

# INTERNATIONAL PUBLIC PARTNERSHIPS

Annual Report and Financial Statements  
for the year ended 31 December 2011



## CONTENTS

Business Review	Financial Statements
<b>01</b> 2011 Financial Highlights	<b>40</b> Directors' Responsibilities Statement
<b>02</b> Company Overview	<b>41</b> Independent Auditor's Report to the Members of International Public Partnerships Limited
<b>04</b> Portfolio Interests	<b>42</b> Consolidated Income Statement
<b>06</b> Letter from the Chairman	<b>43</b> Consolidated Statement of Comprehensive Income
<b>09</b> Case Study: The Royal Children's Hospital	<b>44</b> Consolidated Statement of Changes in Equity
<b>10</b> Investment Advisor's Report	<b>45</b> Consolidated Balance Sheet
<b>21</b> Case Study: Building Schools for the Future Investments	<b>47</b> Consolidated Cash Flow Statement
<b>22</b> Investment Policy	<b>48</b> Notes to the Consolidated Financial Statements
<b>25</b> Risks and Risk Management	<b>IBC</b> Advisors
<b>28</b> Board of Directors	
<b>30</b> Directors' Report	
<b>35</b> Corporate Governance Report	
<b>39</b> Audit Committee Report	

## CAUTIONARY STATEMENT

The pages 6 to 40 of this report (including the Letter from the Chairman and Investment Advisor's Report), the 'Review Section' have been prepared solely to provide additional information to shareholders to assist in a review of the Group's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Review Section may include statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Advisor concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies, may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Advisor expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

This Annual Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to International Public Partnerships Limited and its subsidiary undertakings when viewed as a whole.



Cover images: The Royal Children's Hospital, Melbourne, Australia. For further information see Case Study on page 9.

# 2011 FINANCIAL HIGHLIGHTS

- Net Asset Value ('NAV')<sup>1</sup> of £624.3 million as at 31 December 2011 (£541.9 million as at 31 December 2010)
- NAV per share of 116.9 pence as at 31 December 2011 (113.1 pence as at 31 December 2010)
- Full year target distribution for year ended 31 December 2012 of 6.0 pence per share<sup>2</sup> (up 2.6% from 2011)
- Second half 2011 distribution of 2.925 pence per share (payment date 15 June 2012)
- £122.0 million of new investment made during the year (2010: £4.2 million)
- IFRS accounting profit before tax of £13.2 million for the year ended 31 December 2011 (2010 restated: £16.5 million) and profit after tax of £16.1 million (2010 restated: £15.1 million)
- IFRS Net Assets of £635.6 million as at 31 December 2011 (2010 restated: £549.2 million) before fair value adjustments for interest rates swaps of negative £279.4 million (2010: £132.6 million)
- Capital raised through tap issues of £54.4 million in 2011
- Uncommitted cash of £25.1 million at 31 December 2011, plus undrawn debt facilities of £81.9 million available

## NAV Per Share

116.9<sub>p</sub>

## 2012 Full Year Target Distribution

6.0<sub>p</sub> per share

## New Investment During 2011

£122.0M

## Capital Raised Through Tap Issues in 2011

£54.4M

<sup>1</sup> Net Asset Value ('NAV') as shown above is fair market valuation of the Group's economic interests, calculated utilising discounted cash flow methodology<sup>a</sup>, adjusted for IPEV (International Private Equity and Venture Capital Association) guidelines, a methodology considered appropriate, given the special nature of infrastructure investments. Estimated future cash flows accruing to each economic interest<sup>b</sup> have been discounted using discount rates that reflect the risks associated with that interest. The NAV referred to above and on other pages differs from the basis of recording net assets utilising International Financial Reporting Standards ('IFRS') as set out in the balance sheet included in the Financial Statements. The key differences are that the IFRS balance sheet includes assets and liabilities on a consolidated basis. Further, the IFRS net assets have been impacted, amongst other things, by changes in the fair value of financial hedging instruments that are entered into by the Group to minimise risk associated with changes in interest rates.

<sup>a</sup> The NAV also includes:

- The Strathclyde and Hereford and Worcester senior debt interests which have been valued at the loan principal outstanding at 31 December, plus the costs associated with terminating the underlying fixed interest rate arrangements at 9 November 2006.
- Cash, cash equivalents and assets and liabilities attributable to the Company and intermediate holding companies at 31 December.

<sup>b</sup> The Group's economic interests at 31 December are set out in the Portfolio Interests section of this Annual Report and Financial Statements.

<sup>2</sup> Expected to be paid in two instalments in October 2012 and May 2013.

# COMPANY OVERVIEW

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International Public Partnerships Limited (LSE: INPP, 'the Group', 'the Company', 'INPP') is a FTSE 250 company that invests in public and social infrastructure projects.

The portfolio consists of 117 individual investments arising from 69 separate projects in the UK, Australia, Canada, Germany, France, Belgium, Italy and Ireland. Examples include schools, hospitals, courthouses, police stations, transport infrastructure, rolling stock and energy transmission projects.

The Company seeks to provide its shareholders with both a long-term yield and the opportunity for capital growth through investment across both construction and operational phases of infrastructure projects. The Company aims to provide a medium-term return to investors of 8% to 9% on the initial public offer issue price in November 2006 of 100 pence per share.

The Company listed on the London Stock Exchange in November 2006 with a market capitalisation of approximately £300 million. In April 2008, the Company raised a further £84 million via a C-share capital listing and in January 2010 the Company completed a further capital raising of £89 million by way of a placement, open offer and offer for subscription. In January 2011, the Company completed a tap issuance raising £2 million and in September 2011 the Company completed a further tap issuance raising £52 million and this capital was used partially to repay the corporate debt facility, which had been drawn during the period to fund acquisitions and partially to fund new investments.

International Public Partnerships is advised by Amber Fund Management Limited, a specialist infrastructure advisor and manager with over 60 staff dedicated to advising, managing, investing in and developing infrastructure projects and investments.

## Overview

<b>Market Capitalisation</b> <p>£645.9 million at 31 December 2011 (£558.1 million at 31 December 2010)</p>	<b>ISA/PEPs/SIPPs Status</b> <p>The Company's shares are eligible for ISA/PEPs and SIPPs transfers.</p>	<b>Investment Advisor</b> <p>Amber Fund Management Limited ('AFML') is a wholly-owned subsidiary of Amber Infrastructure Group Limited. AFML is active internationally in developing, managing and originating infrastructure investment opportunities and AFML is authorised and regulated by the Financial Services Authority.</p>
<b>Shares in Issue</b> <p>534.2 million at 31 December 2011 (479.0 million at 31 December 2010)</p>	<b>Website</b> <p><a href="http://www.internationalpublicpartnerships.com">www.internationalpublicpartnerships.com</a></p>	<p>Amber Fund Management Limited 1st Floor Two London Bridge London SE1 9RA</p>
<b>Index Inclusion</b> <p>FTSE All-Share, FTSE 250</p>	<b>Objective</b> <p>The investment objective of the Company is to provide shareholders with long-term distributions at levels that are sustainable arising from public infrastructure investments. The Directors also believe that continued capital growth can be achieved from further investment in public infrastructure assets.</p>	<b>Capital Structure</b> <p>The Company has a capital structure comprising Ordinary Shares only, although the Company's Articles of Association include provision for the creation of an additional class of shares.</p>

# PORTFOLIO INTERESTS

The Company held economic interests<sup>1</sup> in 117 individual investments arising from 69 separate projects at 31 December 2011 as set out below. More information on all the Company's assets can be found on the website [www.internationalpublicpartnerships.com](http://www.internationalpublicpartnerships.com)

<b>Transport</b> Angel Trains UK <sup>2</sup> BENeX <sup>2</sup> Diabolo <sup>2</sup> <b>Gold Coast Rapid Transit</b> Reliance Rail	<b>Custodial</b> <b>Long Bay Forensic and Prison Hospitals Project</b>	<b>Health</b> Alexandra Avenue Primary Care Centre Barkantine Health Centre Barking Road Health Centre <b>Blackbird Leys Health Centre</b> Beckenham Hospital Brescia Hospital <b>Brierley Hill</b> Church Road Health Centre <b>East Oxford Care Centre</b> <b>Fishponds Primary Care Centre</b> Frail Elders Hospital Garland Road Health Centre Gem Centre Bentley Bridge <b>Goscote Palliative Care Centre</b> <b>Hampton House Health Centre</b> Hackney Children's Development Centre <b>Harrow Neighbourhood Resource Centres<sup>3</sup></b> Lakeside Medicaste Amiens Hospital Project Mile End Specialist Addition Unit Monks Park Health Centre Mt Vernon Newby Place Nightingale Lane Orange Hospital <sup>2</sup> Phoenix Centre <b>Ridge Hill Learning Disabilities Centre</b> Royal Children's Hospital <sup>2</sup> <b>Shirehampton Primary Care Centre</b> <b>Stourbridge Health and Social Care Centre</b> South East Resource Centre <b>South Bristol Community Hospital</b> Sudbury Health Centre <b>Whitchurch Primary Care Centre</b> Vicarage Lane Health Centre
<b>Police Authority</b> Abingdon Police Norfolk Police Headquarters North Wales Police Headquarters Strathclyde Police Training Centre <sup>2</sup>	<b>Other</b> Bootle Government Offices <b>Liverpool Central Library</b> <b>Royal Melbourne Showgrounds Redevelopment</b>	
<b>Education</b> Alberta Schools <sup>2</sup> Calderdale Schools <b>Building Schools for the Future – 49 investments</b> Derbyshire Schools Phase 1 Derbyshire Schools Phase 2 Maesteg Schools Moray Schools New South Wales Schools Northamptonshire Schools <sup>2</sup> Pforzheim Schools St Thomas More School Tower Hamlets Schools <sup>2</sup>	<b>Energy</b> <b>Robin Rigg Offshore Transmission</b> <b>Gunfleet Sands Offshore Transmission</b> <b>Barrow Offshore Transmission</b>	
	<b>Courts</b> Derbyshire Magistrates Courts Dublin Criminal Courts Project Durham (Canada) Courthouse Project Hereford & Worcester Magistrates Courts <sup>2</sup>	

■ Acquired during 12 months to 31 December 2011.

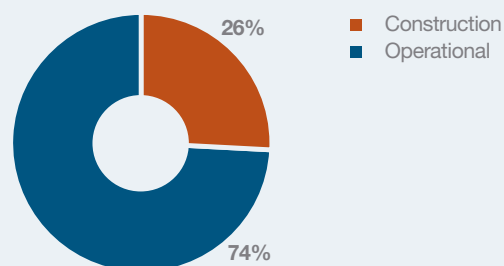
■ Additional stake acquired during 12 months to 31 December 2011.

<sup>1</sup> Economic interests reflect an investment in the capital, subordinated or senior debt of the underlying projects as represented in the Financial Statements.

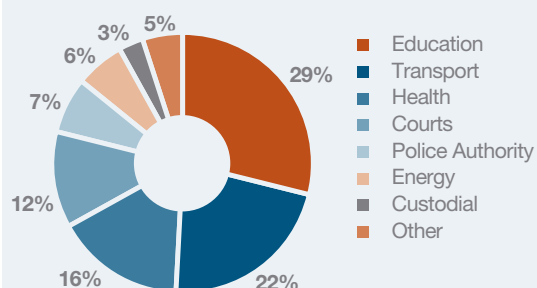
<sup>2</sup> Denotes Top 10 asset by value.

<sup>3</sup> Comprises three projects.

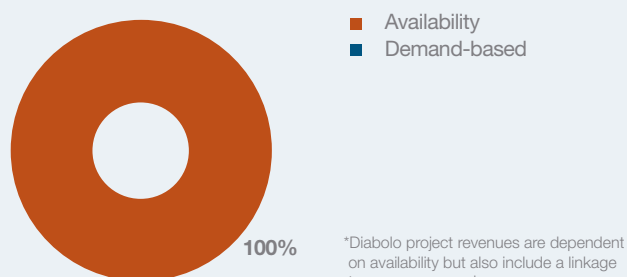
## 2011 Asset Status



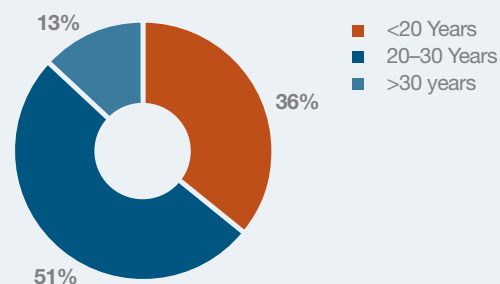
## 2011 Sector Breakdown



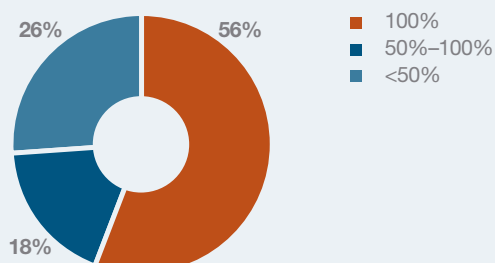
## 2011 Payment Type



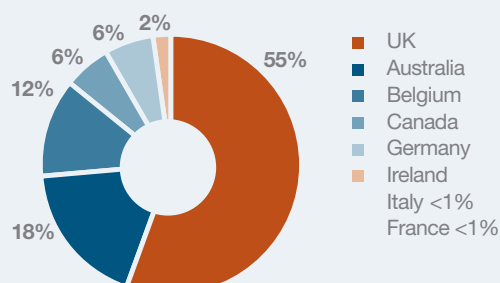
## 2011 Concession Length



## 2011 Project Stake



## 2011 Geographic Split



The pie charts above show a breakdown of the Group's portfolio at 31 December 2011. This breakdown is based on the fair market valuation of the Group's investments calculated utilising discounted cash flow methodology, as referred to on page 1. The discount rate used reflects the risks associated with the individual projects.

# LETTER FROM THE CHAIRMAN



**The UK and other major international governments are supporting and offering an increasing range of new infrastructure investments.**

## Dear Shareholders,

I am delighted to write to you after another very successful year for the Company and in circumstances where we see an ongoing pipeline of highly attractive prospects for the Company in 2012 and beyond.

In 2011 the Company provided returns to investors of 9.2%.<sup>1</sup> For an investor who has held shares in the Company since Initial Public Offering ('IPO') in 2006, the total return to 31 December 2011 was 53.7%. This compares with a return on the FTSE All Share index of -3.2% for 2011 and only 7.8% over the period to 31 December 2011 since the Company's listing.<sup>2</sup>

I am pleased to be able to report the following major highlights for 2011:

- the new Royal Children's Hospital in Melbourne Australia, one of the Company's largest assets during construction, was opened by HRH Queen Elizabeth II;
- construction work at another significant investment – Orange Hospital – was concluded;
- £122.0 million of capital was invested into new infrastructure assets;
- the Company became a major investor in the UK offshore transmission sector;
- a significant investment was made through the acquisition of Building Schools for the Future Investments from HM Government;
- to facilitate further investments over £54 million of new capital was raised from shareholders and the Company's debt facility was renewed;

- the Company's dividend increased in line with the target set by the Board in 2006 for the fifth successive year; and
- an increase in Net Asset Value ('NAV') of 15.2% over the figure as at 31 December 2010.

Looking forward to 2012 and beyond we see a significant number of positive factors. The UK and other major international governments are supporting and offering an increasing range of new infrastructure investments. Within our portfolio we see a number of value adding and synergistic opportunities, in particular the Building Schools for the Future Investment has given rise to a series of positive management and expansion opportunities within the portfolio which I believe will offer additional investment opportunities during 2012.

The Company is currently an investor in the UK offshore transmission sector and this position is likely to be consolidated if the fourth such investment (for which the Company is currently preferred bidder) is concluded.

Overseas, we see continued opportunities specifically in Germany and Australia and we are actively supportive of our Investment Advisor's policy to research opportunities in other major economies.

As a consequence of our past success and the opportunities that we have identified in the marketplace, we indicated at the year end that we will consider carefully whether it is in the best interests of shareholders

and the Company to raise more equity capital to enable further expansion of the Company's portfolio. We are actively considering this in light of certain identified near-term investment opportunities and expect to make a decision on this shortly.

## Financial results

As more specifically set out within the Accounting Policies section of the Directors' statement, as part of our continual review of accounting policies in light of changes to International Financial Reporting Standards ('IFRS') and to ensure ongoing relevance, transparency and comparability with general market accepted convention, we have, in consultation with our new auditors, Ernst & Young, reassessed our accounting treatments. As described in the Directors' Report, we have made two changes which are non-cash items. The changes do not impact the cash flow statement or the investment performance of the Group's investments on a NAV basis.

On a consolidated IFRS basis the profit before tax was £13.2 million (2010 restated: £16.5 million) and profit after tax was £16.1 million (2010 restated: £15.1 million). On a cash basis,<sup>3</sup> cash received from its portfolio of investments produced a cash flow to the Company of £44.0 million before distributions. On a net basis this produced an operating cash surplus of £30.5 million equivalent to a coverage over the distribution payable for 2011 of 1.5 times.

<sup>1</sup> From 1 January to 31 December 2011 share price appreciation plus income – Bloomberg.

<sup>2</sup> Share price performance plus income – Bloomberg.

<sup>3</sup> See the Investment Advisor's report for additional information on this calculation.

## Aggregate portfolio performance was ahead of projections as a result of the successful management of opportunities to maximise income and specific initiatives to reduce costs.

### Investment performance

The Company's portfolio of infrastructure investments continued to perform well in 2011. Aggregate portfolio performance was ahead of projections as a result of the successful management of opportunities to maximise income and specific initiatives to reduce costs. As indicated above, the Company's distributions were well covered and, from a valuation perspective, value was enhanced by the Company's acquisitions in the period, effective asset management (particularly in terms of reaching construction milestones) and was further boosted by reductions in government bond rates. Further information on the performance of the Company's assets is set out in the Investment Advisor's Report.

Over the period, the NAV expressed on a per share basis increased from 113.1 pence per share as at 31 December 2010, to 116.9 pence per share as at 31 December 2011.

We remain optimistic for further increases in NAV in future periods – most particularly as those projects currently in construction within the Company's portfolio move into the operational phase. The ability to provide such organic growth in NAV as particular potential risks in assets reduce is an important and differentiating characteristic of the Company. It also provides a potential future mitigant to any adverse movements in NAV that might arise from changes in macro economic factors. The Company aims to ensure that whilst it owns assets that are in construction it is insulated from the attendant construction risk by ensuring appropriate contractual and insurance cover.

### Distributions

I am pleased to be able to confirm that the Company has delivered, for the past five successive years an increasing dividend in line with the target established at the time of the IPO and the Board does not see any reason to change this policy. We have also confirmed that the Company will pay a distribution for the second half of 2011 of 2.925 pence per share (total distribution for 2011: 5.85 pence per share) to be payable in June 2012. For 2012, the Board has confirmed that it will target a total distribution of 6.0 pence per share. The first payment of 3.0 pence per share in respect of this target is expected to be paid in October 2012. The second payment is expected to be made in May 2013.

A scrip dividend option exists in respect of the Company's distributions subject to the Directors being satisfied that this is in the best interests of the Company at the relevant time. Applications for participation in the scrip distribution option will be sent to investors in May 2012.

### Gearing

The Company has continued its policy not to hold long-term debt at the Group level. The Company's investments are generally held in special purpose asset owning entities that are financed by a mix of long-term matched debt and risk capital. This asset level debt is non-recourse to the Company and in almost every case is long-term amortising debt upon which a fixed rate of interest is payable over the period of the underlying contract.

## LETTER FROM THE CHAIRMAN CONTINUED

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**We continue to be confident of the flow of new infrastructure opportunities in our core geographic markets.**

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The Group level revolving debt facility is used to acquire new investment opportunities in order to avoid, as far as possible, cash drag and allows the Company to move quickly to acquire attractive investment opportunities as they arise. When drawn, we expect that this facility will be repaid through new capital raisings giving our existing and new investors the ability to increase or commence their commitment in a stable and income-focused long-term Investment strategy.

### The infrastructure market in 2011/12

The infrastructure market continues to grow and to receive increased positive investor focus. The Board sees this as an encouraging trend in this market, which is currently supported both by relatively high levels of investor interest and a strong supply of investment opportunities.

Infrastructure as an investment asset class has continued to receive much attention over the year, particularly in the UK. Overall, there continues to be strong high level support for private sector involvement in the provision of public infrastructure from both the UK Government and other major jurisdictions. The National Infrastructure Plan, published in November 2011, in its executive summary stated:

*'the Government will use all the tools at its disposal to facilitate the private investment that will finance the majority of the UK's infrastructure'*

This is also reflected in other major jurisdictions in which the Company operates such as Australia and within Europe, which also continue to recognise the importance of private sector investment in infrastructure.

In Australia, the Department of Infrastructure and Transport issued a number of 'Principles'<sup>4</sup> in 2011 including that:

*'The Commonwealth will encourage greater private sector involvement in infrastructure including by: ensuring that all proposed projects are fully tested for the scope for private funding; and reducing barriers to entry for domestic and international market entrants in the construction and operation sectors'.*

For these, among other reasons, we continue to be confident of the flow of new infrastructure opportunities in our core geographic markets. We also anticipate within our target markets a steady flow of opportunities to acquire investments in existing infrastructure projects.

### Investment strategy

The Company continues to pursue its strategy of focusing on investment in infrastructure assets offering a low level of credit and other risks that provide secure yield and potential capital growth, particularly from assets which are in construction and yet to reach their operational stage. Further information on the Company's investment strategy and policies can be found in the Investment Policy section of this report.


### Outlook

Overall, the Board is looking forward to the remainder of 2012 with confidence based on the continuing good performance of its existing assets, the progress being made on delivering projects under construction on time and to budget and the attractive pipeline of new infrastructure opportunities under review by it and its Investment

Advisor both in the UK and overseas. The recent commitments to infrastructure procurement made by the UK Government and governments in other jurisdictions in which we invest support this strategy. Additionally, we are encouraged by continued investor demand for the infrastructure sector.

The Board continues to review the capital position of the Company against its likely investment opportunities and believes that it is likely to be beneficial to seek additional capital from both shareholders and new investors in 2012. Further announcements will be made at the appropriate time once details are confirmed.

In the meantime, I and my fellow Directors would like to thank you for your support and confirm our commitment to the Company. We reiterate our willingness to be available to meet with investors as required and to maintain a high level of constructive dialogue with our shareholders.



**Keith Dorian**  
18 April 2012  
Chairman

<sup>4</sup> The Commonwealth's Infrastructure Investment Framework, Australian Government, Department of Infrastructure and Transport.

# THE ROYAL CHILDREN'S HOSPITAL

## CASE STUDY



### About the project

The Royal Children's Hospital ('RCH') in Parkville, Australia was officially opened on 26 October 2011 by Her Majesty The Queen. This project is one of the Group's largest and represents 7.7% of the portfolio by value. The scope of the c. A\$1.1 billion project includes:

- the construction of a new children's hospital on the site adjacent to the existing hospital;
- the refurbishment of selected existing hospital buildings;
- the erection of temporary accommodation structures; and
- transitional services and upon completion, demolition of the old hospital buildings.

The design of this project specifically takes into account the needs of the children who utilise the hospital's services. For example, patient bedrooms include three separate zones (clinical, patient and family) that are designed to respond to the emotional needs of children, with more than 85% of the rooms designed for single occupancy. A central 'street' allows easy way-finding and creates a heart for the hospital.

Features considered in the design include solar panels, site orientation, volatile organic compound free materials, collection and re-use of rainwater, water efficient appliances and landscaping, black water treatment plant, efficient lighting, 500 bike parking spaces, materials with high recycled content, bio mass fuel boiler, and 5 star Green Star status.

