the consolidated statements of changes in shareholders' equity.

16. Related Party Transactions

The Investment Adviser to the Company and the Operator of a limited partnership through which the Consolidated Group holds its investments is InfraRed Capital Partners Limited ("IRCP").

IRCP's appointment as Investment Adviser is governed by an Investment Advisory Agreement which may be terminated by either party giving one year's written notice. The appointment may also be terminated if IRCP's appointment as Operator is terminated. The Investment Adviser is entitled to a fee of £0.1 million per annum (disclosed within investment fees in Note 6) (2013: £0.1 million), payable half-yearly in arrears and which is subject to review, from time to time, by the Company.

16. Related Party Transactions *(continued)*

IRCP has been appointed as the Operator of Infrastructure Investments Limited Partnership by the General Partner of the Partnership, Infrastructure Investments General Partner Limited, a sister subsidiary of IRCP. The Operator and the General Partner may each terminate the appointment of the Operator by either party giving one year's written notice. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Advisory Agreement is terminated in accordance with its terms. The General Partner's appointment does not have a fixed term, however if IRCP ceases to be the Operator, the Company has the option to buy the entire share capital of the General Partner and IRCP Group has the option to sell the entire share capital of the General Partner to the Company, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In the year to 31 March 2014, in aggregate IRCP and the General Partner were entitled to fees and/or profit share equal to: i) 1.1 per cent per annum of the adjusted gross asset value of all investments of the Consolidated Group that are not in either their construction or ramp-up phases up to £750 million, 1.0 per cent per annum for the incremental value in excess of £750 million up to £1,500 million and 0.9 per cent for the incremental value in excess of £1,500 million; ii) 1.5 per cent per annum of investments of the Consolidated Group that are in either their construction or ramp-up phases, excluding investments acquired with the acquisition of the initial portfolio (the ramp-up phase of an investment means the period following completion of a project's construction phase during which it is building up to be fully operational with full service provision); and iii) 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.

In March 2014 the Company announced that from 1 April 2014, IRCP and the General Partner will in aggregate be entitled to fees and/or profit share equal to: i) 1.1 per cent per annum of the adjusted gross asset value of all investments of the Consolidated Group up to £750 million, 1.0 per cent per annum for the incremental value in excess of £750 million up to £1,500 million, 0.9 per cent for the incremental value in excess of £1,500 million up to £2,250 million and 0.8 per cent for the incremental value in excess of £2,250 million. The Consolidated Group has therefore ceased to pay the differentiated and higher annual management fee for assets in construction (previously 1.5% p.a.), so that the fee payable will be the same for all investments, regardless of whether they are operational, in ramp-up or under construction.

The total Operator fees charged to the Consolidated Income Statement was £14.9 million (2013: £11.2 million) of which £7.8 million remained payable at year end (2013: £5.9 million). The total charge for new portfolio investments (disclosed within investment fees in Note 6) was £2.2 million (2013: £1.7 million) of which £0.5 million remained payable at year end (2013: £1.0 million).

Transactions during the year

A number of transactions took place between the Consolidated Group and its associates in the year which are summarised below, further details on balances outstanding are provided in Note 12a.

	Transactions	
	For year ended 31 March 2014 *£million*	**For year ended 31 March 2013** *£million*
Loanstock repayments	(17.0)	(12.4)
Equity repayments	(6.9)	(4.5)
Loanstock interest	60.2	47.9
Dividends received	22.2	11.6
Fees and other income	7.4	8.2

The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report on page 56.

Total fees for Directors for the year were £210,000 (2013: £190,000). Directors expenses of £16,797 (2013: £7,632) were also paid in the year. One Director also receives fees of £5,000 (2013: £5,000) for serving as director of the two Luxembourg subsidiaries.

In May 2013 the Group completed the acquisition of 50% equity and loanstock in the University of Sheffield project for a consideration of £20.8 million from InfraRed Infrastructure Fund II. The acquisition was identified in the New Ordinary Share Prospectus of February 2013 as a Conditional Investment.