All revenues on the project are availability based and the public sector client is The Government of the State of Victoria.

### International Public Partnerships' role

International Public Partnerships will play a leading role in the 25 year operating phase of the hospital. It will oversee a variety of different services including building management, the provision of utilities and medical gases management services, waste services, security and grounds and gardens maintenance.

While a significant portion of the project is now operational, the second phase of the project is due to complete in 2014.



### Main street

A central 'street' allows easy way-finding and creates a heart for the hospital.



### Her Majesty The Queen

Unveils a plaque commemorating the official opening of the new Royal Children's Hospital, Melbourne on 26 October 2011.



### CT scanner

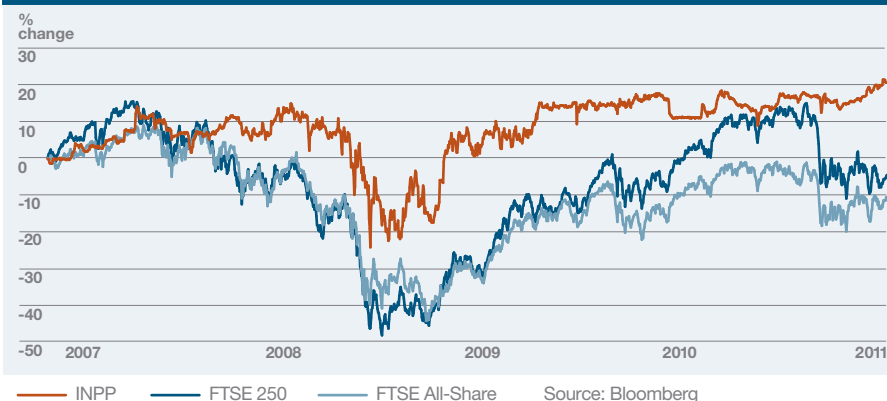
CT scanning equipment in a child friendly environment.

Photo credit: Robert Reitmaier,  
The Royal Children's Hospital, Melbourne.

# INVESTMENT ADVISOR'S REPORT

We believe that the Company continues to provide an attractive level of return to investors both on an absolute basis and on a risk adjusted basis.

INPP Share Price Performance vs FTSE



## About the investment advisor

Amber Fund Management Limited ('AFML') is a wholly-owned subsidiary of Amber Infrastructure Group Limited ('Amber'). AFML is authorised and regulated in the UK by the Financial Services Authority.

Amber is a specialist developer, manager and originator with respect to infrastructure assets in Europe, Australia and North America. At 31 December 2011, Amber had over 60 staff based in the UK (London), Germany (Munich), Australia (Melbourne and Sydney) and the United States (San Francisco).

## Introduction

International Public Partnerships Limited performed well in 2011. The portfolio delivered returns as anticipated and the Company's distribution increased in line with target for the fifth year.

In addition, the Company invested £122.0 million into new assets and secured a leading position in a new sector of electricity transmission. The year was characterised by:

- an increased focus on value for money for the public purse from infrastructure investment;
- a steady supply of new investment opportunities more than making up for any reductions attributable to UK Government spending cuts;
- continued supply of attractive portfolios of assets from construction companies and other vendors with a short-term investment horizon;
- strong support in the UK and other key markets such as Australia for greater private sector investment in infrastructure assets; and
- the establishment of a good pipeline of opportunities likely to come to fruition in 2012.

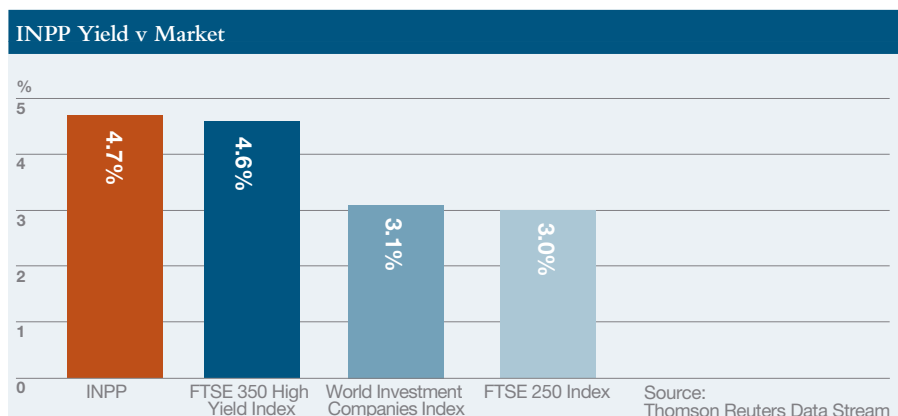
The continued volatile economic and market conditions that affected the wider equity markets also served to illustrate how infrastructure assets can offer stable returns for investors even through such volatile conditions. Over the year, we have seen increasing numbers of investors become interested in infrastructure investment. We are confident that there will be exciting opportunities for the Company in 2012 and that the Company will continue to deliver shareholders sustainable growing income coupled with some organic capital growth.

## Investment performance

The Company aims to provide attractive risk adjusted levels of income to its investors coupled with capital appreciation. Based on the Company's Net Asset Value<sup>5</sup> ('NAV') at 31 December 2011 and the total dividend of 5.85 pence per share paid in the year, the Company provided a distribution of approximately 5.0% to investors in 2011 (based on the NAV per share on 31 December 2011). The total return achieved by an investor (share price appreciation plus distribution) between 1 January 2011 and 31 December 2011 was 9.2%. The Company's policy remains to target annual growth in its distribution in future years in the 2.5% to 3% range, which is broadly consistent with long-term policy targets for inflation in the countries where the Company operates.

We believe that the Company continues to provide an attractive level of return to investors both on an absolute basis and on a risk adjusted basis. The chart on the next page shows a comparison between the Company's yield in 2011 and the distribution of certain other assets classes.<sup>6</sup>

<sup>5</sup> The methodology for calculating NAV is referred to below.  
<sup>6</sup> Bloomberg.



The Company aims to provide consistent low volatility returns to investors that display only limited correlation to more general equity markets. Generally, the returns from infrastructure assets such as those invested in by the Company are not significantly linked to macro economic trends such as Gross Domestic Product ('GDP') change.

As such, the expectation is that the share price performance of the Company should exhibit low volatility coupled with relatively low levels of correlation with wider market indices such as the FTSE 250 or FTSE All-Share indices.

Looking forward, the Company has targeted a further increase in the projected distribution in 2012 and 2013. The focus of the Company and the Investment Advisor will continue to be on:

- protecting and enhancing cash flow from the Company's existing portfolio of assets;
- delivering, where possible, further capital appreciation in the Company's portfolio;
- researching and acquiring additional infrastructure asset investments which are complementary to the existing portfolio and offer further enhancements to shareholder value; and
- maintaining and enhancing our relationships with the public sector bodies who benefit from the infrastructure assets invested in by the Company.

#### Portfolio performance

The Company's portfolio of assets performed in line with projections during the 12 months to 31 December 2011.

At 31 December 2011, 26% of the portfolio was under construction. This has reduced from 28% at 31 December 2010, following the commissioning of services at Orange Hospital in Australia and the South East Resource Centre in the UK, together with the acquisition of operational assets including LIFT projects and three offshore transmission assets. This was partially offset by new projects requiring construction including Liverpool Library, Gold Coast Rapid Transit and a portion of the Building Schools for the Future portfolio, which are still under construction.

As at the date of signing of these Financial Statements, each of the projects under construction in the table below is either on schedule or ahead of time (with the exception of the Reliance Rail project in Australia).

#### Assets under construction

Asset	Location	Expected Completion Date	Status	% of INPP NAV
Diabolo Rail	Belgium	June 2012	Construction virtually completed. On schedule to become fully operational.	12.3%
Newby Place	UK	May 2012	On schedule	0.1%
Liverpool Library	UK	November 2012	On schedule	1.0%
Reliance Rail	Australia	September 2013	Behind schedule	nil
Building Schools for the Future portfolio	UK	Various. Latest February 2014	On schedule	1.5%
Gold Coast Rapid Transit	Australia	May 2014	On schedule	1.7%
Royal Children's Hospital	Australia	Phase 1 – September 2011 Stage 2 – December 2014	Phase 1 – Completed Phase 2 – On schedule	7.7%

Note: The table excludes South Bristol Community Hospital LIFT (UK) and Moray Schools which reached completion before the signing date of these Financial Statements.

## INVESTMENT ADVISOR'S REPORT CONTINUED

There were a number of significant construction milestones within the portfolio during the year:

- Construction works were completed on two of the Company's largest projects:
  - the commissioning of Orange Hospital in Australia, which since March 2011 has been providing clinical services to patients in the surrounding area; and
  - Phase 1 of the Royal Children's Hospital in Melbourne, where clinical services have been provided since December 2011.
- Construction works were also completed at Pforzheim School (Germany), South East Resource Centre and Goscote Palliative Care Centre (both UK). Subsequent to the end of the 31 December 2011 financial year South Bristol Community Hospital LIFT (UK) also completed on schedule.
- Diabolo Rail remains on programme for operational commencement in early June 2012.
- Construction continued on the £35 million Moray Schools scheme to replace the existing facilities at Keith Primary and Elgin Academy which was completed after the year end.
- Construction commenced on the Liverpool Library project and the Gold Coast Light Rail project in Australia.

The largest investment currently in the construction phase is the Diabolo project. It is pleasing to note that the major construction elements have been finished on time and that the asset remains on target for full operations in 2012, as expected.

The second largest asset in construction is the Royal Children's Hospital in Melbourne, Australia. Construction on Phase 1 of the Royal Children's Hospital was completed on time in September. This culminated in the official opening of the A\$1 billion facility by Her Majesty The Queen on 26 October 2011 and the start of operations occurring in December as scheduled. Phase 2 is due to be completed in 2014. The Hospital has recently received a number of awards including:

- Infrastructure Project of the Year by Infrastructure Partnerships' Australia; and
- the Grand Prix at the 2012 Dulux Colours Awards, for its outstanding design.

The other projects in construction are smaller and are on time with the exception of the Moray Schools project where minor delays occurred and Reliance Rail. Construction of Moray Schools reached completion at the end of March 2012 without any financial impact on the Company, as the consequences of the delay are to be borne by the building contractor.

At Reliance Rail the financial consequences of the delays are also being borne by the building contractors but the project has required financial restructuring. This has resulted from a combination of factors including the global financial crisis and the collapse of the monoline insurers who provided credit support for the project and changes in the attitudes of the project lenders. As a result of the restructuring the Company's equity investment in the project has been written off however on the basis that certain pre-agreed operational and financial metrics are achieved, there is a mechanism for equity to receive some sharing of the project's future value.

The project was already held at a low valuation within the Company's portfolio. As at 31 December 2010 it formed 0.2% of the portfolio and the decision has recently been taken to reduce its current carrying value (as at 31 December 2011) to nil. To the extent that the metrics referred to above are achieved this valuation may be reconsidered in future periods.

The Company, through the Investment Advisor and the arrangements in place to provide asset level management services, continues to apply considerable resource to managing relationships with its public sector counterparties – particularly those who occupy facilities such as schools and health sector buildings. We believe that the relationships thus created both protect investor returns and help uncover new opportunities. They also allow an open discussion on alterations to project facilities that provide good value for money for the public sector. During the period the significant requests for changes from public sector clients included:

- the finalisation of a variation with the London Borough of Tower Hamlets which saw over £60 million of additional public sector capital being invested in

four schools forming part of the Company's portfolio;

- the delivery of a new catering service at the Northamptonshire Group Schools project;
- the conclusion of a new custody suite development at Abingdon police station; and
- a large number of more minor changes and amendments across the remainder of the portfolio.

High levels of operational performance were achieved by the Company's projects as evidenced by:

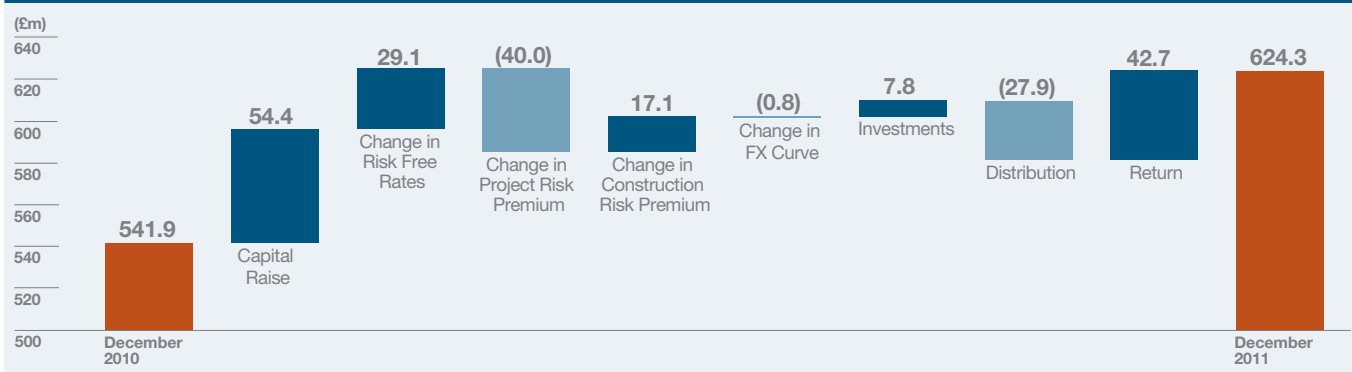
- annual availability and performance deductions across the portfolio were, in net terms, negligible;
- good ongoing relationships with the Company's public sector customers; and
- the finalisation and ongoing progression of various insurance and Facilities Management benchmarking exercises.

### Acquisitions

2011 was the busiest year for acquisitions for the Company since its inception. During the year the Company invested in £122.0 million in additional investments. The main investments were:

- a 26.6% interest in Gold Coast Rapid Transit, a A\$1.1 billion light rail project linking University Hospital and Broadbeach in Queensland, Australia;
- an 80.1% interest in Liverpool Central Library, one of the flagship legacy projects for the Liverpool City Council in 2008 as part of the Liverpool European Capital of Culture programme;
- interests in eight UK LIFT projects: three new projects including South Bristol Community Hospital, Goscote Palliative Care Centre, and Harrow Neighbourhood Resource Centres; as well as additional interests in five existing NHS LIFT projects;
- an additional 50% investment in both Long Bay Forensic and Prison Hospital and the Royal Melbourne Showgrounds in Australia, taking both holdings to 100%;
- 100% investments in the Robin Rigg, Gunfleet Sands, and Barrow offshore transmission projects. The Company is scheduled to reach financial close in one remaining scheme in respect of which it is preferred bidder in 2012. The consortium of which the Company is a member is also shortlisted for another three such

## Valuation Change



projects which are due to be awarded in 2012/2013; and

- the Company purchased the UK Government's interest in the Building Schools for the Future ('BSF') programme, bringing stakes of between 10% to 20% in 49 local partnerships involving over 100 schools. An additional £1.0 million was also invested into add-on investments arising through the BSF programme in the last quarter of 2011.

All these investments are so far performing in line with or ahead of expectations. The Company's policy with investments is to, whenever possible, acquire a majority or 100% holding in assets. However, where assets are large, the Company may take smaller investments. Generally, where smaller stakes are held, they will be held on the basis that the Company expects to have the opportunity to increase its stake over time. The Long Bay and Showgrounds assets referred to above are good examples of this approach.

A key part of the Company's approach to investments is its ability to source investments both from the marketplace where third parties periodically offer for sale portfolios of such assets and to source assets from the development pipeline of the Investment Advisor. The Investment Advisor is relatively unusual in also being a developer of new projects in respect of which the Company has certain rights to acquire.

This 'twin track' approach to acquiring new investment opportunities allows the Company to access and consider opportunities on an exclusive basis that it would otherwise not access.

The prospects for further acquisitions in 2012 are reviewed in the Outlook section below.

### Net Asset Valuation and future cash flows

The Directors of the Company assess the NAV of an Ordinary Share with the assistance of AFML. The Company produces fair market valuations of the Group's investments on a six-monthly basis as at 30 June and 31 December. The valuation methodologies used are primarily based on discounting the Company's future projected net cash flows at appropriate discount rates. Valuations so obtained are however also reviewed against values obtained for similar assets in comparable market transactions seen by the Company over the year and adjusted accordingly.

Key inputs and assumptions utilised in projecting the Company's net future cash flows include:

- inflation (where the Company assumes long-term inflation will run at 2.5% per annum);
- cash deposit rates (where the Company assumes a long-term average deposit rate of 3.5%);
- that current tax rates remain applicable;
- that the contracts under which payments are made to the Company and its subsidiaries remain on track and are not terminated before their contractual expiry date;

- that any deductions suffered under such contracts are fully passed down to sub-contractors;
- that cash flows from and to the Company's subsidiaries and the infrastructure asset owning entities in which it has invested may be made and are received at the times anticipated;
- that where assets are in construction they are either completed on time or any costs of delay are borne by the contractors not the Company;
- that where the operating costs of the Company or the infrastructure asset owning entities in which it has invested are fixed by contract such contracts are performed, and where such costs are not fixed, that they remain within projected budgets;
- that where the Company or the infrastructure asset owning entities in which it has invested owns the residual property value in the asset that the projected amount for this value is realised; and
- that where assets in which the Company invests are not Sterling assets that foreign exchange rates remain consistent with current three-year projections.

To calculate the NAV the Company, advised by the Investment Advisor, discounts the projected net future cash flows for each investment using a discount rate which reflects the aggregate of:

- rates on government bonds with an average life equivalent to the asset issued by the national government for the location of the asset ('risk free rates');
- a premium to reflect the inherent greater risk in investing in infrastructure assets over government bonds;

# INVESTMENT ADVISOR'S REPORT CONTINUED

3. a further premium to reflect the state of maturity of the asset with a larger premium applied to immature assets and/or assets in construction and/or to reflect any current asset specific or operational issues relating to assets. Typically this risk premium will reduce over the life of any asset as an asset matures, its operating performance becomes more established, and the risks associated with its future cash flows decrease;
4. an additional premium applicable to assets over a certain size;
5. an additional premium applicable to assets denominated in currencies other than Sterling; and
6. a further adjustment reflective of market based transaction valuation evidence for similar assets.

The Company builds up its NAV by applying the principles above to each of its investments and aggregating the results. On this basis the Directors' appraisal of the Company's NAV as at 31 December 2011 increased by 3.8 pence per share (113.1 pence per share as at 31 December 2010) to 116.9 pence per share (as set out in the table below). As at 31 December 2011, the Company's portfolio was valued at £624.3 million at (2010: £541.9 million).

The main drivers of this change included:

- a reduction in risk premiums affecting certain assets as a consequence of their moving from the construction to operational phase;

- cash flows being greater than projected due in part to higher than projected inflation;
- valuation benefits arising from acquisitions made during the period;
- a continued reduction in government bond rates in some jurisdictions;
- beneficial movements in foreign exchange rates; and
- offsetting in part these positive contributions was an adjustment designed to reflect the prices at which similar investments were observed to be trading at in the market.

It is important to appreciate that while assets of the sort the Company invests in are regularly the subject of open market transactions the volume and frequency of such transactions varies and there is no immediate liquid market to allow for such assets to be valued on a mark-to-market basis. As such, and in common with similar investors in the sector, the Company's assessment of NAV has to be based on its judgement at the time of making such assessment.

On a weighted average basis, taking into account the changes referred to above, the weighted average discount rate applicable across the portfolio decreased by 0.13% reflecting a 0.65% reduction in the weighted average risk-free rate, which reduced sharply as a result of turmoil in financial markets;

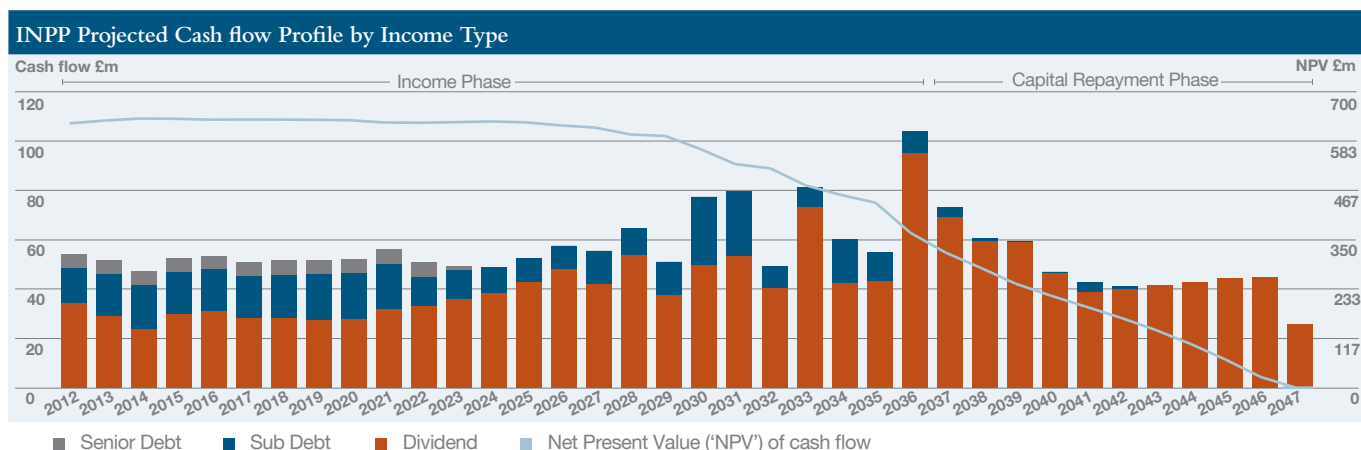
this was partially offset by an increase in weighted average project premium of 0.53%. The increase in the project premium largely reflected an adjustment to take into account transactions that have been observed in the market (discussed above) offset by a reduction in the risk premia associated with construction assets as larger assets near or reach construction completion. The discount rates used for valuing each of the underlying assets in the Company's portfolio ranged from 6.50% to 11.25%.

To assist investors evaluate the longer-term return profile of the fund, a graph charting the future projected cash flows is provided below. The chart demonstrates how, all other things being equal, the portfolio valuation is currently expected to evolve over a 35 year period to 2047. The Company's portfolio is made up of fixed-term concessions whose valuation reduces as that concession draws to a close. The majority of the payments to investors over the life of the concession are investment income from the operational assets. However, as the life of the concession draws to a close, payments to investors take the form of a return of capital. The current portfolio is expected to make its final capital repayment in 2047. Any future acquisitions (or disposal) or changes to the projected cash flows of any investment will change this projected profile from time to time.

Valuation methodology	31 December 2011	31 December 2010	Movement (Dec – Dec)
NAV per share	<b>116.9 pence</b>	113.1 pence	3.8 pence
Weighted Average Discount Rate	<b>8.50%</b>	8.63%	(0.13)%
Weighted Average Risk-Free Rate <sup>1</sup>	<b>3.84%</b>	4.49%	(0.65)%
Weighted Average Project Premium <sup>2</sup>	<b>4.66%</b>	4.13%	0.53%
Discount Rate Range	<b>6.50% to 11.25%</b>	6.24% to 15.52%	(0.26)% to (4.27)%

<sup>1</sup> See item 1 described in the text above.

<sup>2</sup> Aggregate effect of items 2 to 6 described in the text above.



### Financial results

At 31 December 2011, the Group had a total of 117 investments arising from 69 separate projects, of which it is deemed for the purpose of International Financial Reporting Standards ('IFRS') that the Group has control over 26 of these investments by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the specific project entities. Under IFRS, the results of these companies are consolidated in the Group's Financial Statements on a line-by-line basis. The remainder are equity accounted for (generally a shareholding in the range of 20% to 50%) or are a minority investment that is valued on a discounted cash flow method at the reporting date and held as an available for sale financial asset.

These consolidated investments form part of the Company's larger portfolio of similar investments all of which are held for investment purposes and managed as such, with no distinction for management purposes made between those investments classified under IFRS as subsidiaries (consolidated investments), associates or joint ventures (equity accounted investments) and those which are not. In addition, as at the 31 December 2011, all debt owed by the Group's investments (with the exception of the Company's corporate debt facility with RBS and NAB) is project specific and non-recourse to the Company.

Further in addition to its statutory reporting obligations under IFRS, the Company has prepared additional proforma financial information prepared on an 'investment basis'. By deconsolidating the subsidiary investments, the performance of the business under consolidated IFRS basis may be compared with the results under the investment basis. This proforma financial information is not audited but is provided to give additional guidance, in combination with consideration of the primary Financial Statements, to aid visibility of the financial results based on the dividends, interest and capital receipts that are received from the individual investments of the Group.

### IFRS results

On a consolidated IFRS basis, profit before tax was £13.2 million (2010 restated: £16.5 million) with earnings per share of 3.3 pence (2010 restated: 3.2 pence). Profit after tax was £16.1 million (2010 restated: £15.1 million). The results on a consolidated IFRS basis include profits from the underlying project entities that are consolidated or equity accounted. These results are impacted by non-cash items, including amortisation of intangible assets, unrealised foreign exchange translation movements, depreciation and impairment charges. Not all profits generated in the underlying project entities are immediately distributed due to requirements to retain cash for future costs or to ensure covenant compliance.

### Income and expenses – investment basis

Cash received from the portfolio of investments by way of distributions, including dividends, interest payments, capital and principal repayments (the latter from subordinated debt and senior debt held in investments) was £44.0 million (2010: £43.0 million). The net cash receipts to the investment holding companies within the Group, before one-off transaction costs were £33.8 million (2010: £33.6 million) as set out on the next page. This net cash receipt provided significant coverage of the 2011 cash distribution of £20.3 million (2010: £22.8 million).

# INVESTMENT ADVISOR'S REPORT CONTINUED

The table below summarises cash received from investments net of corporate costs. Net cash receipts pre one-off transaction costs have increased by £0.2 million to £33.8 million during the year.

## Summary net corporate cash flow (unaudited)

	Year to 31 December 2011 £ million	Year to 31 December 2010 £ million
<b>Cash received from investments</b>		
Dividends and interest	41.7	40.3
Capital receipts	2.3	2.7
	44.0	43.0
<b>Corporate costs and net finance costs</b>		
Net financing costs	(1.1)	(0.7)
Corporate expenses	(9.1)	(8.7)
	(10.2)	(9.4)
One-off transaction costs	(3.3)	–
	(13.5)	(9.4)
<b>Net cash</b>		
Cash received from investments	44.0	43.0
Corporate costs and net finance costs	(13.5)	(9.4)
	30.5	33.6
<b>Net cash pre-transaction costs</b>		
Cash received from investments	44.0	43.0
Corporate costs and net finance (pre transaction costs)	(10.2)	(9.4)
	33.8	33.6

## Corporate costs and net finance costs – investment basis (unaudited)

Total corporate costs pre one-off transaction fees increased by £0.8 million to £10.2 million (2010: £9.4 million) as a result of the increase in investments made by the fund:

- Net financing costs increased during the year by £0.4 million to £1.4 million as a result of higher utilisation of the corporate facility to part finance new investments.
- The increase of £0.4 million in the level of recurring corporate expenses to £9.1 million (2010: £8.7 million) was associated with the investment advisors management fee which increased as a result of the growth in managed investments.

The increase in total corporate costs after one-off transaction costs was £4.1 million to £13.5 million (2010: £9.4 million) as set out in the table on the following page.

**Corporate costs and net financing costs**

	Year to 31 December 2011 £ million	Year to 31 December 2010 £ million
<b>Net financing costs</b>		
Interest income	0.3	0.3
Corporate facility running costs	(1.4)	(1.0)
<b>Total net financing costs</b>	<b>(1.1)</b>	<b>(0.7)</b>
<b>Corporate expenses</b>		
Investment advisors management fee	(7.0)	(6.5)
Audit fees for the Group	(0.1)	(0.1)
Director fees and expenses	(0.2)	(0.2)
Other running costs	(1.8)	(1.9)
<b>Total corporate expenses<sup>1</sup></b>	<b>(9.1)</b>	<b>(8.7)</b>
<b>Total corporate costs (excluding one-off transaction costs)</b>	<b>(10.2)</b>	<b>(9.4)</b>
One-off transaction costs	(3.3)	–
<b>Total one-off transaction costs</b>	<b>(3.3)</b>	<b>–</b>
<b>Total corporate costs including one-off transaction costs</b>	<b>(13.5)</b>	<b>(9.4)</b>

<sup>1</sup> In accordance with Association of Investment Companies ('AIC') guidance this number is used to calculate the Total Expense Ratio.

One-off transaction costs related to £2.0 million related to new investments, £1.1 million related to renewal of the corporate debt facility and £0.2 million related to an intra-group reorganisation as detailed below (2010: nil).

**One-off transaction costs**

New investment transaction costs	(2.0)	–
Corporate facility renewal	(1.1)	–
Intra-group reorganisation costs	(0.2)	–
	<b>(3.3)</b>	<b>–</b>

For the year ended 31 December 2011 the Total Expense Ratio ('TER') was 1.5% (2010: 1.6%). The reduction of 0.1% was due to an increase in net assets through capital raisings and acquisitions in the period but only a partial period increase in ongoing corporate expenses.

**Total Expense Ratio ('TER')**

	Year to 31 December 2011 £ million	Year to 31 December 2010 £ million
Total corporate expenses	(9.1)	(8.7)
Net Asset Value ('NAV')	624.3	541.9
<b>TER<sup>1</sup></b>	<b>(1.5%)</b>	<b>(1.6%)</b>

<sup>1</sup> In accordance with the AIC guidance this calculation excludes transaction fees.

**Balance Sheet – investment basis**

In order to provide shareholders with further information regarding NAV, and to assist with enhanced transparency of the Company's capacity for investment and ability to make distributions, additional unaudited financial information is provided to help illustrate the Group's financial position and its projected ability to maintain distribution coverage. This analysis compares the components of the NAV to IFRS net assets.

For investment purposes the Company reports its NAV twice a year. The Company's investment NAV is a valuation of the cash that the Company expects to receive in the future from its investments. This NAV takes account of the dates when cash is expected to be received through applying a discount factor to reflect the time value of money. In common with similar investment funds, the Directors believe that this is the most useful measure of the Company's value to investors.

For accounting purposes the Group is required to prepare consolidated group accounts in accordance with IFRS. There are important differences between the investment NAV and the Group's Balance Sheet prepared under IFRS. This note is designed to explain some of these differences.

# INVESTMENT ADVISOR'S REPORT CONTINUED

## Unaudited Summary Balance Sheet

	Year to 31 December 2011			Year to 31 December 2010		
	NAV basis £ million	Adjustments £ million	Consolidated IFRS £ million	NAV Basis £ million <sup>1</sup>	Adjustments £ million	Restated Consolidated IFRS <sup>2</sup> £ million
Investments at fair value	600.7	(574.8)	25.9	464.9	(447.0)	17.9
Financial assets at amortised cost	–	2,269.8	2,269.8	–	1,694.0	1,694.0
Other current and non-current assets	5.4	458.8	464.2	14.5	398.4	412.9
Net cash/(borrowings)	22.7	(1,989.9)	(1,967.2)	66.8	(1,457.9)	(1,391.0)
Other current and non-current liabilities	(4.5)	(432.0) <sup>3</sup>	(436.5)	(4.3)	(312.9) <sup>3</sup>	(317.2)
Non-controlling interests	–	(1.7)	(1.7)	–	(2.8)	(2.7)
<b>Net assets to equity holders of the parent</b>	<b>624.3</b>	<b>(269.8)</b>	<b>354.5</b>	<b>541.9</b>	<b>(128.2)</b>	<b>413.9</b>

- <sup>1</sup> Investments at fair value on an investment basis reflected an investment in the capital, subordinated or senior debt of the underlying projects as represented in the Financial Statements, with the exception of the interest in Long Bay Forensic and Prison Hospital Project and the Royal Melbourne Showgrounds Redevelopment Project.  
At 31 December 2010, the Group included the acquisition of the additional 50% of the Share Capital and Subordinated Loans in accordance with an executed Sale and Purchase agreement signed on 22 December 2010 with Brookfield Infrastructure Partners LP. Legal completion of the acquisition of these investments was not completed by 31 December 2010 and accordingly these investments were presented as associates and were not consolidated in the Groups December 2010 Financial Statements.
- <sup>2</sup> Refer to note 1 of the Financial Statements for details relating to the restatement of the 31 December 2010 Consolidated IFRS Balance Sheet.
- <sup>3</sup> Includes fair value of interest rate swaps of £279.4 million in 2011 and £132.6 million in 2010.

### Investments

Under IFRS, the Group Balance Sheet is prepared to reflect the consolidation of the gross assets and liabilities of underlying project investments, line-by-line, that are controlled by the Group by virtue of it having the power to govern, directly or indirectly, the financial and operating policies of the underlying investment entities. It also includes the Group's share of the assets and liabilities of underlying joint ventures and associate investments by virtue of the Group having either joint control or significant influence over the underlying investments.

Given the Group has control, joint control or significant influence over virtually all of its investments, which is beneficial from an operating and therefore investor cash flow perspective, the impact in the consolidated Group IFRS Balance Sheet is to look-through to the majority of underlying investments' balance sheets as highlighted above. By contrast, the investment NAV reflects the fair market value of the underlying investments from an investor perspective.

Included in the investment NAV are investments at fair value of £600.7 million (2010: £464.9 million). The increase in the fair value of the Group's investments is attributed to movements in the underlying risk free rates, enhancements on the existing portfolio and acquisitions made during the year, together with an assessment of the market values for such investments.

### Financial assets and liabilities

Under IFRS non-recourse, ring-fenced project level debt is included within the IFRS Consolidated Balance Sheet. However, the Group does not provide guarantees in relation to such debt and would only be exposed in the event of default up to the maximum value of any investment made an underlying project and therefore this debt is not included in the investment NAV analysis.

Under IFRS the fair value (i.e. the value if the interest rate swaps had been terminated on 31 December 2011) of underlying project level interest rate swaps used to give the Group an effective fixed rate of interest on such underlying debt must also be brought into the Group Balance Sheet at the balance sheet date. This is the case notwithstanding that the Group has no intention of seeking early termination of such interest rate swaps and it would be likely to be contrary to the interests of the Group to seek to do so.

The impact of this IFRS requirement is Shareholders can expect to see period-to-period volatility in the Group Balance Sheet reflecting the difference between point-in-time market interest rates and fixed interest rates under swap agreements held within the underlying portfolio. Whilst these cash flow hedges provide risk mitigation against cash flow volatility and therefore to investor returns and would be expected to unwind over the life of the underlying concessions,

this leads to a significant difference between IFRS and the investment NAV basis which the Directors continue to believe gives a more useful view of the Company's net assets.

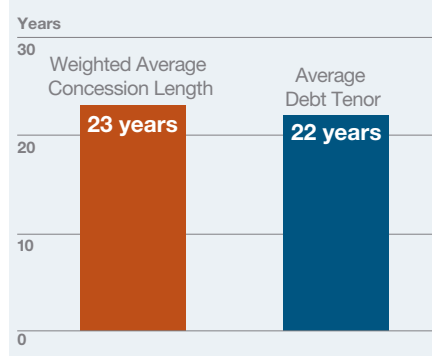
The Group's interest rate swaps are in place for the duration of the relevant underlying project debt and therefore the Group's intention is to hold these until maturity. However, under IFRS the impact of marking-to-market these interest rates swaps when market rates are historically low has resulted in a reduction in the IFRS Consolidated Balance Sheet in the year ended 31 December 2011 by £146.7 million (before the impact of deferred tax). On a cumulative basis the total interest rate swap 'liability' on a fair value basis of £279.4 million is included in the IFRS consolidated accounts whereas this does not appear in the investment NAV. The Group has no intention to break these swaps and therefore in cash flow terms such liabilities would not be expected to arise, hence they are excluded from the investment NAV.

The movement in the fair value of interest swaps accounts for the main difference in the net balance sheet position between an IFRS consolidated basis and investment NAV basis.

## INPP Debt Profile



## INPP Concession Length vs Debt Tenor



## Gearing

The Group's £100 million three year revolving facility from Royal Bank of Scotland plc ('RBS') and National Australia Bank ('NAB') was renewed in April 2011 on similar terms to the previous facility (also provided by RBS and NAB). The key changes were revisions to the margin charged on the facility which increased from 175 to 225 basis points. This facility is used to fund acquisitions and is on a recourse basis to the Group. The Company's Articles of Association limit the Group's recourse debt to 50% of Adjusted Gross Asset Value of its investments and cash balances. As at 31 December 2011, the Group had drawn £18.1 million under the facility. At the asset-level, the Company seeks to secure long-term non-recourse debt matched where possible to the concession life of an asset at the time of acquisition. Such debt is non-recourse to the Company.

On a consolidated IFRS basis no distinction is made in respect of investments that are consolidated between asset level debt that is non-recourse to the Company and Company level debt that is full recourse to the Company. Thus for IFRS purposes the Group reports net debt of £1,967.2 million at 31 December 2011 (2010 restated: £1,391.0 million). This increase in IFRS net debt over the year reflects the additional debt from consolidated investments, offset by the repayment of the corporate debt facility.

Currently, the weighted average concession life remaining in the portfolio is 23 years, compared to a weighted average debt tenure of 22 years. As a result, less than 1% of total debt is required to be refinanced over the next 30 years, with the aim of ensuring strong protection for investors of future projected cash flows.

## Distributions

The continuing performance of the portfolio has allowed the Directors to increase the target distribution for 2012. The target distribution for 2012 has increased around 3% to 6.0 pence per share.

## Inflation

Inflation seems to have peaked in the UK in September 2011 at 5.6%<sup>9</sup> but has consistently run ahead of the portfolio assumption for long-term inflation of 2.5% per annum. Inflation protection is an important consideration for the Company. At 31 December 2011, all assets in the portfolio had a degree of inflation linkage and, in aggregate, in excess of approximately 70% of gross revenue was inflation linked.

The Company and Investment Advisor have noted that some peer group investment funds in the infrastructure sector utilise a long-term inflation assumption of 2.75% per annum. Given continued market expectations of inflation at or above this level then we will continue to consider whether the Company's long-term inflation assumption should increase. For the time being however, taking into account central bank inflation targets the Company continues to believe that its 2.5% assumption is reasonable. Where actual inflation is higher or lower than this level it will impact on the Company's cash flow in either a positive or negative manner.

If the Company were to assume a long-term inflation rate for all its assets of 2.75% per annum instead of 2.5% per annum then (assuming all other variables remained static), then using the same discount rate as has been adopted to calculate NAV at 31 December 2011 the Company's NAV would be 118.1 pence per share.

While the Company has no plans to change its inflation assumptions in the short term, it will continue to monitor trends in the geographies it invests and may choose to vary its long-term assumptions should market conditions change.

## Political landscape

The Company and the Investment Advisor are mindful of the political considerations surrounding infrastructure investment both in the UK and overseas. In the view of the Investment Advisor there are three main themes currently:

- A strong desire on the part of most governments to promote increased infrastructure investment in order to renew and improve social, energy and transport infrastructure. This is clear from the UK Government's National Infrastructure Plan and similar plans issued by other governments. In our view this is a strongly positive trend for the Company as virtually all governments are promoting the use of private sector investment to drive delivery of new infrastructure.
- A focus in the UK in particular, but also overseas in ensuring and demonstrating better value for money from private sector investment in infrastructure. This focus has been accentuated by a series of reports from the National Audit Office and Parliamentary Select Committees and has culminated in a review by HM Treasury over the future operation of the private finance initiative in the UK. The consequences of this review are yet to be announced and although our expectation is that the Government will continue to promote private sector investment in

<sup>9</sup> Retail Price Index ('RPI'), Office for National Statistics.

# INVESTMENT ADVISOR'S REPORT CONTINUED

infrastructure it is clear that there will be more emphasis on demonstrating and ensuring value for money benefits in future projects. With respect to the Company's portfolio, we are unaware of any instances in respect of which the public sector has complained that good value for money is not being received, but the Company has long held the view that infrastructure investment is a customer service business as well as an investment business and we believe the wider market is increasingly of the same view.

- The third current theme remains the steady increase in appetite we see from investors – particularly pension fund investors – to gain greater exposure to infrastructure investment. This is matched by the desire of governments – again the UK Government is in the lead here – to encourage additional investment from sectors (for instance UK pension funds) which have only limited current exposure.

In overall terms therefore we believe that the political climate is supportive of the private sector infrastructure investment industry but the industry in general needs to become more sensitive to public sector and taxpayer concerns and be more transparent in demonstrating the value for money benefits that private sector investment in infrastructure does bring. We expect the Company to continue emphasising such benefits in its dialogue with its public sector counterparties in 2012 and beyond.

## Outlook

The market for infrastructure is strong but evolving. The Company is well placed to take advantage of such evolution. As noted above the general trend is for governments to be very supportive of additional private sector investment in infrastructure. More specifically however we are seeing fewer UK private finance initiative projects being developed due to UK Government spending cuts. However for the Company any decline in this area is currently being more than made up by current and prospective opportunities in other areas and geographies.

Areas of particular focus for the Company currently include:

- Continued application in the area of UK transmission where the Company has a strong market leading position.

- Delivery of additional investments from areas of business where it already has involvement. Examples of this include additional investment opportunities arising through the Building Schools for the Future Investment in the UK and other electricity transmission opportunities that may arise as a result of relationships formed from current activities.
- The wider regulated utility market both in the UK and elsewhere where attractive returns can be projected from assets with low risk profiles.
- Social infrastructure projects in Germany, Australia and elsewhere which conform to the existing risk profile within the Company's portfolio.
- Opportunities arising in the UK health and social care sphere where an active pipeline of small to medium-sized opportunities continue to exist.
- Opportunities that arise from repricing of capital in the debt capital markets.

Overall there continues to be a strong pipeline of investment opportunities and we are encouraged by governments' reaffirmation of the importance of private sector involvement in the provision of such assets. This includes, in the UK, through the National Infrastructure Plan the likelihood of greater investor interest in the sector, bolstered by the Government's proposed plans to involve UK pension funds in the provision of financing to infrastructure schemes.

It is also encouraging that the UK Government is currently engaging in a consultation process to determine the future form of the private finance initiative, which should result in better value for money for public sector clients while providing more certainty for the private firms involved in providing services as part of this programme. Evidence of the Government's continued commitment to the sector includes the announcement in July 2011 of its intention to deliver a £2 billion programme to develop between 100 and 300 schools utilising private investment.

There are a number opportunities in Australia and Europe, focused on education, transportation and health sectors which, through the Investment Advisor, the Company is also actively pursuing.

The Company continues to review proposals from third parties seeking to dispose of assets meeting the Company's investment criteria.

Any such investment, whether sourced from the primary or secondary market, is assessed in a very disciplined way and to the extent that an investment is made, it will only be on the basis that it is projected to reinforce the Company's cash flows and projected returns. To the extent that additional capital is required, the Company has previously indicated that it may approach investors during the year to fund these acquisitions.

Overall, we continue to remain positive about the prospects for the Company, both in terms of the performance of its existing assets and the opportunity to add high quality assets to the portfolio during the remainder of 2012.

**Amber Fund Management Limited**  
18 April 2012

# BUILDING SCHOOLS FOR THE FUTURE INVESTMENTS

## CASE STUDY



### Hull BSF

Photo above of Archbishop Sentamu Academy and main photo of Winifred Holtby and Tweendykes School  
© Kristen McCluskie

### About the portfolio

Building Schools for the Future Investments LLP ('BSFI') was established by the UK Government in 2006 and holds 10% stakes in 32 Local Education Partnerships ('LEPs') set up to deliver the programme to build and/or refurbish all the secondary schools in England. BSFI also holds 10% to 20% stakes in each of 49 design, build, finance and operate projects delivered by LEPs to develop 108 secondary schools and two leisure centres.

The projects are located across England including Barking and Dagenham, Barnsley, Birmingham, Blackburn and Bolton, Bradford, Bristol, Cambridgeshire, Derbyshire, Durham, Essex, Hull, Islington, Kent, Lancashire, Leeds, Leicester, Lewisham, Luton, Newcastle, Newham, Nottingham, Rochdale, Salford and Wigan, Sandwell, Sheffield, Somerset, Southwark, South Tyneside and Gateshead, Tameside, Waltham Forest and Wolverhampton.

80% of assets in the portfolio are fully operational. 20% of schools are still in construction, and are due to become operational over a phased period up to September 2014.

Revenues are all availability based and payable by the respective local authority.

### Benefits for International Public Partnerships

The acquisition of the unique BSFI portfolio was one of the largest PPP transactions in the secondary market during 2011. BSFI was acquired by the Group for approximately £58 million and currently represents 10.3% of the fund's portfolio – bringing International Public Partnerships interests in schools to well over 200.

The BSFI portfolio offers high quality investments and a strategic platform for portfolio growth as it benefits from enhanced shareholder rights compared to other investors in the underlying PFI school projects. International Public Partnerships has the opportunity through pre-emption rights to increase its holding in the underlying projects when other shareholders seek to sell their interests.

BSFI allows the Group to take an active role in the assets, which complements the Groups' experience of actively managing investments in its existing 106 schools portfolio. It also positions the fund to help develop innovative investment opportunities at a local level, as LEPs have the opportunity to transform into local infrastructure providers delivering a wider range of future investment schemes.

# INVESTMENT POLICY

The Company seeks to provide shareholders with a predictable and attractive distribution from the Company's investments.

## Investment objectives

### Distributions

The Company seeks to provide shareholders with a predictable and attractive distribution from the Company's investments:

- The Board of Directors has provided indicative distribution guidance of 6.0 pence per share for 2012, a 2.6% increase on 2011 (to be paid in instalments in October 2012 and May 2013).
- As per previous periods, it is the Company's policy to pay distributions from cash flows generated from operations.
- It is the Board's intention to grow distributions broadly in line with the Group's long-term inflation forecast of 2.5% per annum.

### Capital growth

The Directors also believe that capital growth can also be achieved. The Company targets an Internal Rate of Return ('IRR') equal to or greater than 8% per annum on the original Initial Public Offer issue price in November 2006 of 100 pence per Ordinary Share to be achieved over the long-term and the Company hopes to achieve this through (amongst other means) asset development, future acquisitions, active management and prudent use of gearing. The portfolio is currently performing in line with this target and the Directors believe, based on the advice of the Investment Advisor, that there are currently opportunities to acquire additional investments that may further enhance the Company's IRR.

### Investment policy

The Group intends to continue acquiring operational and construction phase assets both from entities related to its Investment Advisor and/or third party vendors. The Group intends (but is not bound) to hold its investments for the long-term and may even hold its investments for their whole life. The Group will seek to enhance the capital value of its investments and the income derived from its investments.

The Group intends to acquire further investments within any of the following parameters:

- Investments with characteristics similar to its existing portfolio.
- Investments in other assets or concessions having a public infrastructure character and in respect of which availability based payments are or will become payable.
- Other investments in infrastructure assets or concessions which, based on the advice of the Investment Advisor, the Directors believe have high barriers to entry and expect to generate an attractive total rate of return over the whole of the life of the investments.