All of the above transactions were undertaken on an arm's length basis.

17. Guarantees and Other Commitments

As at 31 March 2014 the Consolidated Group had £5.1 million commitments for future project investments (2013: £12.7 million).

18. Events after the Balance Sheet Date

On 15 April 2014, the Company held an Extraordinary General Meeting where a resolution was passed to in favour of the proposed purchase by the Company (or a subsidiary of the Company) of a 5.85% equity interest in the AquaSure Project from the InfraRed Environmental Infrastructure Fund on such terms as may be agreed by the Company and the InfraRed Environmental Infrastructure Fund, subject to all other actions necessary to effect such purchase.

On 7 May 2014 the Company announced a new investment in the form of a 10% interest in the N17/N18 Gort to Tuam PPP Scheme (the "N17/N18 Project") which has just reached financial close and involves the financing, design, construction and operation of a new 57km dual carriageway section of the N17/N18 near Galway for the National Roads Authority of Ireland (the "NRA"). The financial commitment to the N17/N18 Project comprises an obligation to subscribe for 10% of shareholder loans at the end of the construction works and a conditional commitment to acquire a further 32% interest in early 2019.

The Company also announced on 7 May 2014 the acquisition of a further 16.7% equity interest in the Miles Platting Social Housing PFI Project ("Miles Platting Project").

The total investment for the initial 10% interest in the N17/N18 Project and the additional 16.7% interest in the Miles Platting Project was approximately £5.1 million.

The Company is in the process of completing an acquisition of 5.85% equity and loanstock in Aquasure Holdings Pty Limited ("Aquasure") for a consideration of Australian $84.5 million (approximately £47.0 million).

There are no other events after the balance sheet date which are required to be disclosed.

19. Disclosure – Service Concession Arrangements

The Consolidated Group holds investments in 93 service concession arrangements in the Accommodation, Education, Health, Transport and Law and Order sectors. The concessions vary on the required obligations but typically require the financing and operation of an asset during the concession period. As at 31 March 2014, all of the service concessions were fully operational.

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	Start date	End date	Number of years	Project Capex	Key subcontractors
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.	2006	2036	30	£79m	Carillion
A92 Road	Design, construct, finance and operate the upgraded A92 shadow toll road between Dundee and Arbroath for Transport for Scotland.	2005	2035	30	£54m	Bear
Addiewell Prison	Design, build, finance and operate a new maximum security prison at Addiewell, West Lothian.	2008	2033	25	£74m	Sodexo
Allenby & Connaught PFI Project	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.	2006	2041	35	£1,557m	Carillion KBR
Barking and Dagenham Schools	Design, construct, finance, operate and maintain the Eastbury Comprehensive and Jo Richardson Community Schools for London Borough of Barking & Dagenham.	2004	2030	26	£47m	Bouygues Energies & Services

19. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Barnet Hospital	Design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust.	1999	2032	33	£65m	Bouygues Energies & Services
Birmingham and Solihull LIFT	Design, construct and invest in facilities of new health and social care facilities.	2004	2031	27	£65m	Carillion
Birmingham Hospitals	Design, construct, finance and maintain a new acute hospital and six mental health facilities for University Hospitals Birmingham NHS Foundation Trust and Solihull Mental Health NHS Foundation Trust.	2006	2046	40	£553m	Cofely
Bishop Auckland Hospital	Design, construct, finance, service and maintain a redevelopment of Bishop Auckland General Hospital, County Durham for South Durham Health Care NHS Trust.	1999	2059	60 (with break clause option by Grantor at year 30, 40 & 50)	£66m	ISS
Blackburn Hospital	Design, construct, finance and maintain new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust.	2003	2041	38	£100m	Cofely
Blackpool Primary Care Facility	Design, construct, finance and operate a primary care centre in Blackpool for Blackpool Primary Care Trust.	2008	2040	32	£19m	Eric Wright
Boldon School	Design, construct, finance, operate and maintain Boldon School for the Borough of South Tyneside.	2005	2031	26	£18m	Mitie
Bradford BSF Phase 2	Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council.	2009	2036	27	£230m	Amey
Brentwood Community Hospital	Design, construct, finance and maintain a new community hospital for South West Essex Primary Care Trust.	2006	2036	30	£23m	Initial
Brighton Hospital	Construction and operation of new children's hospital in Brighton.	2004	2034	30	£37m	Integral
Central Middlesex Hospital	Design, construct, finance and maintain new hospital facilities, and to refurbish some existing facilities, for the Brent Emergency Care and Diagnostic Centre on the Central Middlesex Hospital site in North West London.	2003	2036	33	£75m	Bouygues Energies & Services
Colchester Garrison	Design, construct, finance and maintain a new garrison facility at Colchester, Essex for The Secretary of State for Defence.	2004	2039	35	£550m	Sodexo
Connect PFI	To upgrade London Underground Limited's existing radio and telecommunications systems and implement and operate a new system.	1999	2019	20	£300m	Thales
Conwy Schools	Design, build, operate and maintain three schools for Conwy County Borough Council in North Wales.	2003	2030	27	£40m	Sodexo

19. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
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).	2005	2030	25	€50m	Bilfinger Berger
Croydon Schools	Design, construct, finance, operate and maintain a secondary school and community library in Croydon for the London Borough of Croydon.	2004	2034	30	£20m	Vinci
Darlington Schools	Design, construct, finance, operate and maintain an Education Village comprising four schools.	2004	2029	25	£31m	Mitie
Defence Sixth Form College	Design, build, operate, finance and maintain a new residential sixth form college for the Secretary of State for Defence.	2003	2033	30	£40m	Pearson
Derby Schools	Design, construct, finance, operate and maintain three primary schools and two secondary schools in Derby for Derby City Council.	2004	2031	27	£37m	Vinci
Doncaster Mental Health	Design, construct, finance, operate and maintain a service accommodation for an elderly mental health unit in Doncaster for the Rotherham Doncaster and South Humber Mental. NHS Foundation Trust.	2003	2031	28	£15m	Royal BAM
Dorset Fire and Rescue	Design, construct, finance, operate and maintain the fire and police facilities at three sites in Dorset for the Dorset Fire Authority & Police and Crime Commissioner for Dorset.	2007	2034	27	£45m	Cofely
Durham and Cleveland Police Tactical Training Centre	Construction of a state of the art firearms and tactical training centre at Urlay Nook in the North of England.	2000	2025	25	£6m	Carillion
Dutch High Speed Rail Link	Design, construct, finance, operate and maintain power, track and signalling for the high speed railway between Schiphol Airport and Belgian border in the Netherlands.	2001	2026	25	£625m	Fluor
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.	2005	2035	30	£22m	Viridian
Ealing Schools	Design, construct, finance, operate and maintain a four-school education PFI project consisting of one secondary school and three primary schools in the London Borough of Ealing.	2002	2029	27	£31m	Mitie
Edinburgh Schools	Design, construct, finance, operate and maintain six secondary schools and two primary schools for the City of Edinburgh Council.	2007	2039	32	£165m	Mitie
Exeter Crown Court	Build and service a new crown and county court building in Exeter.	2002	2034	32	£20m	Sodexo

19. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Falkirk NPD Schools	Design, construct, finance and operate four secondary schools in the Falkirk area of Scotland.	2007	2039	32	£120m	FES
Fife Schools	Design, construct, finance and maintain 3 new schools and a sports hall in Fife, Scotland.	2001	2028	27	£40m	Sodexo
Fife Schools 2	Design, construct, finance and maintain nine primary schools and one special education facility in Fife, Scotland.	2005	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.	2006	2036	30	£178m	Cofely
Gloucester Fire and Rescue	Construction and operation of 4 community fire stations in Gloucestershire and a SkillZone education centre.	2011	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 (GMPA).	2002	2031	29	£82m	Carillion
Haverstock School	Design and construction of a single new secondary school on an existing school site on Haverstock Hill, Camden.	2004	2030	26	£21m	Mitie
Health and Safety Laboratory	Construction of new workshops and offices in Buxton.	2002	2034	32	£60m	Interserve
Health and Safety Executive (HSE) Merseyside Headquarters	HSE Merseyside HQ is an accommodation PFI project. It is a four-storey office building that serves as the HSE's operational headquarters and houses 1,500 employees.	2005	2035	30	£62m	Honeywell
Helicopter Training Facility	Design, construction, management, operation and financing of simulators based training facility for Royal Airforce (RAF) helicopter pilots.	1997	2037	40 (with break clause by Grantor at year 20)	£100m	Serco
Highland Schools	Design, construction and operate eleven urban and rural schools.	2007	2037	30	£143m	Mears
Home Office Headquarters	Build, finance, operate and maintain a new headquarters building to replace the Home Office's existing London office accommodation with purpose-built serviced offices.	2002	2031	29	£200m	Bouygues Energies & Services
Irish Grouped Schools	Design, construct, finance, operate and maintain five secondary schools in the Republic of Ireland for the Department of Education and Skills.	2001	2026	25	€34m	Bilfinger Berger
Kent Schools PFI	Design, build, funding and partial operation of six schools in Kent.	2005	2035	30	£95m	Mitie
Kicking Horse Canyon Transit P3	Upgrade, operate and maintain a section of highway in British Columbia, Canada.	2005	2027	22	CAD$ 127m	HMC Services
Lewisham Hospital	Design, construct, finance, operate and maintain a new wing in Lewisham Hospital for the Department of Health.	2004	2036	32	£58m	Carillion

19. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
M80 DBFO	Design, build, finance and operate a section of the M80 motorway in Scotland.	2009	2039	30	£275m	Bear
Manchester School	Design, construct, finance, operate and maintain the Wright Robinson College in Manchester for Manchester City Council.	2005	2031	26	£29m	Hochtief
Medway LIFT	Deliver health and social care infrastructure to NHS property services and Community Health Partnerships within the Medway area of North Kent.	2005	2034	29	£19m	Rydon
Medway Police	Design, construct, finance, operate and maintain a divisional police headquarters for Police and Crime Commissioner for Kent.	2004	2034	30	£21m	Vinci
Metropolitan Police Specialist Training Centre	Construction of a firearms and public order training facility in Gravesend, Kent for the Mayor's Office for Policing and Crime.	2001	2026	25	£40m	Carillion
Miles Platting Social Housing	Redesign and refurbish approximately 1,500 occupied properties, as well as to build 20 new extra care homes and 11 new family homes in Miles Platting, Manchester.	2007	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.	2007	2032	25	£30m	Integral
Newport Schools	Design, construct, finance, operate and maintain a nursery, infant and junior school for Newport City Council.	2008	2033	25	£15m	Vinci
Newton Abbot Hospital	Design, construct, finance, operate and maintain a community hospital for Devon Primary Care Trust.	2007	2039	32	£20m	Rydon
North Tyneside Schools	Design, construct, finance, operate and maintain a four-school education PFI project consisting of one secondary school and three primary schools in North Tyneside.	2002	2033	31	£30m	Mitie
Northwest Anthony Henday Ring Road P3	Finance, build, maintain and rehabilitate the northwest leg of the Anthony Henday Drive ring road in the City of Edmonton, Alberta, Canada.	2008	2041	33	CAD$ 995m	Vinci
Northwood MoD HQ	Design, construct and commission new-built facilities on behalf of the Ministry of Defence in Northwood, Greater London.	2006	2031	25	£198m	Carillion
Norwich Area Schools PFI Project	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.	2006	2032	26	£44m	Kier
Nuffield Hospital	Design, construct, finance, operate and maintain a new orthopaedic hospital for the Secretary of State for Health.	2002	2036	34	£37m	G4S

19. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Oldham Library	Design, construct, finance, operate and maintain the Oldham Library and Lifelong Learning Centre for Oldham Metropolitan Borough Council.	2004	2029	25	£15m	Kier
Oldham Secondary Schools PFI Project	Design, construct, finance and operate two secondary schools for Oldham Metropolitan Borough Council.	2006	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.	2005	2038	33	£124m	Impregilo
Oxford John Radcliffe PFI Hospital	Design, construct, manage, finance, operate and maintain a new wing adjacent to the former Radcliffe Infirmary.	2003	2036	33	£161m	Carillion
Perth and Kinross Schools	Design, construct, financing and operation of four secondary schools and five primary schools for the Perth and Kinross Council.	2007	2041	34	£136m	Mitie
Pinderfields and Pontefract Hospitals	Design, construct, manage, finance and operate a new 708 bed acute hospital in Pinderfield, West Yorks and a new diagnostic and treatment hospital in Pontefract, West Yorks for the Mid Yorkshire NHS Trust.	2007	2042	35	£311m	Cofely
Queen Alexandra Hospital, Portsmouth	Design and construction of a new hospital and retained estates work in Portsmouth.	2005	2040	35	£255m	Carillion
Queen's (Romford) PFI Hospital	Design, construction, management, financing, operation and maintenance of a new hospital in Romford.	2004	2040	36	£211m	Sodexo
RD901 Road, France	Design, construction, finance and maintenance of a new 7km dual carriageway bypassing the small town of Troissereux, near Beauvais in France.	2014	2039	25	€84m	Bouygues
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.	2005	2030	25	£15m	Rydon
Renfrewshire Schools	Design, construction, management, financing, operation and maintenance of six primary and four secondary schools in Renfrewshire, Scotland.	2008	2038	30	£100m	Amey
Rhonnda Cynon Taf Schools	Design, construct, manage, finance and operate a primary school, secondary school, a day nursery and an adult learning centre in South Wales for Rhondda Cynon Taf Authority.	2004	2028	24	£22m	Vinci
Royal School of Military Engineering PPP Project	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.	2008	2038	30	£300m	Carillion

19. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS (continued)

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Salford Hospital	Design, construct and commission new-build facilities and associated site infrastructure for the Salford Royal NHS Foundation Trust.	2007	2042	35	£137m	Cofely
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.	2009	2034	25	£75m	Vinci
Sheffield Hospital	Design, construction, financing and management of a new 168 bed wing at the Sheffield Northern General Hospital for the Sheffield Teaching Hospitals NHS Foundation Trust.	2004	2036	32	£26m	Dalkia
Sheffield Schools	Design, construct, finance and operate two primary schools and two secondary schools for Sheffield City Council.	2004	2030	26	£52m	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.	2006	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.	2001	2026	25	£80m	Carillion
South West Hospital, Enniskillen	Design, construct, finance and maintain a new acute hospital and key worker accommodation at Enniskillen in Northern Ireland.	2012	2042	34	£227m	Interserve
Staffordshire LIFT	Develop, design, construct, invest in and maintain health and social care facilities.	2005	2030	25	£40m	Integral
Stoke Mandeville Hospital	Design, finance, construct, refurbish, operate and maintain a new hospital facility for the Buckingham Hospitals NHS Trust.	2004	2034	30	£40m	Sodexo
Sussex Custodial Services	Build and service custody centres in Sussex for the Police and Crime Commissioner for Sussex (formerly the Sussex Police Authority). The centres are at Worthing, Chichester, Brighton and Eastbourne.	2001	2031	30	£20m	Capita
Tameside General Hospital	Design, construct and commission new-build facilities and associated site infrastructure for the Tameside Hospital NHS Foundation Trust.	2007	2041	34	£78m	Cofely

19. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Tyne and Wear Fire Stations	Design, construct, manage, finance and operate seven fire station facilities and a headquarters building in Tyne and Wear for the Tyne and Wear Fire and Civil Defence Authority.	2006	2031	25	£23m	Carillion
University of Bourgogne, France	Design, construct, finance and maintain 3 new buildings on the Bourgogne university campus in France and the refurbishment of an existing one.	2013	2040	27	€20m	Bouygues
University of Sheffield Project	Construction and management of a new student village at the University of Sheffield.	2006	2046	40	£160m	Lend Lease
West Lothian Schools	Design, construct, finance and operate two new schools, Armadale Academy and the Deans Community High School for West Lothian Council.	2008	2039	31	£60m	Dawn Construction
West Middlesex Hospital	Design, construct, finance, operate and maintain a new 228 bed hospital for West Middlesex University Hospital NHS Trust.	2001	2036	35	£60m	Bouygues Energies & Services
Willesden Hospital	Design, construct, manage and finance a community hospital in north London for NHS Brent.	2002	2034	32	£19m	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.	2004	2029	25	£24m	Mitie

20. Consolidated Subsidiaries

Name	Country	Ownership interest
HICL Infrastructure 1 SARL	Luxembourg	100.0%
HICL Infrastructure 2 SARL	Luxembourg	100.0%
Infrastructure Investments Limited Partnership	United Kingdom	100.0%
Infrastructure Investments Holdings Limited	United Kingdom	100.0%

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) (see Note 2):

Name	Country	Ownership interest
2003 Schools Services Limited	United Kingdom	100.0%
Ashburton Services Limited	United Kingdom	100.0%
Annes Gate Property Plc*	United Kingdom	100.0%
Alpha Schools Highland Limited **	United Kingdom	100.0%
Axiom Education (Edinburgh) Limited*	United Kingdom	100.0%
Axiom Education (Perth & Kinross) Limited*	United Kingdom	100.0%
Boldon School Limited	United Kingdom	100.0%
ByCentral Limited*	United Kingdom	100.0%
ByWest Limited*	United Kingdom	100.0%
Consort Healthcare (Blackburn) Limited*	United Kingdom	100.0%
CVS Leasing Limited	United Kingdom	87.6%
Derby School Solutions Limited*	United Kingdom	100.0%
PFF (Dorset) 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%
Metier Healthcare Limited	United Kingdom	100.0%
Newport Schools Solutions Limited*	United Kingdom	100.0%
Newton Abbot Health Limited*	United Kingdom	100.0%
Ravensbourne Health Services Limited*	United Kingdom	100.0%
Services Support (Cleveland) Limited*	United Kingdom	72.9%
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%

** = Reporting date 31 December*
*** = Reporting date 31 January*

Directors and Advisers

Directors
Graham Picken (Chairman)
Sarah Evans
Susie Farnon
John Hallam
Chris Russell
Ian Russell, CBE

Registrar
Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St. Sampson
Guernsey GY2 4LH

Administrator to Company, Company Secretary and Registered Office
Dexion Capital (Guernsey) Limited
1, Le Truchot
St. Peter Port
Guernsey GY1 1WD
+44 1481 743 940

Investment Adviser and Operator
Infrared Capital Partners Limited
12 Charles II Street
London SW1Y 4QU
+44 20 7484 1800

Financial PR
Tulchan Communications LLP
85 Fleet Street
London EC4Y 1AE

UK Transfer Agent
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Helpline: 0871 664 0300

Auditor
KPMG Channel Islands Limited
20 New Street
St. Peter Port
Guernsey GY1 4AN

Broker
Canaccord Genuity Limited
9th Floor
88 Wood Street
London EC2V 7QR

3282. Designed and produced by studio401

HICL INFRASTRUCTURE

CORRESPONDENCE ADDRESS:

PO Box 676
1 Le Truchot
St Peter Port
GY1 3SZ
Guernsey

T +44 (0)1481 743 940
E info@hicl.com
W www.hicl.com

Registered Office: 1 Le Truchot St Peter Port Guernsey GY1 1WD.

This report has been produced using recycled paper.