Such investments may be in single assets or portfolios of assets and may arise globally. The Group may therefore make investments in any location or jurisdiction where the investment in question meets the parameters set out above.

### Geographic diversification

The Company's investment policy is to invest directly or indirectly in public or social infrastructure assets located in the UK, Australia, Europe, North America and, it is anticipated, in due course, in other parts of the world. While there are no restrictions on the amount of the Company's assets which may be invested in any one area or sector, the Group will, over the long-term, seek a spread of investments both geographically and across industry sectors in order to achieve a broad balance of risk in the Company's portfolio.

Shareholders should note that the actual asset allocation will depend on the development of the infrastructure market, market conditions and the judgement of the Investment Advisor and the Board as to what is in the best interests of shareholders at the time of the relevant investment. Since listing, the percentage of assets located outside the UK has increased from 10% at the time of the IPO to 45% at 31 December 2011.

### New investments and conflicts of interest

It is expected that further investments will be sourced by the Investment Advisor and it is likely that some of these will be investments that have been originated, advised upon and developed for reward by, and may be acquired from, entities associated with the Investment Advisor.

The Group has established and operated the following procedures and arrangements to deal with the possible conflicts of interest that may arise in respect of any proposed acquisition of an investment from entities associated with the Investment Advisor and to manage the conduct of such acquisitions accordingly. The potential conflicts of interest that may arise include that entities associated with the Investment Advisor may be an existing investor in the asset while AFML acts on the 'buyside' as Investment Advisor. Entities associated with the Investment Advisor may also from time to time provide (before, at or after the time of their acquisition) fee based financial advisory and/or other services to entities acquired or subsequently acquired by the Group.

The Investment Advisory Agreement contains procedures with the intention of ensuring that the terms on which the vendors of such assets dispose of their assets are fair and reasonable to the vendors; and on the 'buyside' AFML as Investment Advisor must be satisfied as to the appropriateness of the terms for, and the price of, the acquisition. These include a requirement for any offer approved by the Directors which is made for the assets to be supported by advice on the fair market value for the transaction from an independent expert. The acquisition of assets from any entities associated with the Investment Advisor will be considered and only approved by the Independent Directors of the Company. The purpose of these procedures is to ensure that the terms upon which any investment is acquired from entities associated with the Investment Advisor is on an arm's length basis.

### Single asset exposure

The Group will not (other than in respect of Holding Entities) lend to, or invest in the securities of, any one company or group more than 20% of the Group's total assets (as calculated at the time the investment or loan is made). The Directors have adopted this investment restriction with the intention of maintaining a spread of investment risk. This investment restriction applies at the time of investment. The Group will not be required to rebalance its Investment Portfolio in accordance with such investment restriction as a result of a change in the Net Asset Value ('NAV') of any investment or of the NAV of the Group as a whole. At 31 December 2011, the largest investment in the Company's portfolio, the Diabolo Rail project, accounted for 12.3%. While the Company's largest ten investments accounted for 54% of the portfolio.

### Cash management

Until the Group is fully invested and pending reinvestment or distribution of cash receipts, cash received by the Group will be invested in cash, cash equivalents, near cash instruments, money market instruments and money market funds and cash funds. The Group may also hold derivative or other financial instruments designed for efficient portfolio management or to hedge interest, inflation or currency rate risks. The Company and any other member of the Group may also lend cash which it holds as part of its cash management policy.

### Hedging

Where investments are made in currencies other than Sterling, it is expected that the Group will consider whether to hedge currency risk in accordance with the Group's currency and hedging policy as determined from time to time by the Directors.

A portion of the Group's underlying investments are denominated in currencies other than Sterling. For example, a portion of the existing portfolio and some potential new investments are denominated in Australian Dollars, Canadian Dollars and Euro. However, any dividends or distributions in respect of ordinary shares are made in Sterling.

Currency hedging may be carried out to seek to provide some protection to the level of Sterling dividends and other distributions that the Group aims to pay on the ordinary shares, and in order to reduce the risk of currency fluctuations and the volatility of returns that may result from such currency exposure. Such currency hedging includes the use of foreign currency borrowings to finance foreign currency assets and forward foreign exchange contracts.

Interest rate hedging is carried out to seek to provide protection against increasing costs of servicing debt drawn down by the Group to finance investments. This involves the use of interest rate derivatives and similar derivative instruments. Hedging against inflation may also be carried out and this may involve the use of RPI swaps and similar derivative instruments.

Currency, interest rate and any inflationary hedging policies are reviewed by the Directors on a regular basis to ensure that the risks associated with movements in foreign exchange rates, interest rates and inflation are being appropriately managed. Such transactions (if carried out) are only undertaken for the purpose of efficient portfolio management to stabilise returns from the portfolio and are not carried out for speculative purposes. The execution of currency, interest rate and inflationary hedging transactions is at the discretion of AFML in its capacity as Operator (as defined in Advisory Services section of the Directors' Report), subject to the policies set by and the overall supervision of the Directors.

### Leverage

The Group intends to make prudent use of leverage to enhance returns to investors, to finance the acquisition of investments and to satisfy working capital requirements. Borrowings are made by the Company itself or by any of its holding entities.

Under the Articles, the Group's outstanding borrowings, including any financial guarantees to support subscription obligations in relation to investments, are limited to up to 50% of the Gross Asset Value ('GAV') of the Group's investments

# INVESTMENT POLICY CONTINUED

and cash balances, with the Company having the ability to borrow in aggregate up to 66% of such GAV on a short-term (i.e. less than 365 days) basis if considered appropriate. Circumstances where this might be the case include for the purposes of new acquisitions. For the purposes of the borrowing limitation, outstanding borrowings exclude intra-group borrowings and the debts of underlying project entities. The Group borrows in currencies other than Sterling as part of any currency hedging strategy. Following the tap issue in September 2011, the Company partly paid down its Group-level borrowings and as at 31 December 2011 had £18.1 million drawn against its facility.

Debt secured against each of the projects is on an individual asset basis and is non-recourse to the Company. The Company also seeks to secure long-term debt matched to the concession life of the asset. For example, the average life of the existing project-level debt is 23 years compared to the average remaining life of the Company's assets of 22 years.

## Changes to investment policy

Material changes to the investment policy set out in this section may only be made by ordinary resolution of the Shareholders in accordance with the Listing Rules.

## Investment strategy

The Directors believe that the opportunity offered to the Company by its relationship with the Investment Advisor will lead to the Group being well placed to acquire further investments meeting the Company's investment objectives and policy.

The Directors believe that there are two ways in which this is likely to occur:

- Acquisition of further investments developed by the Investment Advisor (the Directors are aware of a number of further transactions fitting within its investment policy for which the Investment Advisor is preferred bidder or which are under development by the Investment Advisor). These opportunities may offer capital growth potential.

- Acquisitions from third parties. Such acquisitions may be of single assets, of portfolios or of shares in companies or partnership interests. These investments are likely to be at an operational stage, having been developed by the vendor, and offer support to the Company's income and therefore yield paid to investors.

The Directors anticipate, based on the advice of the Investment Advisor, that a number of attractive investment opportunities will be available to the Company over the next 6 to 12 months. Opportunities are currently under review in the UK, Europe, and Australia.

The acquisition of further investments will be financed from cash reserves including those arising from the raising of additional capital and/or by drawing on the Company's debt facility or a combination of these. Acquisitions will be led by a desire to increase value for shareholders.

Further investments may be either direct or indirect (i.e. through the Group investing in a company or other entity which itself has a direct or indirect interest in the underlying investment opportunity).

# RISKS AND RISK MANAGEMENT

The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company and Group on an ongoing basis. It seeks to ensure that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all local and international laws and regulations are upheld. In light of continued market volatility and economic turmoil, particular attention has been given to the effectiveness of controls to monitor liquidity risk, asset values, counterparty exposure and credit availability.

The Directors set out the material risks relating to the Group's portfolio and investing in the Company as at December 2009 in the Company's Placing, Open Offer and Offer for Subscription, available from the Company's website. This document should be reviewed by shareholders but broad areas of risk include (but may not be limited to):

Risk category	Risk factors
External	<ul style="list-style-type: none"> <li>• General economic impacts, interest rate movements, foreign exchange movements, inflation</li> <li>• Political and regulation – changes in government policy, law and regulation</li> <li>• Tax and accounting – changes in practice and policies</li> <li>• Changes to the competitive environment</li> </ul>
Strategic and Management	<ul style="list-style-type: none"> <li>• Share price may be at either a discount/premium to NAV</li> <li>• Company's reliance on service providers – underperformance, solvency and breach of regulations</li> </ul>
Operational and Investment	<ul style="list-style-type: none"> <li>• Acquisition – overpaying for assets, not assessing risks correctly</li> <li>• Performance – under-performance of assets and or service providers</li> <li>• Concentration – over-reliance on a client or service contractor</li> <li>• Illiquidity of assets; NAV may not be matched in market</li> <li>• Default or poor performance in provision of operational services</li> <li>• Government action to terminate contracts</li> <li>• Counterparties may seek to exploit complex documentation</li> <li>• Conflicts of interest</li> </ul>
Financial	<ul style="list-style-type: none"> <li>• Liquidity – lack of financial resources; access to debt and equity markets</li> <li>• Counterparties – reliance on financial institutions; counterparty default</li> <li>• Currency – exchange rate exposure</li> <li>• Financing and interest rates</li> <li>• Ability to raise equity capital from the market and inability to refinance debt when it becomes due</li> </ul>

## External risks

Broad external factors, including the economic conditions in the jurisdictions in which the Group operates, have the capacity to impact the portfolio of assets this includes interest rates, foreign exchange and inflation.

In particular the revenues and expenditure of project entities with respect to infrastructure assets are generally partly or wholly subject to indexation. An assumption is made that inflation will increase at a long-term rate (which may vary depending on country and from time to time). The effect on investment returns if inflation is above or below the original projections for this long-term rate will impact on the cash that the Group actually generates from its investments. The Group's ability to meet targets and its objective may be adversely or positively affected by inflation and/or deflation. The impact of interest rates and

foreign exchange is discussed in 'Financial' risks further below.

Each of the portfolio's assets has an underlying legal contract with a public sector client. There is a risk that political decisions could be taken to seek to vary the terms of, or terminate, a contract. In some cases governments have rights of voluntary termination and any compensation payable on termination may well be less than the Group's valuation for the asset terminated. In such cases the value of the Group's investment portfolio and its ability to meet target distributions would be affected. There is also a risk that a government or public commissioning body may decide to vary the means by which it delivers future projects i.e. not through PFI/PPP initiatives. Should this be the case the Group's ability to source assets in the future could be limited with the reduction in supply.

Financing structures through which the Company invests into projects are based on assumptions regarding prevailing taxation law and practice and accounting standards. Any change in that investment's tax status or in tax legislation or practice (including in relation to taxation rates) or in accounting standards could adversely affect the project's investment return and, in turn, have an adverse impact on the financial performance of the Group.

The Company operates in a competitive environment both in sourcing capital and by way of competition from other investors who bid against the Company to acquire new assets. The Company believes it has a differentiated strategy from its competitors on both counts. Firstly, it believes that its well diversified portfolio of assets, both from a geographic and sector perspective, position it well in the eyes of investors.

## RISKS AND RISK MANAGEMENT

### CONTINUED

It also provides the potential for further capital growth through its construction assets which investors also view favourably. However these strategies may not be successful. The Company's Investment Advisor is a leading originator, asset management and fund manager in the infrastructure sector. The Company relies on the expertise of its Advisor and believes its long-term track record positions it well to acquire new assets for the fund vis-a-vis other competitors in the market.

#### Strategic and management risks

The Company seeks to provide its shareholders with both a long-term government-backed yield and capital growth through investment across both construction and operational phases of infrastructure projects. The Company aims to provide a medium-term return to investors of 8% to 9% on the initial public offer issue price of 100 pence per share. The Company aims also to provide a robust and attractive growing yield to investors. However there is a risk that the Company may fail to reach this objective.

The Company's NAV is assessed in good faith by the Company half yearly with the assistance of the Investment Advisor. NAV is derived from projections of future cash flows to the Company and discounted at a rate to arrive at a present value of those future cash flows. Such cash flows may in practice be higher or lower than projected and/or may arise at different times. As with any valuation the assessment of NAV depends on judgements which may in hindsight be wrong or unjustified. The discount rate utilised will change from time to time influenced by market and portfolio specific factors.

The ability both to deliver returns and to pay distributions is dependent on a number of economic factors outside the Company's or the Investment Advisor's control. Whilst assumptions that are believed to be reasonable have been factored into business plans, external factors could materially affect the Company and impede its ability to deliver its financial objectives.

The Company is dependent on the Investment Advisor for advice relating to the day-to-day management of the Group's assets. The Investment Advisor is supported by other service providers to the Group. Failure by the Investment Advisor or a 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 Management Engagement Committee of the Board 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.

#### Operational and investment risks

There is no guarantee that suitable additional investments will be available in which the Company can invest or that any investment will be successful. Competition for investment opportunities may result in increased purchase prices. Whether an investment is acquired by means via the Investment Advisor's pipeline or through an on-market competition it is important that the investment is analysed thoroughly in order to determine the appropriate value the Company is prepared to pay. The Company is exposed to the risk that such work is not carried out properly or that mistakes are made in such work that lead to the Company over-paying for assets.

Whilst most construction and operational risks in projects in which the Company invests are passed down to sub-contractors through a well-established contractual framework, there are occasions when costs and/or risks are retained within the project vehicle. These include a number of routine running cost items and are also likely to include insurance and lifecycle costs. Any cost implication, not otherwise passed down to sub-contractors, will generally be borne by the affected project. For the current portfolio, the Company has assessed the risk and considers that the lifecycle and insurance provisions are reasonable and adequate.

Sub-contractors may become insolvent or otherwise fail to perform their obligations even where risks are passed down to them. Generally the Group's assets benefit from loans and are subject to security in favour of third party lenders. While such loans are generally long-term, in certain circumstances such as default, lenders will be entitled to demand early repayment and enforce that security; however, there would be no recourse to the Group beyond the maximum of the amount invested.

Once acquired, investments need to perform in line with their business plans. Underperformance can be caused by a number of factors, one of which is the underperformance of a service delivery partner. The Investment Advisor has tight controls and asset management processes in place to ensure that projects are meeting their intended performance targets. It regularly reports the progress of projects, on a case-by-case basis to the Board where any issues and mitigation are discussed so that any resulting financial impact can be minimised. The Company is also conscious of concentration issues associated with having reliance on any one service provider. It also actively ensures that exposures to specific contractors are minimised by reviewing these providers at the time of acquisition and, from a portfolio perspective, on an ongoing basis.

The Group intends to hold assets long-term and does not have an active strategy to sell assets although this will be considered where desirable. The Company's assets may be illiquid and difficult to sell quickly or at all. They may not be saleable at NAV. Currently the Company believes that there is an active market for the purchase and sale of assets similar to those of the Company, however, this could change.

The Company depends on contractual arrangements in all aspects of its business. Such contracts may be open to dispute or reinterpretation and may be affected by controls over their operation which are vested in third parties

(e.g. banks) which may be operated in unpredictable ways. Any such actions may affect the Group in a number of ways including its projected receipt of cash. In practice such matters cannot be ruled out as possibilities although such contracts will generally have received extensive legal review before being entered into.

The Group is exposed to the risk of possible conflicts of interest. These may arise in (but are not limited to) circumstances where the Group acquires investments from entities associated with its Investment Advisor and/or circumstances where entities associated with its Investment Advisor receive fees (before, at or after acquisition) from entities acquired by the Group. The Group has established conflict management procedures to mitigate this risk as set out in the Investment Policy section above.

#### Financial risks

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. Also the underlying project entities in which the Group is invested have usually either entered a fixed rate loan agreement or variable interest rate loan agreement. In the latter an interest rate swap agreement will usually be entered into at the commencement of the loan. Hedging activities are designed to be aligned with the period of the loan, which also mirrors the concession period and are generally highly effective. However, the risk that swap counterparties may fail and/or there may be other reasons why such arrangements may become ineffective cannot be ruled out.

The Group has exposures to foreign currency exchange rate movement, as a result of its investments in assets which are in currencies other than Sterling. Foreign exchange movements may have a future effect on both the Company's cash flow and valuation.

The Company may, from time to time, borrow money on a revolving and/or short-term basis to assist it with working capital and/or to acquire new investments. Such borrowing will generally be on a floating rate basis and limited in time. While the Company fully expects to manage its treasury position effectively the Company is exposed to the risks consequential on this including an inability to repay loans when they fall due. There can be no certainty that loans taken out by the Company or the Group or any underlying entity can be renewed on the same terms or at all. Nor can there be certainty that additional equity capital can be raised from shareholders.

The Group aims not to be exposed to significant credit risk but this cannot be fully avoided and different assets of the Group have different underlying credit risks. This applies also to the other contractual counterparties of the Group and its underlying entities.

While the Company and the Group are exposed to the risks (and other risks) set out above, the policy of the Board and the Investment Advisor is to take an active approach to risk management. This includes the review at least quarterly of the chief risks that are from time to time believed to affect the Company and the adoption of such mitigation strategies as may be reasonable in response.

# BOARD OF DIRECTORS



Keith Dorrian



Rupert Dorey

## Board of Directors

The Directors, all of whom are non-executive and the majority of whom are independent, who served throughout the year are listed below and were appointed on 2 August 2006 (unless stated otherwise):

### Keith Dorrian (Chairman)

Aged 65, a resident of Guernsey, is an experienced professional in the banking, finance and fund management industries. A former committee member of the Guernsey Investment Fund Association he was also a director of ANZ Bank (Guernsey) Limited and until his retirement in December 2003, Managing Director of Management International (Guernsey) Limited, the Fund Administration Company of the Bank of Bermuda Group in Guernsey. Prior to retirement he had local responsibility for the Bank's Global Fund Services products with over USD14 billion of assets being administered from Guernsey. Prior to this he was employed by Manufacturers Hanover Trust and First National Bank of Chicago. He holds the Institute of Directors Diploma in Company Direction and holds a number of directorships in listed offshore property funds, funds of hedge funds and hedge funds.

As at the date of this report Mr Dorrian is a director of the following companies:

[AB Alternative Strategies PCC Limited](#)  
[AB International Fund PCC Limited](#)  
[Arab Bank Fund Managers \(Guernsey\) Limited](#)  
[BH Credit Catalysts Limited](#)  
[Cayuga Investment Management Limited](#)  
[Eagle & Dominion Limited](#)  
[Eagle & Dominion Growth Fund Limited](#)  
[Eurocastle Investments Limited](#)  
[Emerging Markets Private Equity Fund GP Limited](#)  
[IIAB PCC Limited](#)  
[K A N Consulting Limited](#)  
[MasterCapital Fund Limited](#)  
[PSource Structured Debt Limited](#)  
[Strategic Investment Portfolio Holdings Limited](#)  
[Strategic Investments GP Limited](#)  
[Third Point Offshore Investors Limited](#)  
[UK Commercial Property Trust Limited](#)

### Rupert Dorey

Aged 52, a resident of Guernsey, has over 22 years' experience in debt capital markets, specialising in credit related products, including derivative instruments. Mr Dorey's expertise is principally in the areas of debt distribution, origination and trading, covering all types of debt from investment grade to high yield and distressed debt. He was at Credit Suisse First Boston for 17 years from 1988 until May 2005, holding a number of positions including fixed income credit product coordinator for European offices and head of UK Credit and Rates Sales. Since leaving CSFB, Mr Dorey is acting in a non-executive directorship capacity for a number of hedge funds, funds of hedge funds and private equity funds.

He is a member of the Institute of Directors.

As at the date of this report Mr Dorey is a director of the following companies:

[AAA Guernsey Limited](#)  
[AIAF PCC Limited Convertible Bond Arbitrage Fund](#)  
[AIAF PCC Limited G7 Fixed Income Fund](#)  
[AIAF PCC Limited Fixed Income Macro Fund](#)  
[AIAF PCC Limited Global Macro Fund](#)  
[AIAF PCC Limited Strategic Equity Advantage Fund](#)  
[AP Alternative Assets LP](#)  
[Celadon Fund PCC Limited](#)  
[Clifford Estate Company Limited](#)  
[Clifford Estate Company \(Chattels\) Limited](#)  
[Cognis General Partner Limited](#)  
[Cognis 1 Fund LP](#)  
[Cognis 1 Master Fund LP](#)  
[CQS Diversified Fund Limited](#)  
[Endurance High Performance Fund Limited](#)  
[Episode Inc](#)  
[Episode LLP](#)  
[Global Credit Opportunities Master Investment Company Limited](#)  
[Green Park Capital Investment Management Limited](#)  
[HarbourVest Senior Loans Europe Limited](#)  
[M&G General Partner Inc](#)  
[Onesimus Dorey \(Holdings\) Limited](#)  
[Partners Group Global Opportunities Limited](#)  
[Saltus European Debt Strategies Limited](#)  
[Tetragon Financial Group Fund Limited](#)  
[Tetragon Financial Group Master Fund Limited](#)



Giles Frost

### Giles Frost

Aged 49, resident in the United Kingdom, is a director of Amber. Prior to establishing the Investment Advisor in 2009, he was joint head of the European public infrastructure business unit at Babcock & Brown. He was employed at Babcock & Brown for nine years and was involved in the development, investment and management of projects in the public infrastructure sector throughout this time. Prior to joining Babcock & Brown he was a solicitor and partner in the law firm Wilde Sapte (now SNR Denton).

Mr Frost is a director of Amber Infrastructure Group Holdings Limited, the ultimate holding company of the Investment Advisor to the Company and various of its subsidiaries. Mr Frost is also a director of a number of the Group's entities and of other entities in which the Group has an investment. He received no director's fees from such roles for the Group.

### Carol Goodwin (appointed 19 February 2007)

Aged 68, a resident of Guernsey, has extensive experience in the finance industry and has held senior executive positions with several European and North American banks, managing businesses in London, Toronto, Montreal, Amsterdam, Nassau and Guernsey. During the periods 1994–1996 and 1998–2001 Ms Goodwin held the position of Managing Director of Investec Bank (Channel Islands) Limited and continues to be a director of the bank and other subsidiary and associated Investec companies. She also serves as a non-executive director for a number of other financial services entities, including investment management companies and a variety of other listed investment funds. Ms Goodwin is a Fellow of the Institute of Canadian Bankers, a Trust and Estate Practitioner and a Chartered Director and a Fellow of the Institute of Directors.



Carol Goodwin

As at the date of this report Mrs Goodwin is a director of the following companies:

AB Alternative Strategies Fund PCC Limited  
AB International Fund PCC Limited  
Arab Bank Fund Managers  
(Guernsey) Limited  
Curlew Group Holdings Limited  
Dalton Capital (Asia) Limited  
Dalton Capital (Guernsey) Limited  
Dexion Trading Limited  
Eastern European Property Fund  
Episode Inc.  
Episode L.P.  
General Holdings Limited  
Investec Bank (Channel Islands) Limited  
Investec Bank (Channel Islands)  
Nominees Limited  
IIAB PCC Limited  
Melchior European Fund Limited  
Melchior European (Master) Fund Limited  
M&G General Partner Inc.  
Yorkshire Guernsey Limited  
(in voluntary liquidation)

### John Whittle (appointed 6 August 2009)

Aged 56, is a resident of Guernsey. He is a Chartered Accountant and holds the IoD Diploma in Company Direction. He is a non-executive director of Aurora Russia Ltd, India Capital Growth Fund Ltd and Advance Frontier Markets Fund Ltd (all listed on AIM). He also acts as non-executive director to several other Guernsey investment funds. He was previously Finance Director of Close Fund Services, a large independent fund administrator, where he successfully initiated a restructuring of client financial reporting services and was a key member of the business transition team. Prior to moving to Guernsey he was at Price Waterhouse in London before embarking on a career in business services, predominantly telecoms. He co-led the business turnaround of Talkland International (now Vodafone Retail) and was directly responsible for the strategic shift into retail distribution and its



John Whittle

subsequent implementation; he subsequently worked on the £20 million private equity acquisition of Ora Telecom.

As at the date of this report Mr Whittle is a director of the following companies:

Advance Frontier Markets Fund Limited  
Aurora Russia Limited  
Avoca Senior Loans Europe Limited  
B&Q (Retail) Guernsey Limited  
B&Q (Retail) Jersey Limited  
CPL GP Limited  
CPL Guernsey Limited  
Mid Europa III Management Limited  
EMP Europe (CI) Limited  
Dynamic Fund IC Limited  
GC Dynamic Investments ICC Limited  
Guernsey International Management  
Company Limited  
India Capital Growth Fund Limited  
Merchant Asset Management  
(Guernsey) Limited  
Merchant Financing Funds ICC  
The Solar Park Fund (GBO) IC Limited  
Pont du Val Limited  
Saunderton Data Centre GP Limited  
Sciens Acqua Master Fund  
Sciens Global Strategic Fund Limited  
Steadfast Capital III (GP) Limited  
Sustainable Agroforestry IC Limited  
Sustainable Red IC Limited  
Sustainable Teak and Agarwood IC Limited  
The IPM renewable Energy Fund ICC Limited  
The Merchant Gemini Turnaround Fund IC  
The Offshore Mutual Fund PCC Limited  
The Sustainable Forestry ICC Limited

# DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and auditors' report thereon, for the year ended 31 December 2011.

These Financial Statements have been prepared by the Directors in compliance with the provisions of the Companies (Guernsey) Law, 2008.

## Principal activities

The principal activity of the Group comprises the investment in the equity and debt of public infrastructure projects in order to provide shareholders with long-term distributions, and increasing the capital value where possible through active management.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in notes 17, 18 and 19 to the Financial Statements.

## Business review

A review of the business for the year ended 31 December 2011 is contained in the Letter from the Chairman (pages 6 to 8 and Investment Advisor's Report (pages 10 to 20).

## Results

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 43.

## Principal risks and uncertainties

The principal risks and uncertainties of the business are discussed in more detail in the Risks and Risk Management report (pages 25 to 27).

The Group's principal risks relate to general economic factors such as interest rate movements, foreign exchange movements, inflation along with political and regulatory developments within the PPP/PFI space. More detailed explanations of these risks and the way in which they are managed are contained under the headings of credit risk, liquidity risk and interest rate risk in note 30 to the Financial Statements. The Investment Manager also seeks to mitigate these risks through continual review of the portfolio and active asset management initiatives.

Other risks faced by the Group include the following:

- Strategic – share price may be at a discount or premium to the NAV.
- Illiquidity of assets.
- Reliance on service providers.
- Adverse government actions.
- Ability to raise equity or source finance to continue to invest.

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Group's portfolio.

The Board and the Investment Manager also recognise the importance of the share price relative to net asset value in maintaining shareholder value.

## Key Performance Indicators ('KPIs')

The Board uses a number of performance measures to assess the Group's success in meeting its objectives. The key performance indicators are long-term yield and capital growth. These indicators for the year ended 31 December 2011 are referred to in the Chairman's Statement and Investment Managers Report.

The Company is a member of the Association of Investment Companies ('AIC').

## Directors' remuneration

During the period 1 January 2011 to 31 December 2011, the Directors' remuneration was paid as follows:

		Base 2011 (£)	Other 2011 (£)	Total 2011 (£)	Total 2010 (£)
Keith Dorrian	Independent Non-Executive Chairman	47,000	–	47,000	52,000
Rupert Dorey	Independent Non-Executive Director	37,000	–	37,000	42,000
Giles Frost	Non-Executive Director	32,000	–	32,000	37,000
Carol Goodwin	Independent Non-Executive Director	32,000	–	32,000	37,000
John Whittle	Independent Non-Executive Director	32,000	–	32,000	37,000

# DIRECTORS' REPORT CONTINUED

There are no service contracts in existence between the Company and any Directors but each of the Directors was appointed by a letter of appointment which sets out the terms of their appointment.

The emoluments for Mr Frost are paid to his employer Amber Infrastructure Limited, a related company of the Group's Investment Advisor.

## Directors' interests

The Directors who held office at 31 December 2011 had the following interests in the shares of International Public Partnerships Limited:

Name of Director	31 December 2011 Number of Ordinary Shares		31 December 2010 Number of Ordinary Shares	
	Non-beneficial	Beneficial	Non-beneficial	Beneficial
Keith Dorrian	—	44,205 <sup>1</sup>	43,575	—
Giles Frost	—	275,000	—	273,745
Rupert Dorey	—	493,687 <sup>2</sup>	—	493,687
Carol Goodwin	—	33,983 <sup>3</sup>	—	31,550
John Whittle	—	34,875	—	—

<sup>1</sup> Holds shares indirectly through a Retirement Annuity Trust Scheme.

<sup>2</sup> Shares owned by Mr Dorey's spouse.

<sup>3</sup> Holds shares directly through an investment company.

Mr Frost is also a Director of International Public Partnerships Lux 1 Sarl and International Public Partnerships Lux 2 Sarl, wholly-owned subsidiary undertakings of the Company. Mr Frost is also a director of a number of other companies in which the Company directly or indirectly has an investment, although Mr Frost does not control or receive remuneration in relation to these entities.

In accordance with the Articles of Association at least one third of the Independent Directors will retire at each Annual General Meeting whilst Mr Frost as the non independent Director will retire at each Annual General Meeting. As all of the Directors are Non-Executive Directors, the Company considers the recommendation for annual re-election of all Directors is not appropriate in these circumstances as it potentially exposes the Company to additional risk.

The Board regularly reviews the performance of the Directors of the Company and currently believes that the performance of each Director continues to be effective and demonstrates commitment to the role.

## Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the period and remain in force at the date of this report.

## Substantial shareholdings

As at 31 December 2011, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following substantial voting rights as shareholders of the Company.

Name of holder	Percentage of voting rights and issued share capital	No. of Ordinary Shares	Nature of holding
Schroder Investment Management Ltd.	13.48	72,018,808	Indirect
Investec Wealth & Investment Ltd.	11.45	61,165,736	Indirect
M&G Investment Management Ltd.	7.85	41,926,921	Indirect
Brewin Dolphin Ltd.	6.85	36,577,450	Indirect
Sarasin & Partners LLP	5.69	30,417,357	Indirect
Legal & General Investment Management Ltd.	3.43	18,335,902	Indirect
British Steel Pension Fund	3.32	17,732,153	Indirect
London Borough of Enfield Pension Fund	2.85	15,218,251	Indirect
Tilney Investment Management Ltd	2.63	14,063,617	Indirect
Smith & Williamson Investment Management Ltd.	2.47	13,201,603	Indirect

## Listing requirements

On 9 November 2006, the Company's Ordinary Shares were admitted to the Official List maintained by the Financial Services Authority. Throughout the year the Company has complied with the Listing Rules of the UK Listing Authority.

# DIRECTORS' REPORT CONTINUED

## Advisory services

Amber Fund Management Limited ('AFML') provides advisory services to the Company. A summary of the contract between the Company and AFML in respect of investment advisory services provided is given in note 40 to the Financial Statements.

Amber Fund Management Limited has also been appointed as Operator to International Public Partnerships Limited Partnership (a subsidiary of the Company) pursuant to the Limited Partnership Agreement and Operating Agreement. As Operator, Amber Fund Management Limited is responsible for the discretionary investment management of International Public Partnerships Limited Partnership's investment portfolio. In addition, it or its associates provides (in conjunction in some cases with the Administrator) accounting and finance resource, legal, company and asset management, compliance and risk management services, and IT systems to the Group and its subsidiaries and the asset holding entities in which it is invested.

## Share capital

The Company's share capital at 31 December 2011 comprised entirely Ordinary Shares which rank equally in all respects. The rights attached to the Ordinary Shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association. The Company's Articles of Association may only be amended by a special resolution of the shareholders.

In January 2011, the Company announced the issue of 2,000,000 new Ordinary Shares of 0.01 pence each for cash at 117.0 pence per share under its block listing facility.

In May 2011, 3,244,167 new Ordinary Fully Paid Shares of 0.01 pence each were issued as a scrip dividend alternative in lieu of cash for the final dividend in respect of the six months ended 31 December 2010.

In September 2011, the Group raised an additional £52.03 million of capital through Tap issues for Subscription of 46,428,447 new Ordinary Shares of 0.01 pence each at an issue price of 112.15 pence per share (on an ex-dividend basis).

In October 2011, 3,521,274 new Ordinary Fully Paid Shares of 0.01 pence each were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the six months ended 30 June 2011.

The total number of Ordinary Shares in issue at 31 December 2011 was 534,234,191.

Details of the Company's share capital are set out in note 31 to the Financial Statements.

## Directors' authority to buy back shares and treasury shares

The Company did not purchase any shares for treasury or cancellation during the year.

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Share Capital expires on 21 June 2012. The Company will seek to renew such authority at the Annual General Meeting to take place on 21 June 2012. Any

buyback of Ordinary Shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board and the making and timing of any buybacks will be at the absolute discretion of the Board. Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing Net Asset Value ('NAV') of the Ordinary Shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the Listing Rules of the UK Listing Authority which provide that the price to be paid must not be more than 5% above the average of the middle market quotations for the Ordinary Shares for the five business days before the shares are purchased unless previously advised to shareholders. In accordance with the Company's Articles of Association up to 10% of the Company's shares may be held as treasury shares.

## Foreign exchange, gearing and treasury policy

The Group has exposure to foreign currency as a result of investments outside of the United Kingdom and, as such, is exposed to movements in exchange rates between the Euro, Canadian Dollar, Australian Dollar and Pound Sterling. The Group may enter into forward exchange contracts to mitigate these risks.

The existing £100 million debt facility was re-negotiated in April 2011 with Royal Bank of Scotland and National Australia Bank and as at 31 December 2011 was drawn down by £18.1 million and expires in May 2014. The Board may from time to time consider increasing the amount of this facility if it considers that such an increase will assist the Company in the acquisition of assets seen by the Board as attractive and accretive to the Company's performance and portfolio diversification. The Board considers that any such increase would be a trigger for a further equity raising.

## Regulation

The Company has been declared an Authorised Fund under the Authorised Closed-ended Investment Schemes Rules of the Companies (Guernsey) Law, 2008.

## Earnings per share

Basic and diluted earnings per share were 3.33 pence for the year ended 31 December 2011 (2010 restated: 3.20 pence).

## Dividend and distribution policy

Distributions on Ordinary Shares are expected to be paid twice a year, normally in respect of the six months to 30 June and 31 December each year, subject to the provisions of Guernsey law, by way of dividends. The Company may also make distributions by way of capital as well, or in lieu of, by way of dividends and if to the extent that the Directors consider this to be appropriate and permitted by the Listing Rules, the Laws and the Articles.

In accordance with announcements made, a distribution of 2.925 pence per share for the period 1 January 2011 to 30 June 2011 was paid on 28 October 2011. The distribution of 2.925 pence per share for the period 1 July 2011 to 31 December 2011 is to be paid on 15 June 2012.

Further details of the Company's distributions are set out in note 13 to the Financial Statements.

## Accounting policies and adjustments

The Company and the Group have adopted appropriate accounting policies in accordance with International Financial Reporting Standards ('IFRSs').

As part of the Directors' ongoing review of the suitability and appropriateness of accounting policies and treatments, a change in accounting policy has been voluntarily adopted during the year to reflect the long-term contractual nature of the underlying investment concessions and therefore management's view that given the fixed or determinable nature of forecast cash flows, financial assets during construction would be more appropriately accounted for as loans and receivables (at amortised cost) as opposed to available for sale financial assets (at fair value).

This change in accounting policy provides greater consistency with the way financial liabilities are accounted for in the underlying investments and therefore mitigates a potential accounting mismatch whilst still being consistent with general market convention. This policy change has no impact on the Consolidated Income Statement, Consolidated Cash Flow Statement or investor returns, but has a presentational re-classification impact on the Consolidated Balance Sheet. The change has been made to the prior year balance sheet for comparative purposes. Further details are provided in note 1 to the Financial Statements.

An accounting adjustment has also been made to restate debt related break costs incurred in 2006 as part of a wider transaction to acquire the initial seed portfolio for the fund. These costs had been included within intangible assets along-with the portion of acquisition costs attributable to the service profits of underlying investments. Given this element of the intangible is not recoverable, management are of the view that these costs should have been expensed rather than capitalised in 2006. The impact of the restatement (as of 2006) is to add back intangible amortisation in the year ended 31 December 2010 as set out in note 1 to the Financial Statements. In addition, as part of the same wider transaction, debt arrangement fees that related to external debt before the initial portfolio it was acquired by the Group was carried against the outstanding balance of total loans. Given the debt was intra-group these costs have been restated to write off the costs (as at 2006). These restatements have no impact on the Consolidated Financial Statements for the year ended 31 December 2011 other than to alter the brought-forward reserves. Further details of the impact of these changes are set out in note 1 to the Financial Statements.

## Relations with shareholders

The Board recognises the importance of maintaining an active and transparent dialogue with shareholders and that communications are given the highest priority. The Company welcomes the views of shareholders and, where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The Company's Investment Advisor regularly meets the largest shareholders and Company analysts.

The Annual General Meeting of the Company provides a forum, both formal and informal, for investors to meet and discuss issues with the Directors and the Investment Advisor. The Company also provides comprehensive information on its recently refreshed website including documents issued to shareholder such as

financial reports and presentations, information on its portfolio of assets and dividend and share price information.

The Annual General Meeting is scheduled for 21 June 2012 and a Notice of the meeting will be sent to shareholders in advance of this meeting. At its Annual General Meeting, the Company complies with the provision of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of the Chairman.

## Going concern basis

The Directors have acknowledged their responsibilities in relation to the Financial Statements for the year to 31 December 2011.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Strategy and Principal risk and uncertainties sections of this report.

The Directors have considered significant areas of possible financial risk and comprehensive financial forecasts have been prepared and submitted to the Board for review and the Directors have, based on the information contained in these forecasts and the assessment of the committed banking facilities in place, formed a judgement, at the time of approving the Financial Statements, a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. After consideration, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Financial Statements (refer to note 1).

## Investment strategy

The Company continues to pursue a strategy focusing on investment in infrastructure assets offering a low level of credit and other risks that provide secure yield and potential capital growth particularly from assets which are in construction and yet to reach their operational stage.

During the period there were a considerable number of investment opportunities presented to the Company for consideration however not all passed stringent and extensive due diligence and sustainable yield reviews.

In considering future opportunities, it is worth emphasising that the Director's prime responsibility and focus is the need to create and demonstrate value benefits for shareholders. All proposed acquisitions recommended by the Investment Advisor are robustly reviewed by the independent Directors before any investment decision is made.

The Board takes a close interest in all the Company's assets and their performance reviewing, at least quarterly, detailed operational performance reports and comparing their financial performance against original expectations. The Board also ensures that on an annual basis it visits a number of the Company's assets and meets with its public sectors clients to discuss, in open forum, management performance.

The Board, in early 2012, visited a number of the Company's assets in Australia, which currently represent around 18% of the

## DIRECTORS' REPORT CONTINUED

portfolio. The Board took the opportunity to meet with many of the Company's public sector partners in the region and tour assets including Royal Children's Hospital in Melbourne and Orange Hospital in rural New South Wales, together with newer investments such as Gold Coast Rapid Transit which is currently under construction in Queensland.

### Corporate governance

The Board pays a high level of attention to corporate governance issues. There have been no Board changes to report this year. The Board has quarterly formal meetings at which all assets are reviewed in detail and holds a significant number of additional meetings to consider investment recommendations and for other ad hoc purposes. The Board also holds at least one formal strategy meeting each year. The Board has two principal sub-committees: these are the audit committee and the management engagement committee. The role of the latter is to review the performance of all of the Company's advisors, most importantly the Investment Advisor.

The Company complies with the UK Corporate Governance Code and treats matters of appropriate corporate governance with great care. Further details are provided in the Corporate Governance section of this report.

### Post balance sheet events

There were no material events after the balance sheet date requiring disclosure.

### Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies (Guernsey) Law, 2008.

As previously reported, Ernst & Young LLP were appointed as the Group's auditors for the 2011 financial year and the Board would like to acknowledge the substantial commitment and interest shown in ensuring that the accounts were audited in a timely and professional manner.



**Keith Dorian**  
18 April 2012  
Chairman

# CORPORATE GOVERNANCE REPORT

## Corporate governance policy

As a Company with a Premium listing on the London Stock Exchange, it is required to comply or explain in accordance with the UK Corporate Governance Code as revised by the Financial Reporting Council in June 2010 and amended in October 2011 ('the UK Code'). It is also the Company's policy to comply with best practice on good corporate governance that is applicable to investment companies.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code and the UKLA Listing Rules, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The AIC Code provides a 'comply or explain' code of corporate governance designed especially for the needs of investment companies. The Company is a member of the AIC. The Company has reviewed its compliance with the AIC Code (October 2010) and includes in this report any instances where it is not in full compliance. The Financial Reporting Council has confirmed that so far as investment companies are concerned it considers that companies which comply with the AIC Code will be treated as meeting their obligations under the UK Code and Listing Rules.

The Board has determined that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which the Financial Reporting Council has confirmed should meet the Company's obligations in relation to the Combined Code and relevant UKLA Listing Rules) will provide more appropriate information to shareholders. The Company has complied with all the recommendations of the AIC Code and the relevant provisions of the Combined Code, except as noted below.

The UK Code includes provisions relating to:

- the role of the Chief Executive;
- annual re-election of all Directors;
- Executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons given in the AIC Guide, the Board considers these provisions are not relevant to the position of the Company, being an externally advised investment company. The Company has therefore, in line with the AIC Guide, not reported further in respect of these provisions. However, the firm does have procured an independent annual controls and processes review.

## Board structure

The Board currently consists of five Non-Executive Directors, whose biographies, on pages 28 to 29, demonstrate a breadth of investment and business experience. As the Chairman of the Board is an independent non-executive and there are no Executive Directors, the Board considers it unnecessary to appoint a senior independent Director.

Name	Position	Independent	Date appointed
Keith Dorrian	Non-Executive Chairman	Yes	2 August 2006
Rupert Dorey	Non-Executive Director (Chairman Audit Committee)	Yes	2 August 2006
Giles Frost	Non-Executive Director	No	2 August 2006
Carol Goodwin	Non-Executive Director (Chairman Management Engagement Committee)	Yes	19 February 2007
John Whittle	Non-Executive Director	Yes	6 August 2009

The Board consists solely of Non-Executive Directors and is chaired by Mr K Dorrian. One third of the Directors retire by rotation at every Annual General Meeting and will therefore be subject to annual re-election by shareholders. All other Directors are considered by the Board to be independent of the Company's Investment Advisor. Any Directors appointed to the Board since the previous Annual General Meeting also retire and stand for re-election. The Chairman and the independent Directors take the lead in any discussions relating to the appointment or reappointment of Directors taking into account the expertise of the candidates and their independence.

The Board meets at least four times a year and in addition there is regular contact between the Board, the Investment Advisor and the Administrator and the Board requires to be supplied in a timely manner with information by the Investment Advisor, the Company Secretary and other advisors in a form and of a quality appropriate to enable it to discharge its duties. The Management Engagement Committee which is a sub-committee of the Board regularly reviews the performance of the Investment Advisor and the Company's other advisors and major service suppliers to ensure that performance is satisfactory and in accordance with the terms and conditions of the relative appointments.

In accordance with its usual practice an evaluation of the performance of individual Directors and the Chairman was carried out during the year which concluded that the Board is performing satisfactorily in the six areas reviewed: Board composition and meeting process, Board information, training, Board dynamics, Board accountability and effectiveness and the performance of the Chairman.

The Board is committed to maintaining the appropriate balance of skills, knowledge and experience among its members to ensure strong leadership of the Company. When appointing Board members, its priority will always be one of meritocracy, but will be influenced by the strong desire to maintain Board diversity, including gender. The Board currently has one female Director, out of its five members, which has been the gender ratio almost since inception of the Company.

New Directors receive an induction from the Administrator and the Investment Advisor on joining the Board, and in consultation with the Chairman all Directors are entitled to receive other relevant ongoing training as necessary.

# CORPORATE GOVERNANCE REPORT CONTINUED

The Board will consider the need for an externally facilitated evaluation of the Board at least every three years. No external valuation has been undertaken during the year.

The Company has no Executive Directors or employees. All matters, including strategy, investment and dividend policies, gearing and corporate governance procedures are reserved for approval by the Board of Directors. The Board currently meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

## Board tenure and re-election

No member of the Board has served for longer than six years to date. As such, no issue has arisen to be considered by the Board with respect to long tenure. When and if any Director shall have been in office (or on re-election would at the end of that term of office) for more than nine years, the Company will consider further on this matter as to whether there is any risk that such Director might reasonably be deemed to have lost independence through such long service. The Board does not consider it appropriate or necessary for all Directors to be re-elected annually. As such, Rupert Dorey will retire in 2012 (as a result of the retirement by rotation provisions in the Articles of Association) and Giles Frost will also retire as a result of the UKLA Listing Rules and both will stand for re-election.

## Meeting attendance records

The table below lists Directors' attendance at meetings during the year, to the date of this report.

Directors	Quarterly Board (max 4)	Ad-hoc Board (max 10)	Audit Committee (max 4)	Management Engagement Committee (max 1)
K Dorrian <sup>1</sup>	3	6	3	0
R Dorey	4	9	4	1
G Frost <sup>2</sup>	4	1 (max 1) <sup>3</sup>	n/a	n/a
C Goodwin	4	10	4	1
J Whittle	4	9	4	1

<sup>1</sup> Keith Dorian absent for part of the year for health reasons.

<sup>2</sup> Mr G Frost is not a member of the Audit Committee or Management Engagement Committee.

<sup>3</sup> Mr G Frost does not attend ad-hoc Board Meetings as a Director where recommendations from the Investment Advisor are under consideration.

## Committees of the Board

The AIC Code and UK Code requires the Company to consider appointing a nomination or remuneration committee. The Board has not deemed this necessary as the Company has no Executive Directors or employees and, being comprised wholly of Non-Executive Directors; the whole Board considers these matters. The Board's Audit Committee is responsible for the appointment of auditors and the review of the Company's accounting and financial affairs. This includes responsibility for reviewing significant financial reporting judgements contained in any formal announcements, including the Company's Financial Statements. The Audit Committee also reviews internal audit activities of the Investment Advisor, on which it relies (see detail within 'Internal Control and Financial Reporting' below).

The **Audit Committee** is chaired by Mr Dorey and comprises of the full Board, with the exception of Mr Frost. As a consequence, the Company Chairman is a member of the Audit Committee, which the Board believes is appropriate as Mr Dorrian brings significant independent expertise in investment trusts and finance to the Committee, which it believes is beneficial for the Committee. The Committee considers reports from the auditor, the Investment Manager and the Administrator. The main responsibilities of the Audit Committee include monitoring the integrity of the Company's Financial Statements and appropriateness of its accounting policies, reviewing the effectiveness of the internal control systems and making recommendations to the Board regarding the appointment, independence and remuneration of the auditor. The Committee is responsible for monitoring the objectivity and effectiveness of the audit process, with particular regard to terms under which the auditor is appointed to perform non-audit services. During the year, the Company's auditor was involved in non-audit work in relation to the independent control process review and received fees of £43,938 in respect of this (2010: £nil). Shareholders have the opportunity at each Annual General Meeting to vote on the election of the auditor for the forthcoming year.

The Board's **Management Engagement Committee** was established to provide a formal mechanism for the review of the performance of the Company's advisors including its Investment Advisor. It carries out this review through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisors' appointment, with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Company's shareholders.

## Directors' duties and responsibilities

The Directors have adopted a set of Reserved Powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- Statutory obligations and public disclosure.
- Approval of investment decisions.
- Strategic matters and financial reporting.
- Board composition and accountability to shareholders.
- Risk assessment and management, including reporting, compliance, monitoring, governance and control.
- Other matters having material effects on the Company.

These Reserved Powers of the Board have been adopted by the Directors to demonstrate clearly the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions. The Board's Reserved Powers document is available upon request.

The Directors are responsible for the overall management and direction of the affairs of the Company. The Company has no Executive Directors or employees. Under the Investment Advisory Agreement, Amber Fund Management Limited acts as Investment Advisor to the Company to review and monitor investments and advise the Company in relation to strategic management of the investment portfolio. Details of the Investment Advisor's relationship with the Company are provided in note 40 of the Financial Statements.

In March 2012, the Management Engagement Committee formally reviewed the performance of its advisors for the financial year ended 31 December 2011. In particular, the service provided by the Investment Advisor was reviewed with respect to performance in origination, asset management, financial and internal control, monitoring and reporting. Overall, the Committee confirmed its satisfaction with the services provided by the Investment Advisor. In accordance with its normal practice it will continue to hold discussions, relating to the future strategy of the Company, with the Investment Advisor and regular formal and informal discussions are held on this subject. The Directors confirm that they believe that it is in shareholders' best interest to continue the appointment of Amber Fund Management Limited as the Company's Investment Advisor.

Heritage International Fund Managers Limited acts as Administrator and Company Secretary and is responsible to the Board under the terms of the Administration Agreement. The Administrator is also responsible for ensuring compliance with the Rules and Regulations of Guernsey Law, London Stock Exchange listing requirements, money laundering regulation and observation of the Reserved Powers of the Board and in this respect the Board receives detailed quarterly reports. The Management Engagement Committee also formally reviewed the performance of the Administrator and Company Secretary for the financial year ended 31 December 2011 and again confirms that they believe that it is in shareholders' best interest to continue the appointment of Heritage International Fund Managers Limited as the Company's Administrator and Company Secretary.

The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that it adheres to applicable legislation, rules and regulations under Guernsey Law and from the Guernsey Financial Services Commission and the London Stock Exchange. Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors on an ongoing basis and the Company has maintained appropriate Directors' Liability Insurance cover throughout the period.

The Board monitors the Company's share price and Net Asset Value ('NAV') and regularly considers ways in which future share price performance may be enhanced including by implementing marketing and investor relations activities, appropriate management of share price premium/discount and the relative positioning and performance of the Company to its competitors. The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Internal control, risk management and financial reporting**

The Directors acknowledge that they are responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss.

The Directors review all controls including operations, compliance and risk management. The key procedures which have been established to provide internal control are:

- Investment advisory services are provided by Amber Fund Management Limited ('AFML'). The Board is responsible for setting the overall investment policy and monitors the action of the Investment Advisor and Operator at regular Board meetings. The Board has also delegated administration and company secretarial services to Heritage International Fund Managers Limited ('Heritage'); however, it retains accountability for all delegated functions.
- The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company on an ongoing basis. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all local and international laws and regulations are upheld. In light of recent market volatility and economic turmoil, particular attention has been given to the effectiveness of controls to monitor liquidity risk, asset values, counterparty exposure and credit availability.
- The Non-Executive Directors of the Company clearly define the duties and responsibilities of their agents and advisors and appointments are made by the Board after due and careful consideration. The Board monitors the ongoing performance of such agents and advisors.
- AFML and Heritage maintain their own systems of internal control, on which they report to the Board. The Company, in common with other investment companies, does not have an internal audit function. The Board has considered the need for an internal audit function, but because of the internal control systems in place at AFML and Heritage, has decided to place reliance on their systems and internal control procedures. The Board has, however, commissioned independent internal controls and processes reviews and reporting by Ernst & Young to the Board to ensure strong internal systems of control continue to be maintained, as an alternative to requiring a fully resourced internal audit function. Such reviews are performed on a rolling annual cycle focusing on different areas in the business including, operations, finance, compliance and origination activity, for example. During the year, Ernst & Young reviewed internal controls and processes in relation to UK asset management activities.
- The systems are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows therefore that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.
- The Group ensures that transactions and balances are recognised and measured in accordance with prescribed accounting policies and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting process by entities in the Group ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated Financial Statements.

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# CORPORATE GOVERNANCE REPORT

## CONTINUED

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### **Relations with shareholders**

The Board welcomes shareholders' views and places great importance on communication with shareholders. It has responsibility for communication with the investor base and is directly involved in major communications and announcements. The Board receives regular reports on the views of shareholders and the Chairman and other Directors are available to meet shareholders if required. The Investment Advisor meets with major shareholders on a regular basis and reports to the Board on these meetings. Any issues of concern, including on corporate governance or strategy, can be addressed by any shareholder by writing to the Company at its registered address (see inside back cover). The Annual General Meeting of the Company provides a forum for shareholders to meet and discuss issues with the Directors and with the Investment Advisor of the Company. To promote a clear understanding of the Company, its objectives and financial results, the Board aims to ensure that information relating to the Company is disclosed in a timely manner.

# AUDIT COMMITTEE REPORT

The Audit Committee comprises the independent Non-Executive Directors and is chaired by Mr R Dorey. The Committee's terms of reference include all matters indicated by the UK Corporate Governance Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken. The Committee meets at least twice a year.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual Report and Financial Statements and the Interim Report and Financial Statements, the system of internal controls and the terms of appointment of the auditors together with their remuneration. It is also the forum through which the Auditor's Report to the Board of Directors is reviewed by the Committee.

The objectivity of the 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 cost effectiveness and the independence and objectivity of the auditors, with particular regard to any non-audit work that the auditor may undertake.

Following a request for proposals prepared by the Audit Committee in October 2010, a recommendation was made to the Board to appoint Ernst & Young LLP as the Group's auditors for the 2011 year. The difficult decision to change auditors was not taken lightly by the Board and was prompted largely for the following reasons:

- maintaining high levels of governance;
- length of tenure in position;
- one auditor for the entire group; and
- financial efficiencies.

The Board receives copies of the minutes of the Audit Committee Meetings. The Audit Committee has met four times from the period 1 January 2011 to date.

Matters considered at these meetings included, but were not limited to:

- review of the 2010 Annual Report and Financial Statements;
- review of the 2011 Half Year Financial Report;
- review of the audit plan and timetable for the preparation of the 2011 Annual Report and Financial Statements; and
- review of the 2011 Annual Report and Financial Statements.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

## Approval

This report was approved by the Audit Committee and signed on its behalf by:



**Rupert Dorey**

Chairman of the Audit Committee  
18 April 2012

# DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing Financial Statements for each year which give a true and fair view, in accordance with the applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union, of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable;
- 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 a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The maintenance and integrity of the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve considerations of these matters and, accordingly, the auditors accept no responsibility for any change that may have occurred to the Financial Statements 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.

## Responsibility Statement of the Directors' in respect of the consolidated Annual Report

The Directors each confirms to the best of their knowledge that:

- (a) the Consolidated Financial Statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and net return of the Group; and
- (b) the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties faced.

By order of the Board



**Keith Dorrian**  
18 April 2012  
Director



**Rupert Dorey**  
18 April 2012  
Director

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERNATIONAL PUBLIC PARTNERSHIPS LIMITED

We have audited the consolidated Financial Statements of International Public Partnerships Limited for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. 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 on page 40, 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 Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the Financial Statements

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 and company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

## Matters on which we are required to report by exception

We have nothing to report in respect of the matters set out below.

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

- proper accounting records have not been kept; or
- the Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

## Michael Bane

For and on behalf of Ernst & Young LLP  
Guernsey  
18 April 2012

# CONSOLIDATED INCOME STATEMENT

## YEAR ENDED 31 DECEMBER 2011

	Notes	Year ended 31 December 2011 £'000s	(Restated) <sup>2</sup> Year ended 31 December 2010 £'000s
<b>Continuing operations</b>			
Revenue	5	299,585	489,820
Cost of sales		(268,445)	(466,917)
<b>Gross profit</b>		<b>31,140</b>	22,903
Investment income	5,7	165,866	148,489
Other gains and losses	8	(4,936)	(5,962)
Share of results from associates	19	(405)	4,547
Other operating income	5	3,818	5,145
<b>Total other income</b>		<b>164,343</b>	152,219
Finance costs	9,10	(146,342)	(121,755)
Operating expenses	10	(27,529)	(24,139)
Administrative expenses	10	(2,156)	(3,070)
Impairment charges	10	(6,286)	(9,620)
<b>Total other expenses</b>		<b>(182,313)</b>	(158,584)
<b>Profit before tax</b>		<b>13,170</b>	16,538
Tax	12	2,860	(1,476)
<b>Profit for the year from continuing operations</b>		<b>16,030</b>	15,062
Attributable to:			
Equity holders of the parent		16,538	14,645
Non-controlling interests – share of (losses)/profits <sup>1</sup>		(508)	417
	Notes	Pence	Pence
<b>Earnings per share</b>			
From continuing operations			
Basic	14	3.33	3.20
Diluted	14	3.33	3.20

<sup>1</sup> The non-controlling interests share of profit/(losses) relates to the 25% holding in the Diabolo project, the 25% holding in the Alberta Schools project, the 20% holding in the Liverpool Library project and the 5% holding in the Amiens (France) Hospital project that are not held by the Group.

<sup>2</sup> Certain amounts have been restated to reflect adjustments made as detailed in note 1 and therefore do not correspond to the amounts shown for those items in the Annual Report and Financial Statements for the year ended 31 December 2010.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## YEAR ENDED 31 DECEMBER 2011

	Notes	Year ended 31 December 2011 £'000s	(Restated) <sup>2</sup> Year ended 31 December 2010 £'000s
<b>Profit for the year from continuing operations</b>		<b>16,030</b>	15,062
<b>Other comprehensive income</b>			
Net (decrease)/increase in foreign exchange translation reserves		(754)	11,895
Net increase in fair value of available for sale financial assets		361	129
Net decrease in fair value of hedging derivatives <sup>1</sup>	24	(109,141)	(33,830)
<b>Other comprehensive (loss) for the year, net of tax</b>		<b>(109,534)</b>	(21,806)
<b>Total comprehensive (loss)</b>		<b>(93,504)</b>	(6,744)
<b>Total comprehensive (loss) attributable to:</b>			
Equity holders of the parent		(92,993)	(3,203)
Non-controlling interests		(511)	(3,541)

<sup>1</sup> Includes fair value movement net of tax of interest rate swaps and foreign exchange hedges of £107.6 million (decrease) and £1.6 million increase respectively and a £3 million (decrease) interest rate swap movement in relation to Associates.

<sup>2</sup> Certain amounts have been restated to reflect adjustments made as detailed in note 1 and therefore do not correspond to the amounts shown for those items in the Annual Report and Financial Statements for the year ended 31 December 2010.

Tax of £39.5 million credit (2010: £10.3 million credit) has been netted off the components of other comprehensive income presented above (refer note 25).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Share capital Ordinary £'000s	Hedging and translation reserves £'000s	Revaluation reserves £'000s	Other distributable reserve £'000s	Retained earnings £'000s	Total £'000s	Non- controlling interests £'000s	Total £'000s
Balance at 31 December 2010		198,259	(48,443)	–	247,235	16,822	413,873	2,704	416,577
Issue of Ordinary Shares	31	61,971	–	–	–	–	61,971	–	61,971
Issue fees applied to new shares	31	(467)	–	–	–	–	(467)	–	(467)
Distributions in the year	13	–	–	–	(27,875)	–	(27,875)	–	(27,875)
Distributions to non-controlling interests		–	–	–	–	–	–	(476)	(476)
Profit for the year		–	–	–	–	16,538	16,538	(508)	16,030
Other comprehensive income/ (loss) in the year		–	(109,892)	361	–	–	(109,531)	(3)	(109,534)
<b>Balance at 31 December 2011</b>		<b>259,763</b>	<b>(158,335)</b>	<b>361</b>	<b>219,360</b>	<b>33,360</b>	<b>354,509</b>	<b>1,717</b>	<b>356,226</b>
Balance at 31 December 2009		81,795	(30,595)	(7,694)	272,991	8,281	324,778	6,419	331,197
Prior period adjustment re intangibles	1	–	–	–	–	(6,104)	(6,104)	–	(6,104)
Changes in accounting policies PPP concessions	1	–	–	7,694	–	–	7,694	–	7,694
Restated balance at 31 December 2009		81,795	(30,595)	–	272,991	2,177	326,368	6,419	332,787
Issue of Ordinary Shares	31	118,268	–	–	–	–	118,268	–	118,268
Issue fees applied to new shares	31	(1,804)	–	–	–	–	(1,804)	–	(1,804)
Distributions in the year	13	–	–	–	(25,756)	–	(25,756)	–	(25,756)
Distributions to non-controlling interests		–	–	–	–	–	–	(174)	(174)
Profit for the year		–	–	–	–	14,645	14,645	417	15,062
Other comprehensive income/ (loss) in the year		–	(17,848)	–	–	–	(17,848)	(3,958)	(21,806)
Balance at 31 December 2010 <sup>1</sup>		198,259	(48,443)	–	247,235	16,822	413,873	2,704	416,577

<sup>1</sup> Certain amounts have been restated to reflect adjustments made as detailed in note 1 and therefore do not correspond to the amounts shown for those items in the Annual Report and Financial Statements for the year ended 31 December 2010.

# CONSOLIDATED BALANCE SHEET

## AS AT 31 DECEMBER 2011

	Notes	31 December 2011 £'000s	(Restated) <sup>1</sup> 31 December 2010 £'000s	(Restated) <sup>1</sup> 1 January 2010 £'000s
<b>Non-current assets</b>				
Intangible assets	15	331,997	302,127	265,812
Property, plant and equipment	16	7,737	8,087	8,503
Interests in associates	19	49,555	55,685	49,357
Available for sale financial assets	20	25,936	17,667	24,916
Deferred tax asset	25	24,617	3,581	2,928
Financial asset loans and receivables	21	2,229,111	1,654,752	1,296,474
<b>Total non-current assets</b>		<b>2,668,953</b>	<b>2,041,899</b>	<b>1,647,990</b>
<b>Current assets</b>				
Financial asset loans and receivables	21	40,672	39,263	26,916
Available for sale financial assets	20	–	216	2,773
Trade and other receivables	26	50,315	43,460	23,736
Cash and cash equivalents	22	419,609	629,866	839,133
<b>Total current assets</b>		<b>510,596</b>	<b>712,805</b>	<b>892,558</b>
<b>Total assets</b>		<b>3,179,549</b>	<b>2,754,704</b>	<b>2,540,548</b>
<b>Current liabilities</b>				
Trade and other payables	28	63,626	87,702	135,856
Current tax liabilities		1,484	3,371	486
Bank loans	23	42,533	30,577	84,608
Derivative financial instruments	24	949	1,716	497
Short-term provisions		–	–	900
<b>Total current liabilities</b>		<b>108,592</b>	<b>123,366</b>	<b>222,347</b>
<b>Non-current liabilities</b>				
Bank loans	23	2,344,288	1,990,341	1,794,698
Derivative financial instruments	24	278,478	130,941	85,791
Deferred tax liabilities	25	80,491	93,479	104,925
Long-term provisions	29	11,474	–	–
<b>Total non-current liabilities</b>		<b>2,714,731</b>	<b>2,214,761</b>	<b>1,985,414</b>
<b>Total liabilities</b>		<b>2,823,323</b>	<b>2,338,127</b>	<b>2,207,761</b>
<b>Net assets</b>		<b>356,226</b>	<b>416,577</b>	<b>332,787</b>

<sup>1</sup> Certain amounts have been restated to reflect adjustments made as detailed in note 1 and therefore do not correspond to the amounts shown for those items in the Annual Report and Financial Statements for the year ended 31 December 2010.

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2011 CONTINUED

	Notes	31 December 2011 £'000s	(Restated) <sup>1</sup> 31 December 2010 £'000s	(Restated) <sup>1</sup> 1 January 2010 £'000s
<b>Equity</b>				
Share capital	31	259,763	198,259	81,795
Revaluation reserves	32	361	—	—
Hedging and translation reserves	24	(158,335)	(48,443)	(30,595)
Other distributable reserve	33	219,360	247,235	272,991
Retained earnings	34	33,360	16,822	2,177
<b>Equity attributable to equity holders of the parent</b>		<b>354,509</b>	413,873	326,368
Non-controlling interests		1,717	2,704	6,419
<b>Total equity</b>		<b>356,226</b>	416,577	332,787

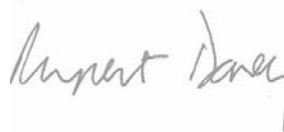
<sup>1</sup> Certain amounts have been restated to reflect adjustments made as detailed in note 1 and therefore do not correspond to the amounts shown for those items in the Annual Report and Financial Statements for the year ended 31 December 2010.

The Financial Statements were approved by a committee of the Board of Directors on 18 April 2012.

They were signed on its behalf by:



**Keith Dorrian**  
18 April 2012  
Director



**Rupert Dorey**  
18 April 2012  
Director

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
<b>Net cash from operating activities</b>	36	<b>(72,735)</b>	(19,928)
<b>Investing Activities</b>			
Interest received		31,901	42,213
Dividends received from associates		2,371	3,203
Acquisition of subsidiaries (net of cash acquired)	35	(62,083)	(420)
Investment in debt instruments		(4,476)	(6,424)
Investment in financial and intangible assets <sup>1</sup>		(501,143)	(356,190)
Acquisition of equity in associates	19	(11,091)	(3,982)
Sales of listed securities		–	445
<b>Net cash used in investing activities</b>		<b>(544,521)</b>	(321,155)
<b>Financing Activities</b>			
Proceeds from issue of shares		54,375	111,666
Dividends paid		(20,282)	(22,565)
Share issue expenses paid		(467)	(1,804)
Loan issue costs paid		(1,000)	–
Net proceeds/(repayment) of borrowings		376,591	(41,889)
<b>Net cash provided by financing activities</b>		<b>409,217</b>	45,408
Net decrease in cash and cash equivalents		(208,039)	(295,675)
Cash and cash equivalents at beginning of year		629,866	839,133
Exchange gains on cash		(2,218)	86,408
<b>Cash and cash equivalents at end of year</b>		<b>419,609</b>	629,866

<sup>1</sup> Net cash used in investing activities represents the construction costs incurred on service concessions under development and includes elements of financial assets and intangible assets.

Cash and cash equivalents of £419.6 million at 31 December 2011 (2010: £629.9 million) includes £378.8 million (2010: £563.1 million) held by non-recourse PFI project entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

International Public Partnerships Limited is a closed ended authorised investment company incorporated in Guernsey under The Companies (Guernsey) Law, 2008. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in the Investment Advisor's Report, Investment Policy and Portfolio Interest on pages 10, 22 and 4 respectively.

These Financial Statements are presented in Pounds Sterling as this is the currency of the primary economic environment in which the Group operates and represents the functional currency of the Group and all values are rounded to the nearest (£'000), except where otherwise indicated. Foreign operations are included in accordance with the policies set out in note 3.

## Basis of preparation

As set out in the Directors' Report, the Directors, in their consideration of going concern, have reviewed comprehensive cash flow forecasts prepared by management, which are based on prudent market data and past experience and believe, based on those forecasts and an assessment of the Group's committed banking facilities and the available headroom, that it is appropriate to prepare the Financial Statements of the Group on a going concern basis.

In arriving at their conclusion that the Group has adequate financial resources, the Directors were mindful that the Group had unrestricted cash of £25.1 million as at 31 December 2011, banking facilities (available for investment in new or existing projects) which are committed until 8 May 2014, under a new three-year facility which commenced May 2011 and is forecast to continue in full compliance with the associated banking covenants.

During the year, the Company completed a series of capital raisings as disclosed in note 31.

Certain risks and uncertainties which arise as a result of the current economic environment have been considered by the Board. The Board has concluded that these do not represent a significant threat to the Group as its income is generated from a portfolio of PFI concessions which are supported by government backed (or other suitably high creditworthy counterparty backed) cash flows and are forecast to cover the Group's committed costs. The Group's cash, borrowing facilities and liquidity position are disclosed in notes 22, 23 and 30. In addition, the Group's policy for management of exposure to financial risk, including liquidity, foreign exchange, credit and interest risks are set out in notes 3, 24 and 30.

## Change in accounting policy and prior year restatements

### 1) Change in accounting policy – financial assets for service concessions

The Group has revised its accounting policy with regard to the classification of financial assets for service concessions in the construction phase or acquired in early construction to treat these balances as loans and receivables. Previously, the policy of the Group was to classify these balances as available for sale financial assets until the end of the construction phase and commencement of the operational phase at which point they would be reclassified as loans and receivables.

Management is of the view that classification during the construction phase as loans and receivables provides more reliable and relevant information. This is because it reflects appropriately the long-term contractual nature of the underlying service concessions the cash flows in relation to which are fixed or determinable and because it is consistent with the classification of these financial assets during the operational phase of the concession. Having reconsidered their previous policy, Management has voluntarily determined that the risk of variation in cash flows during the construction phase does not preclude classification as loans and receivables in the same way that the existence of performance conditions relating to the sale of goods and services under IAS 11: *Construction Contracts* or IAS 18: *Revenue* does not preclude the related receivables from being classified as loans and receivables.

As a result of this voluntary accounting policy change, the following adjustments were made to the Financial Statements:

### As of 1 January 2010

- Increase in loans and receivables £848.9 million, (Current £18.8 million, Non-current: £830.1 million)
- Decrease available for sale assets £838.3 million, (Current £18.8 million, Non-current: £819.5 million)
- Decrease in deferred tax balance £2.9 million
- Increase in revaluation reserve £7.7 million
- Increase other comprehensive income £3.5 million

Included within Investment income was £33.0 million that was restated in 2009 to be reclassified from being attributable to available for sale financial assets to loans and receivables.

## 1. General information continued

### As of 31 December 2010

- Increase in loans and receivables £1,220.0 million, (Current: £28.5 million, Non-current: £1,191.5 million)
- Decrease available for sale assets £1,211.8 million, (Current: £28.5 million, Non-current: £1,183.3 million)
- Decrease in deferred tax balance £2.2 million
- Increase in revaluation reserve £6.0 million
- Increase other comprehensive income £1.7 million

Included within Investment income was £68.9 million that was restated in 2009 to be reclassified from being attributable to available for sale financial assets to loans and receivables (note 7).

### As of 31 December 2011

- Increase in loans and receivables £1,396.1 million, (Current: £7.8 million, Non-current: £1,388.3 million)
- Decrease available for sale assets £1,396.1 million, (Current: £7.8 million, Non-current: £1,388.3 million)

Changes have been applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, resulting in the restatement of prior year financial information.

## 2) Other prior year restatements

In reviewing its accounting treatment for balances relating to the Group's service concession arrangements, management identified £8.4 million relating to ineligible finance costs that were incorrectly capitalised and included within the intangible asset balance of £371 million and £1.3 million capitalised against the carrying value of external debt, representing unamortised balance of the break fees paid on early redemption of borrowings.

The following adjustments were made to the Financial Statements for the current and prior periods presented:

### As of 1 January 2010

- Decrease in intangible assets: £7.1 million
- Increase in bank loan liabilities: £1.4 million
- Decrease in cumulative retained profit: £6.1 million
- Decrease in deferred tax: £2.4 million

### As of 31 December 2010

- Decrease in intangible assets: £6.6 million
- Increase in bank loan liabilities: £1.2 million
- Increase in consolidated income as a result of reduced amortisation: £0.5 million
- Decrease in cumulative retained profit: £6.1 million
- Decrease deferred tax: £2.2 million

### As of 31 December 2011

- Decrease in intangible assets: £6.2 million
- Increase in bank loan liabilities: £1.0 million
- Increase in consolidated income as a result of reduced amortisation £0.4 million
- Decrease in deferred tax: £1.8 million

Operating expenses for the year ended 31 December 2010 were restated with a reduction in amortisation of £0.4 million in connection with the accounting adjustment as detailed in note 10.

Finance costs for the year ended 31 December 2010 were restated with a reduction in other finance costs by £0.2 million in connection with the accounting adjustment as detailed in note 9.

There was no effect on earnings per share related to the restatement in the current year; the impact in 2010 was less than 0.08 pence per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 2. Adoption of new and revised Standards

The following new and revised Standards and Interpretations are effective for the current year and resulted in a change in the accounting policies of the Group. These are:

### Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- Improvements to IFRSs (May 2010)

### IAS 24 Related Party Transactions (Amendment)

The IASB has issued an amendment to IAS 24 that clarified the definitions of a related party. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements, for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group but the appropriate disclosures are included in note 40.

### IAS 32 Financial Instruments: Presentation (Amendment)

The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities and the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. There have been no rights issues during the period.

### Improvements to IFRSs

In May 2010, the IFRS Board issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group:

IFRS 3 Business Combinations: The measurement options available for non-controlling interest ('NCI') have been amended.

Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2010. The Group, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in note 3.

IAS 1 Presentation of Financial Statements: The amendment provides an option to present an analysis of each component of other comprehensive income either in the statement of changes in equity ('SOCIE') or in the notes to the Financial Statements. The Group provides this analysis in the SOCIE.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group: IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008):

- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IFRS 9 Financial Instruments: Clarification and Measurement
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 Presentation of Financial Statements (Improvements 2010)
- IAS 27 Consolidated and Separate Financial Statements (Improvements 2010)
- IAS 34 Interim Financial Reporting (Improvements 2010)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Improvements 2010)
- IFRS 3 Business Combinations (Improvements 2010)
- IFRIC 13 Customer Loyalty Programmes (Improvements 2010)

## 2. Adoption of new and revised Standards continued

At the date of authorisation of these Financial Statements, the following Standards and Interpretations which have not been applied in these Financial Statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 7 Financial Instruments Disclosures (Improvements 2010)

## 3. Significant accounting policies

### Basis of accounting

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), issued by, or adopted by, the European Union, interpretations issued by the International Financial Reporting Interpretations Committee, applicable legal and regulatory requirements of Guernsey and the Listing Rules of the UK Listing Authority. IFRS requires management to make judgements, estimates and assumptions that affect the application of the reported amounts in these Financial Statements. The Financial Statements have been prepared on the historical cost basis, as amended to reflect certain items that are presented at fair value. The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December 2011. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition and where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs are those costs (predominantly legal and financial advisory costs, due diligence costs, stamp duty and including the investment advisory fees in respect of the acquisition), incurred by the Group in connection with acquisitions of investments. Any costs incurred after 1 January 2010 are charged to the Income Statement.

Prior to 31 December 2009, any costs directly attributable to the acquisition were included as part of the costs of acquisition.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date. The excess amount arising on acquisition is recognised as an intangible asset and initially carried at fair value at acquisition. This intangible asset represents the rights to future profits on the service element of the related concessions.

The non-controlling interest in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Investments in joint ventures

A joint venture is an entity over which the Group has joint control, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

The results and assets and liabilities of joint ventures are incorporated in these Financial Statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost and adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of the joint venture in excess of the Group's interest (including loans) in those joint ventures are not recognised in the Financial Statements.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture.

### Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity.

The results and assets and liabilities of associates are incorporated in these Financial Statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost and adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest (including loans) in those associates are not recognised in the Financial Statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 3. Significant accounting policies continued

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Intangibles

An intangible asset is recognised on the acquisition of service concession arrangements and represents the rights to future profits on the service element of these concessions, including where relevant revenues from commercial tenants. This intangible is initially recognised at fair value and is subsequently amortised over the life of the underlying concessions.

The Group also recognises an intangible asset for the right to charge users of the infrastructure assets within a service concession. This intangible asset is initially measured at fair value and is subsequently amortised over the remaining life of the concession from the date on which it is available for use.

### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at fair value on acquisition, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method at 4.0% per annum.

### Revenue recognition

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for performance.

Services revenue arises in connection with the Group's PFI/PPP projects and comprises the following elements:

- The fair value of consideration for construction and upgrade services work-in-progress on those PFI projects. Revenue is recognised by reference to the stage of completion of contract activity at the balance sheet date;
- Availability fees and usage fees on PFI projects where the principal asset is accounted for as a fixed or intangible asset;
- Revenues from the provision of facilities management services to PFI projects are recognised as contract activity progresses and a mark up on related cost to reflect the value of work performed;
- Non-core facility recharges being recovered for ad hoc services delivered by PFI projects at the request of the client; and
- Third-party revenues on PFI projects.

Financial asset interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment has been established.

### Foreign currencies

The individual Financial Statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated Financial Statements, the results and financial position of each Group company are expressed in Pound Sterling which is the functional currency of the Company, and the presentation currency for the consolidated Financial Statements.

In preparing the Financial Statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at spot rates on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at spot rates. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the spot rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated Financial Statements the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

### 3. Significant accounting policies continued

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets including PFI/PPP concession intangible assets within the scope of IFRIC 12, which are assets that necessarily take a substantial period of time to get ready for their intended use for sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs including those in respect of PFI/PPP concession finance assets are recognised in the income statement in the period in which they are incurred.

#### Taxation

The Company's subsidiaries are subject to corporate income tax on any taxable income, after allowing for both revenue and capital deductions arising from their activities. The tax expense included in the income statement represents the sum of the current tax and deferred tax and is calculated in accordance with applicable legislation in the jurisdictions in which each entity operates.

Current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in past or future years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to an underlying transaction charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity correlating to where the underlying transaction has been charged or credited.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax relating to items recognised outside the consolidated income statement are recognised in correlation to the underlying transactions either in other comprehensive income or equity.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

The carrying value of the financial asset is adjusted to reflect changes in actual and estimated cash flows with any adjustment recognised as income or expense in profit or loss. The change in carrying value is calculated by computing the present value of estimated future cash flows at the financial asset's original effective interest rate.

Income is recognised on an effective interest basis for debt instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 3. Significant accounting policies continued

#### Available for sale financial assets

Investments classified as available for sale are measured initially and at each subsequent reporting date at fair value. For available for sale financial assets, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the profit or loss for the period.

The fair value of available for sale financial assets are determined as follows:

- the fair value of available for sale financial assets with standard terms and conditions and traded on an active liquid market are determined with reference to quoted market prices; or
- the fair value of other available for sale financial assets are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions.

Income is recognised on an effective interest basis as referred to above.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded initially at fair value, being significantly equal to the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs which are charged to Share Capital in accordance with the Companies (Guernsey) Law, 2008.

#### Financial risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group may use foreign exchange forward contracts and interest rate swaps to hedge these exposures.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The Group does not use derivative financial instruments for speculative purposes.

Due to the nature of PFI/PPP projects, it is important that key financial risks are hedged at the inception of the project, and indeed the funders of the projects insist on this. Therefore each PFI/PPP project fixes the interest rate on its debt. In a minority of cases, this is achieved by either financing the project with a fixed rate bond or fixed rate bank debt. In the majority of cases, this is achieved by funding the project with a variable rate bank debt which is fully swapped into fixed rate at the inception of the project.

#### Hedge accounting

The Group designates hedging instruments as cash flow hedges. At the inception of the hedge relationship the entity documents the relationships between the hedging instrument and hedged item, along with the risk management objective and its strategy for undertaking various transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income.

Where ineffectiveness is judged to have occurred, the amount of the ineffectiveness is taken to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is terminated, for example if a project is refinanced. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is recycled through the income statement over the remaining life of the instrument on a straight line basis. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

### 3. Significant accounting policies continued

#### Credit risk

The Group is not exposed to significant credit risk as the Group derives revenue from PFI concessions with government departments, local authorities and other public sector clients (or in the case of Offshore Transmission projects from the National Electricity Transmission System Operator), with the exception of the following concessions:

- the Diabolo Project which predominantly derives revenue from the local authority, however is exposed to an element of demand risk; and
- Angel Trains which provides rolling stock to various Train Operating Companies ('TOCs') under long-term lease arrangements. Certain elements of the revenue generated by Angel Trains benefits from 'Section 54' undertakings. These undertakings provide guaranteed minimum lease rentals to entities such as Angel Trains for periods exceeding the first lease length (therefore greatly mitigating re-lease risk) on fleets considered strategic by the Department for Transport and are granted at the time of the initial investment.

The Group policy is to deal only with credit worthy counter parties in its banking and sub contracting arrangements.

#### Liquidity risk

The Group adopts a prudent approach to liquidity management and maintains sufficient cash reserves to meet its obligations. The very nature of a PFI concession provides predictable long-term stable cash flows.

Loans in PFI project entities are non-recourse. Non-recourse loans are those which are secured solely on a specific asset and its future income. The terms of the finance agreements provide that the lender will not seek in any way to enforce repayment of either principal or interest from the rest of the Group and the Group is not obliged, nor does it intend, to support any losses.

In April 2011, the Company renewed the £100 million corporate debt facility with the existing providers. This facility matures on 8 May 2014 and is secured over all assets of the Company. This facility is sufficient to meet the Company's foreseeable funding requirements, including providing significant headroom available to support acquisitions, should suitable opportunities be identified and executed. Should the Company require further headroom for discretionary investment opportunities then the Company is confident in its ability to extend this facility. This facility cannot be used for working capital purposes.

#### Inflation risk

The revenues and expenditure of project entities developed under PFI/PPP are partly or wholly subject to indexation. An assumption is made that inflation will increase at a long-term rate (which may vary depending on country and from time to time). The effect on investment returns if inflation is above or below the original projections for this long-term rate is dependent on the nature of the underlying project earnings and any unitary charge indexation provisions agreed with the Public Sector Client. The Group's ability to meet targets and its objective may be adversely or positively affected by inflation and/or deflation.

#### Foreign exchange risk

The Group has exposures to foreign currency exchange rate movement, as a result of its investments in assets which have functional currency other than Sterling. The Group has entered into forward exchange contracts to mitigate foreign exchange risk to future distributions.

#### Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where an intangible is not yet ready for use, it is tested for impairment at each balance sheet date.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and any impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 3. Significant accounting policies continued

#### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as available for sale ('AFS'), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets objective evidence of impairment could include significant financial difficulty of the issuer or counterparty.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

#### Provisions

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

#### Leases

Service concessions which fall outside of the scope of IFRIC 12 are assessed in terms of IFRIC 4 (Determining whether an arrangement contains a lease). Where it is assessed that the service concession does contain a lease, the concession is considered as either a finance lease or an operating lease in terms of IAS 17 (Leases).

Under IAS 17, a finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When the benefits and risks with the asset reside with the PFI project company these assets are accordingly disclosed in the balance sheet as property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Depreciation is calculated over the life of the concession or specific asset life if shorter.

#### PFI/PPP concessions

PFI/PPP concessions which fall within the scope of IFRIC 12 (Service Concession Arrangements) conform to the following policies depending on the rights to consideration under particular concession agreement:

- Financial assets

Service concessions give rise to financial assets where the Group, as operator, has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Client (grantor).

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income.

### 3. Significant accounting policies continued

During construction, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, less any losses incurred or foreseen in bringing construction to completion, and less amounts received as progress payments in accordance with IAS 11. Costs for this purpose include valuation of all work done by subcontractors whether certified or not and all overheads other than those relating to the general administration of the relevant companies. For any contracts where receipts exceed the book value of work done, the excess is included in liabilities as payments on account.

During the operational phase, cash received in respect of the service concession is allocated to the services revenue, with the remainder allocated between capital repayment of the financial asset and interest income, using the effective interest method.

Following a change in policy this year (see note 1), financial assets are classified as loans and receivables when it is determined that cash flows are deemed to be fixed or determinable and measured at fair value at inception and thereafter carried at amortised cost, less provision for impairment.

- **Intangible assets**

Service concessions give rise to intangible assets where to the extent that the Group, as operator, has a contractual right to charge users of the public services provided by the infrastructure. The intangible asset represents the construction cost of assets which give rise to the contractual right to charge and is amortised to estimated residual value over the remaining life of the service concession and tested each year for impairment.

Revenue arising in respect of service concessions giving rise to an intangible asset is recognised when the services are delivered.

- **Bifurcation between financial assets and intangible assets**

Where part of the concession is accounted for as a financial asset and part an intangible asset, the fair value of consideration receivable under the arrangement is allocated between the financial asset and the intangible. The fair value of consideration related to availability or minimum take-or-pay payments is allocated to the financial asset and the difference between the total consideration and the amount allocated to the financial asset is allocated to the intangible asset.

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the Financial Statements.

#### Service concessions under IFRIC 12

- Service concessions fall within the scope of IFRIC 12 where the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement. Judgement is required to determine whether PFI concessions controlled by the Group fall within this scope and, if so, whether the nature of the arrangement gives rise to a financial asset, an intangible asset, or both.
- Service concessions are determined to be financial assets where the operator has a contractual right to receive cash or another financial asset from or at the direction of the grantor. Alternatively, service concessions are determined to be intangible assets to the extent the operator has a contractual right to charge users of the public services. Where service concessions are determined to contain both of these elements, a bifurcated model will be adopted.
- The majority of PFI concessions which fall within the scope of IFRIC 12 are considered to give rise to financial assets on the basis that substantially all of the unitary charge is received from the grantor on an 'availability' basis. One of the Group's PFI concessions (Diabolo) falls to be accounted for using the bifurcated model, where a financial asset is recognised on the basis that substantially all of the unitary charge is received from the grantor on an 'availability' basis and an intangible asset in relation to the right to charge users of the infrastructure asset on the 'demand' basis.

#### Financial assets

The fair value of financial assets has been determined by discounting future cash flows at an appropriate discount rate and with reference to recent market transactions. The discount rates utilised to discount future cash flows are calculated by adding a project specific premium to the 15-year gilt yield at 31 December 2011.

The premium takes into account several factors, including but not limited to, the stage reached by each project, the period of operation and historical track record.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 5. Revenue and other income

An analysis of the Group's revenue and other income is as follows:

	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
<b>Continuing operations</b>		
<b>Revenue</b>		
Construction services	173,958	420,989
Availability and facility management fees	119,703	60,840
Non-core facility recharges	5,924	7,991
<b>Sub-total</b>	<b>299,585</b>	<b>489,820</b>
<b>Other income</b>		
Interest income on deposits	10,031	40,657
Financial asset interest income	155,835	107,832
<b>Investment revenue</b>	<b>165,866</b>	<b>148,489</b>
<b>Share of results from associates</b>	<b>(405)</b>	<b>4,547</b>
<b>Other operating income</b>	<b>3,818</b>	<b>5,145</b>
<b>Total</b>	<b>468,864</b>	<b>648,001</b>

Other operating income includes distributions received from investments that are not consolidated or accounted for under the equity method of accounting.

The reduction in construction services revenue reflects the reduction in underlying construction activity at an underlying project investment level as a result of projects coming towards the end of their construction phase during the year ended 31 December 2010 and other projects reaching construction completion milestones during 2011. Availability and facility management fee income and financial asset interest income has increased as underlying projects have become operational.

## 6. Segmental reporting

IFRS 8 – *Operating segments* adopts a 'through the eyes of the management' approach to an entity's reporting of information relating to its operating segments and also requires an entity to report financial and descriptive information about its reportable segments.

Based on a review of information provided to the chief operating decision makers in International Public Partnerships Limited the Group has identified four reportable segments based on the geographical risk associated within the Group. The factors used to identify the Group's reportable segments are centred on the risk free rates and the maturity of the PFI/PPP industry within each country. Further, foreign exchange and political risk is identified, as these also determine where resources are allocated. Management has concluded that the Group is currently organised into four reportable segments being UK, Europe (non-UK), Australia and North America. These reportable segments are the basis on which the Group reports information to the chief operating decision makers. Segment information is presented below.

	Year ended 31 December 2011				
	UK £'000s	Europe Non UK £'000s	North America <sup>1</sup> £'000s	Australia £'000s	Total £'000s
<b>Revenue from external customers</b>	<b>72,072</b>	<b>57,484</b>	<b>6,849</b>	<b>163,180</b>	<b>299,585</b>
Interest revenue	45,678	12,188	22,559	85,441	165,866
Interest expense	(30,549)	(15,284)	(19,449)	(81,060)	(146,342)
<b>Net interest revenue</b>	<b>15,129</b>	<b>(3,096)</b>	<b>3,110</b>	<b>4,381</b>	<b>19,524</b>
Depreciation	(350)	–	–	–	(350)
Amortisation	(4,308)	(3,744)	(6)	(1,521)	(9,579)
Impairment charges	(4,555)	(68)	–	(1,663)	(6,286)
Income from associates	68	(1,253)	–	780	(405)
Taxation	7,026	1,598	(965)	(4,799)	2,860
<b>Reportable segment profit/(loss)</b>	<b>21,728</b>	<b>(5,979)</b>	<b>2,499</b>	<b>(2,218)</b>	<b>16,030</b>

## 6. Segmental reporting continued

	Year ended 31 December 2011				
	UK £'000s	Europe Non UK £'000s	North America <sup>1</sup> £'000s	Australia £'000s	Total £'000s
<b>Assets</b>					
Non-current	817,753	410,062	355,322	1,085,816	2,668,953
Current	137,484	38,513	18,465	316,134	510,596
<b>Total</b>	<b>955,237</b>	<b>448,575</b>	<b>373,787</b>	<b>1,401,950</b>	<b>3,179,549</b>
<b>Liabilities</b>					
Non-current	(699,119)	(430,020)	(356,014)	(1,229,578)	(2,714,731)
Current	(43,792)	(7,490)	(8,348)	(48,962)	(108,592)
<b>Total</b>	<b>(742,911)</b>	<b>(437,510)</b>	<b>(364,362)</b>	<b>(1,278,540)</b>	<b>(2,823,323)</b>
<b>Interests in associates</b>	<b>7,481</b>	<b>26,848</b>	<b>–</b>	<b>15,226</b>	<b>49,555</b>

	Year ended 31 December 2010 (Restated)				
	UK £'000s	Europe Non UK £'000s	North America <sup>1</sup> £'000s	Australia £'000s	Total £'000s
<b>Revenue from external customers</b>	50,755	89,176	47,721	302,168	489,820
Interest revenue	39,757	10,784	26,725	71,223	148,489
Interest expense	(26,760)	(11,409)	(22,048)	(61,538)	(121,755)
<b>Net interest revenue</b>	12,997	(625)	4,677	9,685	26,734
Depreciation	(414)	(2)	–	–	(416)
Amortisation	(4,233)	(3,734)	(6)	(1,368)	(9,341)
Impairment charges	(4,483)	–	–	(5,137)	(9,620)
Income from associates	1,065	1,440	–	2,042	4,547
Taxation	908	632	(1,404)	(1,612)	(1,476)
<b>Reportable segment profit/(loss)</b>	<b>13,671</b>	<b>2,653</b>	<b>4,011</b>	<b>(5,273)</b>	<b>15,062</b>
<b>Assets</b>					
Non-current	588,831	367,622	361,021	724,425	2,041,899
Current	137,938	76,002	17,165	481,700	712,805
<b>Total</b>	<b>726,769</b>	<b>443,624</b>	<b>378,186</b>	<b>1,206,125</b>	<b>2,754,704</b>
<b>Liabilities</b>					
Non-current	(480,122)	(340,314)	(352,496)	(1,041,829)	(2,214,761)
Current	(39,150)	(18,706)	(7,382)	(58,128)	(123,366)
<b>Total</b>	<b>(519,272)</b>	<b>(359,020)</b>	<b>(359,878)</b>	<b>(1,099,957)</b>	<b>(2,338,127)</b>
<b>Interests in associates</b>	<b>11,198</b>	<b>26,016</b>	<b>–</b>	<b>18,471</b>	<b>55,685</b>

<sup>1</sup> North America segment relates entirely to projects in Canada.

The revenue information above is based on the location of the concession.

### Information about major customers

The Group has four governmental customers which each represents approximately 10% or more of Group revenues.

The customers' revenues were:

£163.2 million (2010: £302.2 million) reported across the Australian segment.

£57.5 million (2010: £89.2 million) reported across the European segment.

£72.1 million (2010: £50.7 million) reported across the UK segment.

£6.8 million (2010: £47.7 million) reported across the North American segment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 7. Investment income

	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
Interest on bank deposits – non-recourse	32,172	40,434
Interest on bank deposits – recourse	178	322
Loans and receivables interest income – non-recourse	131,308	106,564 <sup>1</sup>
Loans and receivables – recourse	2,208	1,169
	<b>165,866</b>	<b>148,489</b>

<sup>1</sup> Included within Loans and receivables is £68.9 million that was restated in 2010 to be reclassified from available for sale financial assets as set out in note 1.

Non-recourse financial assets and bank deposits are those which are held by a specific PFI project entity and are not readily available for transfer or use elsewhere within the Group.

## 8. Other gains and losses

	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
Unrealised gains/(losses) on financial assets	714	(3,059)
Interest rate swap (loss)/gain	(3,323)	312
Realised foreign exchange losses	(1,796)	(1,752)
Gain made on sale of assets	415	13
Unrealised foreign exchange losses	(946)	(1,476)
	<b>(4,936)</b>	<b>(5,962)</b>

No gains or losses have been recognised on financial liabilities measured at amortised cost other than as disclosed in note 9.

## 9. Finance costs

	Year ended 31 December 2011 £'000s	(Restated) Year ended 31 December 2010 £'000s
Interest on bank loans – non recourse	138,909	115,094
Interest on bank loans – recourse	667	130
Other finance costs	6,766	6,531
<b>Total finance costs</b>	<b>146,342</b>	<b>121,755</b>

Non-recourse loans are those which are secured solely on a specific PFI asset and its future income (usually contained in a single entity). The terms of the finance agreements provide that the lender will not seek in any way to enforce repayment of either the principal or the interest from the rest of the Group and the Group is not obliged, nor does it intend to support any losses.

The cost associated with the recourse loan represents the interest costs on the corporate facility that was renewed in April 2011.

Finance costs for the year ended 31 December 2010 were restated with a reduction in other finance costs by £0.2 million, in connection with the accounting adjustment as detailed in note 1.

## 10. Profit before tax

Profit before tax for the year has been arrived at after charging:

	Year ended 31 December 2011 £'000s	(Restated) Year ended 31 December 2010 £'000s
Asset management fees	13,144	10,872
Insurance	3,131	2,373
Amortisation of intangible assets	9,579	9,341
Other operating expenses	1,675	1,553
<b>Operating expenses</b>	<b>27,529</b>	<b>24,139</b>
Audit, taxation & accounting	671	1,013
Legal fees	616	949
Bank service charges	278	316
Other	591	792
<b>Administrative expenses</b>	<b>2,156</b>	<b>3,070</b>
<b>Impairment of available for sale financial assets</b>	<b>6,286</b>	<b>9,620</b>
<b>Depreciation</b>	<b>350</b>	<b>416</b>
<b>Foreign exchange losses</b>	<b>2,743</b>	<b>3,228</b>
<b>Total finance costs (note 9)</b>	<b>146,342</b>	<b>121,755</b>

For the year ended 31 December 2011, the Group had one employee (2010: one). As noted above, the Group incurred impairment losses of £6.3 million (2010: £9.6 million) as a result of an assessed permanent reduction in the recoverability of certain underlying financial assets.

Amortisation of intangible assets for the year ended 31 December 2010 were restated with a reduction of £0.4 million, in respect to the change in accounting policy as detailed in note 1.

## 11. Auditors' remuneration

### Ernst & Young LLP

	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
Fees payable to the Company's auditors for the audit of the Company's annual accounts	45	—
Fees payable to the Company's auditors and their associates for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	340	—
<b>Total audit fees</b>	<b>385</b>	<b>—</b>
– Other services pursuant to legislation	44	—
– Tax services	—	—
<b>Total non-audit fees</b>	<b>44</b>	<b>—</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 11. Auditors' remuneration continued Deloitte LLP

	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
Fees payable to the Company's auditors for the audit of the Company's annual accounts	–	83
Fees payable to the Company's auditors and their associates for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	–	332
Total audit fees	–	415
– Other services pursuant to legislation	30	60
– Tax services	115	148
Total non-audit fees	145	208

Following a request for proposals prepared by the Audit Committee in October 2010, a recommendation was made to the Board to appoint Ernst & Young LLP as the Group's auditors for the 2011 year.

### 12. Tax

The Company has obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and accordingly, is subject to an annual charge of (currently) £600.

	Year ended 31 December 2011 £'000s	(Restated) Year ended 31 December 2010 £'000s
Current tax:		
UK corporation tax – current year	1,474	2,746
UK corporation tax – prior year	(430)	(295)
Overseas tax	559	228
Overseas tax – prior year	(13)	(68)
Deferred tax (note 25):		
UK – current year	(9,514)	(3,848)
UK – prior year	(552)	–
Overseas tax – current year	5,501	3,938
Overseas tax – prior year	57	(1,225)
Withholding tax	58	–
	(2,860)	1,476

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group predominantly performs its operational activities within the United Kingdom and the headline UK tax rate of 26.5% (2010: 28%) has therefore been used within the following reconciliation.

## 12. Tax continued

The (credit)/charge for the year can be reconciled to the profit as per the income statement as follows:

	Year ended 31 December 2011		(Restated) Year ended 31 December 2010	
	£'000s	%	£'000s	%
Profit before tax	13,170		16,538	
Tax at UK corporation tax rate of 26.5% (2010: 28%)	3,490	26.50	4,631	28.00
Tax effect of expenses/(income) not deductible/(assessable) in determining taxable profit	8,011	60.82	6,514	39.39
Tax effect of asset impairments	150	1.14	2,626	15.88
Tax effect of losses not recognised	424	3.22	11	0.07
Tax effect of Guernsey income not assessable	(6,712)	(50.96)	(6,861)	(41.49)
Tax effect of the application of overseas tax rates	(431)	(3.27)	(623)	(3.77)
Tax effect of prior year adjustments	(938)	(7.12)	(1,588)	(9.60)
Tax effect of associate undistributed reserves	(223)	(1.69)	(870)	(5.26)
Tax effect of UK rate change	(6,631)	(50.35)	(2,364)	(14.29)
Tax (credit)/charge and effective tax rate for the year	(2,860)	(21.71)	1,476	8.93

A reduction in the headline UK tax rate from 27% to 25%, effective 1 April 2012, was substantively enacted at 31 December 2011. The impact upon the current year has been a deferred tax credit of £6.6 million (2010: £2.5 million) to the Profit and Loss account and a deferred tax charge of £2.9 million (2010: £0.1 million credit) to other comprehensive income.

Further reductions in the headline UK tax rate were announced in the 2012 UK Budget on 21 March 2012. These reductions were included within the 2012 UK Finance Bill published on 29 March 2012, and will reduce the headline rate from 25% to 24%, effective 1 April 2012, and from 24% to 23%, effective 1 April 2013. If these rate changes had been substantively enacted at 31 December 2011, the impact upon the current period would have been an additional deferred tax credit of £6.6 million to the Profit and Loss account and a deferred tax charge of £2.9 million to other comprehensive income.

In addition to the deferred tax charged to the income statement, a deferred tax credit of £42.5 million (2010: £10.2 million credit) relating primarily to the movement in the fair value of the Group's interest rate swaps, has been taken directly to other comprehensive income (note 25).

## 13. Distributions

The Board is satisfied that, in every respect, the solvency test as required by the Companies (Guernsey) Law, 2008, was satisfied for the proposed dividend and the dividend paid in respect of the year ended 31 December 2011.

The Board has approved interim distributions as follows:

	Year ended 31 December 2011 £'000s	Year ended 31 December 2010 £'000s
Amounts recognised as distributions to equity holders for the year ended 31 December	27,875	25,756
Interim distribution for the period 1 January to 30 June 2011 was 2.925 pence per share (2010: 2.85 pence per share <sup>1</sup> )	14,165	13,178
Interim distribution for the period 1 July to 31 December 2011 <sup>2</sup> was 2.925 pence per share (2010: 2.85 pence per share)	15,626 <sup>3</sup>	13,652 <sup>3</sup>

<sup>1</sup> The interim distribution for the period was from 1 January to 30 June 2010.

<sup>2</sup> The distribution for the period 1 July to 31 December 2011 has been approved by the Board on 18 April 2012 and has not been included as a liability in the balance sheet for the year ended 31 December 2011.

<sup>3</sup> The distribution for the period 1 July to 31 December 2011 is an estimate. Following the tap issue on 13 January 2011, the actual distribution for the period 1 July to 31 December 2010 was £13,710,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 14. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2011 £'000s	(Restated) Year ended 31 December 2010 £'000s
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	16,538	14,645
	<b>Number</b>	<b>Number</b>
<b>Number of shares</b>		
Weighted average number of Ordinary Shares for the purposes of basic and diluted earnings per share	496,624,899	457,193,584

The denominator for the purposes of calculating both basic and diluted earnings per share are the same as the Company had not issued any share options or other instruments that would cause dilution.

	Year ended 31 December 2011 pence	(Restated) Year ended 31 December 2010 pence
Basic	3.33	3.20
Diluted	3.33	3.20

## 15. Intangible assets

	Cost of Service Concessions £'000s	Bifurcated IFRIC 12 £'000s	Total £'000s
<b>Cost</b>			
At 1 January 2010	222,807	71,695	294,502
Prior period adjustment (see note 1)	(8,456)	–	(8,456)
Restated as at 1 January 2010	214,351	71,695	286,046
Acquired on acquisition of subsidiaries	–	45,656	45,656
At 31 December 2010 (restated)	214,351	117,351	331,702
Additions in the year	8,146	31,303	39,449
<b>At 31 December 2011</b>	<b>222,497</b>	<b>148,654</b>	<b>371,151</b>
<b>Amortisation</b>			
At 1 January 2010	(21,625)	–	(21,625)
Prior year adjustment (see note 1)	1,391	–	1,391
Restated as at 1 January 2010	(20,234)	–	(20,234)
Charge for the year ended 31 December 2010	(7,763)	(1,578)	(9,341)
At 31 December 2010 (restated)	(27,997)	(1,578)	(29,575)
Charge for the year ended 31 December 2011	(7,993)	(1,586)	(9,579)
<b>At 31 December 2011</b>	<b>(35,990)</b>	<b>(3,164)</b>	<b>(39,154)</b>
<b>Carrying amount</b>			
At 31 December 2010 (Restated)	186,354	115,773	302,127
<b>At 31 December 2011</b>	<b>186,507</b>	<b>145,490</b>	<b>331,997</b>

Cost of service concession intangible assets represent the right to future profits on the service element of the PFI concessions and are amortised over the remaining life of the PFI concessions.

Bifurcated IFRIC 12 intangible assets represent the right to charge users of the infrastructure assets within a service concession and are amortised over the remaining 35 years of the concession from the date on which it is available for use.

## 16. Property, plant and equipment

	Land and buildings £'000s	Fixtures and equipment £'000s	Total £'000s
<b>Cost</b>			
At 1 January 2010	9,759	4	9,763
At 1 January 2011	9,759	4	9,763
<b>At 31 December 2011</b>	<b>9,759</b>	<b>4</b>	<b>9,763</b>
	Land and buildings £'000s	Fixtures and equipment £'000s	Total £'000s
<b>Accumulated depreciation and impairment</b>			
At 1 January 2010	(1,260)	–	(1,260)
Charge for the year	(414)	(2)	(416)
At 1 January 2011	(1,674)	(2)	(1,676)
Charge for the year	(348)	(2)	(350)
<b>At 31 December 2011</b>	<b>(2,022)</b>	<b>(4)</b>	<b>(2,026)</b>
<b>Carrying amount</b>			
At 31 December 2010	8,085	2	8,087
<b>At 31 December 2011</b>	<b>7,737</b>	<b>–</b>	<b>7,737</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 17. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation as at 31 December 2011 and proportion of ownership is shown below:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %
<b>Directly owned</b>		
International Public Partnerships Lux 1 S.a.r.l	Luxembourg	100
<b>Indirectly owned</b>		
Abingdon Limited Partnership	UK	100
Access Justice Durham Limited	Canada	100
Building Schools for Future Investments LLP	UK	100
IPP CCC Limited Partnership	Ireland	100
AKS Betriebs GmbH & Co. KG	Germany	98
International Public Infrastructure Germany GmbH & Co. KG	Germany	100
International Public Partnerships Lux 2 S.a.r.l	Luxembourg	100
BBPP Alberta Schools Limited	Canada	75
Inspire Partnership Limited Partnership <sup>1</sup>	UK	80
IPP (Aust) Limited	UK	100
IPP Bond Limited	UK	100
IPP (Moray Schools) Holdings Limited	UK	100
IPP North America S.a.r.l	Luxembourg	100
BPSL No. 2 Limited Partnership	UK	100
Calderdale Schools Partnership	UK	100
CHP Unit Trust	Australia	100
Derbyshire Courts Limited Partnership	UK	100
Derbyshire Schools Limited Partnership	UK	100
Derbyshire Schools Phase Two Partnership	UK	100
H&W Courts Limited	UK	100
Maesteg School Partnership	UK	100
Medicaste Amiens SAS	France	95
Norfolk Limited Partnership	UK	100
Northampton Schools Limited Partnership	UK	100
Northern Diabolo N.V.	Belgium	75
Pinnacle Healthcare (OAHS) Trust	Australia	100
Plot B Partnerships	UK	100
PPP Senior Funding Limited	UK	100
St. Thomas More School Partnership	UK	100
PPP Solutions (Long Bay) Partnership <sup>1</sup>	Australia	100
PPP Solutions (Showgrounds) Trust <sup>1</sup>	Australia	100
Strathclyde Limited Partnership	UK	100
TH Schools Limited Partnership	UK	100
TC Robin Rigg OFTO Limited <sup>1</sup>	UK	100
TC Barrow OFTO Limited <sup>1</sup>	UK	100
TC Gunfleet Sands OFTO Limited <sup>1</sup>	UK	100

<sup>1</sup> Investments or acquisitions made during the year. See note 35 for details of acquisitions, excluding asset purchases.

## 18. Interest in joint venture

The Group acquired 100% of the interests in Building Schools for the Future Investments LLP ('BSFI') from the Department for Education and Partnerships UK. BSFI was acquired for £58.4 million.

The Group indirectly holds through BSFI 10% interests in 32 jointly-controlled entities set up to enable the delivery of a regional development programme for secondary schools across the UK. BSFI benefits from certain reserved matters which result in it having joint control of these entities despite holding minority equity stakes.

These jointly controlled entities are managed on a portfolio basis and are not individually significant. The Group's combined share of the assets and liabilities as at 31 December 2011 and income and expenses of the jointly controlled entities for the nine months ended 31 December 2011, which is equity accounted for in the consolidated Financial Statements, are as follows:

	31 December 2011 £'000s
Share of the joint venture's statement of financial position:	
Current assets	12,715
Non-current assets	1,542
Current liabilities	(11,915)
Non-current liabilities	(2,342)
Equity	–
Share of the joint venture's revenue and profit:	
Revenue	59,821
Cost of sales	(57,793)
Administrative expenses	(1,552)
Finance costs	(140)
Profit before tax	336
Income tax expense	(51)
Profit for the period from continuing operations	285

Joint venture capital commitments are set out in note 37.

## 19. Interests in associates

A list of the significant investments in associates, including the name, country of incorporation and proportion of ownership interest is noted below.

Name	Country of Incorporation	Ownership interest	Date acquired
BeNEX GmbH	Germany	49%	31 October 2007
Axiom Education NSW No 2 Pty Ltd <sup>1</sup>	Australia	25%	20 December 2007
Catalyst Brescia S.r.l.	Italy	37%	24%–22 April 2008 13%–31 July 2009
AH BB ELL Holdings Limited	UK	100% B Shares	9 May 2008
GoldlinQ Holdings Pty Ltd	Australia	26.67%	9 June 2011

<sup>1</sup> This entity has an accounting period ending 30 June which differs from the Group's accounting period of 31 December.

On 9 June 2011, the Group acquired 26.67% of the issued Ordinary Shares and 26.67% of the Class A Preference shares in GoldlinQ Holdings Pty Ltd. GoldlinQ Holdings Pty Ltd is the parent entity holding the PFI concession to design, build, finance, maintain and operate 13km of above ground light rail on the Gold Coast, Australia.

The consideration paid for the acquisition of the Ordinary and Preferred Shares of the project was £11.1 million.

On 6 May 2011 the Group acquired additional share capital of Long Bay Forensic and Prison Hospital and Royal Melbourne Showgrounds resulting in a decrease in the interests in associates of £9.8 million and £4.3 million respectively (see note 35). Post acquisition these investments are accounted for on a consolidated basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 19. Interests in associates continued

In January 2011, the Group completed an incremental capital injection of £6.6 million into BeNEX GmbH from an underlying investing entity. As the capital injection was made in the same proportion as the other existing shareholders, there was no increase in the Group's interest in BeNEX GmbH. BeNEX GmbH was established in 2007 as a joint arrangement between Hamburger Hochbahn AG, a subsidiary of the German Federal State City of Hamburg and the Group, to operate rail and bus concessions throughout Germany.

During the year, the investment in IPP (Moray Schools) Limited of £4.6 million was reclassified as an investment on the basis the Group does not have significant influence over the investment to be able to realise economic benefits associated with this not-for-profit-concession.

Summarised financial information in respect of the Group's associates is noted below:

	31 December 2011 £'000s	31 December 2010 £'000s
<b>Share of amounts relating to associates</b>		
Total assets	146,339	267,483
Total liabilities	(96,784)	(211,798)
Carrying value of interests in associates	49,555	55,685
Revenues	28,613	25,292
Share of results of associates	(405)	4,547

### 20. Available for sale financial assets

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
<b>Current</b>			
Listed investments	–	216	2,773
	–	216	2,773
<b>Non-current</b>			
Unlisted investments	25,936	17,667	22,143
Listed investments	–	–	2,773
	25,936	17,667	24,916
	25,936	17,883	27,689

The investments included above represent investments in unlisted equity securities that present the Group with opportunity for return through dividend income, interest income and trading gains. The fair values of these securities are based on quoted market prices where appropriate or discounted cash flow calculations where quoted market prices are not available.

Financial Assets – available for sale are carried at fair value with movements being recorded in other comprehensive income. They are initially recognised at fair value upon acquisition in accordance with IFRS 39 and subsequently measured at fair value. The effective interest rate method allocates the interest income over the relevant period by applying the 'effective interest rate' to the carrying amount of the asset. The average effective interest rate, referred to in note 3, is 10.55% (restated 2010: 11.91%).

Available for sale balances include Pound Sterling denominated loans of £25.9 million (2010 restated £16.3 million), and £nil (restated 2010: £1.36 million) denominated in Australian Dollars. The increase at the end of the year relates to the acquisition of BSFI during the year partially offset by the write-down of Reliance Rail to £nil (£1.35 million in 2010).

As set out in note 1, investments previously held as available for sale financial assets during construction have been reclassified as loans and receivables. The effect of the restatement in 2010 is to reclassify the available for sale assets of £1,220.0 million. There is no taxation impact due to the reclassification being presentational.

All available for sale investments mature in greater than one year and the fair values have been determined in accordance with the policy set out in note 3 of these Financial Statements.

Details of financial risks associated with these assets are contained in note 30.

## 21. Loans and receivables financial assets

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Loans and receivables – current	40,672	39,263	26,916
Loans and receivables – non-current	2,229,111	1,654,752	1,296,474
	<b>2,269,783</b>	1,694,015	1,323,390

Financial Assets – loans and receivables are carried at amortised cost. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method allocates the interest income over the relevant period by applying the 'effective interest rate' to the carrying amount of the asset. The average effective interest rate, referred to in note 3, is 7.17% (restated 2010: 7.16%). The income will be recognised over the life of the underlying PFI concessions based on this effective rate.

Loans and receivables balances include Pound Sterling denominated loans of £728.4 million (restated 2010: £485.0 million), £172.1 million (restated 2010: £172.9 million) denominated in Euros, £1,019.2 million (restated 2010: £675.1 million) denominated in Australian Dollars and £350 million (restated 2010: £361.0 million) denominated in Canadian Dollars. The increase at the end of the year relates to new investments during the year and additional capital costs of projects in construction. Loans and receivables have been restated in 2010 to reflect the reclassification of £1,220.0 million of available for sale financial assets as set out in note 1.

## 22. Cash and cash equivalents

There has been a decrease in cash and cash equivalents from 31 December 2010 of £210 million primarily due to an increase in construction activity on Royal Children's Hospital and the construction completion of Alberta Schools which are financed by structured bond financing arrangements.

Cash includes £378,847,680 (2010: £563,071,652) which is held by non-recourse PFI project entities and is restricted.

All cash and cash equivalents are exposed to floating rate interest rate risk.

The currency profile of cash and cash equivalents was:

	31 December 2011 £'000s	31 December 2010 £'000s
Sterling	103,110	117,369
Australian Dollars	271,608	450,328
Canadian Dollars	17,193	15,123
Euro	27,698	47,046
	<b>419,609</b>	629,866

## 23. Bank loans

All bank loans (including bonds) are secured solely on a specific PFI concession and its future income stream with the exception of the corporate debt facility of £100 million provided to the Company by The Royal Bank of Scotland Limited and National Australia Bank Limited.

In April 2011, the Company renewed the £100 million corporate debt facility with the existing providers. The amount undrawn at 31 December 2011 was £81.9 million. The interest rate margin on the corporate facility is 225 basis points over Libor. The loan facility matures on 8 May 2014 and is secured over all of the assets of the Company.

The terms of the PFI concession finance agreements provide that the lender cannot seek in any way to enforce repayment of either principal or interest from the rest of the Group.

For Group funding, the financial covenants are in respect of historic and future interest cover ratios and loan to value calculations. There is significant headroom on all of these covenants. For project debt (which is non-recourse to the Group) covenants are in respect of historic and future interest cover ratios in the range of 1.01 times historic interest cover ratio and 1.75 times future interest cover ratio.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 23. Bank loans continued

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Bank loans/bonds	2,386,821	2,020,918	1,879,306
The borrowings are repayable as follows:			
On demand or within one year	42,533	30,577	84,608
In the second year	38,371	28,791	79,474
In the third to fifth years inclusive	168,885	103,718	88,144
After five years	2,137,032	1,857,832	1,627,080
	2,386,821	2,020,918	1,879,306
Less: Amount due for settlement within 12 months (shown under current liabilities)	(42,533)	(30,577)	(84,608)
Amount due for settlement after 12 months	2,344,288	1,990,341	1,794,698
	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Analysis of borrowings by currency:			
31 December	2,386,821	2,020,918	1,879,306
Bank loans/bonds – Australian Dollar	1,200,981	1,025,724	872,195
Bank loans – Pounds Sterling	541,450	362,468	430,741
Bank loans/bonds – Canadian Dollar	337,049	348,332	369,107
Bank loans – Euro	307,341	284,394	207,263
	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Analysis of borrowings by interest rate profile			
Fixed rate	310,879	308,516	315,085
Floating rate	2,075,942	1,712,402	1,564,221
Bank loans/bonds	2,386,821	2,020,918	1,879,306
The weighted average interest rates paid were as follows:			
Bank loans – floating rate	3.31%	4.01%	3.84%
Bank loans/bonds – fixed rate	5.53%	5.16%	5.15%
The Directors estimate the fair value of the Group's borrowings as follows:			
	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Bank loans	2,482,047	2,153,447	2,038,933

The fair value of the Group's borrowings has been determined by taking the repayment and interest cash flows associated with the loan or bond and discounting these at an appropriate current market rate for a similar instrument. At 31 December 2011, the weighted average range of discount rates applied was 1.8% to 6.1% (2010: 1.06% to 5.9%).

## 24. Derivative financial instruments

### Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Long-term contracts with nominal values of £884 million (2010: £709 million) have fixed interest payments at an average rate of 4.46% (2010: 4.61%) for periods linked to the term of underlying concessions up until 2036 and have floating interest receipts at the relevant inter bank rate.

## 24. Derivative financial instruments continued

The net fair value of swaps entered into at 31 December 2011 is estimated at negative £278.2 million (2010: negative £129.9 million). These amounts are based on market values of equivalent instruments at the respective balance sheet dates. All of these interest rate swaps are designated as cash flow hedges. The after-tax increase in the fair value for the year ended 31 December 2011 of £107.6 million (2010: £32.4 million – after-tax decrease) has been deferred in other comprehensive income. The fair value adjustment does not impact the Consolidated Income Statement or Consolidated Cash Flow Statement. The fair value reduction reflects further reductions in market variable rates of interest compared to fixed rates contracted through the interest rate swap agreements.

### CPI swaps

The Group uses CPI swaps to manage its exposure to inflationary movements on the bonds issued in relation to the Royal Children's Hospital concession. CPI linked swaps with no net nominal value have CPI linked payments for periods up until 2021 and have CPI linked receipts for the duration of the project. CPI linked swaps are used to hedge two equal and opposite bond values of AUD250 million.

The CPI swaps held by Royal Children's Hospital fair value at 31 December 2011 is £2.7 million liability (2010: £2.5 million liability) have not been hedge accounted for based on the assumption that the swap is to have a shorter life than the hedged item (the borrowings will be refinanced in 2021 whereas the swap will be terminated) which will give rise to ineffectiveness. The swap movement for the year was a loss of £507,000 (2009: £238,000 loss) has been recognised in profit and loss, the remainder of the movement for the year is in respect of foreign exchange translation.

### Foreign exchange forward contracts

To reduce the Company's exposure to movements in foreign currency the Company has a number of forward foreign exchange contracts, during the year the Company has not entered into any new forward foreign exchange contracts. The Company has hedged highly probable revenue from its overseas operations that are derived in Australian Dollars, Canadian Dollars and Euro. All of these forward foreign exchange contracts are designated and effective as cash flow hedges. The nominal value of the forward foreign exchange contracts at 31 December 2011 is £5.6 million (2010: £18.8 million). The fair value of these foreign exchange contracts at 31 December 2011 is £1.2 million liability (2010: £2.8 million) and has been deferred in other comprehensive income.

## 25. Deferred tax

The following are the deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current year:

	Accelerated tax relief in respect of financial assets £'000s	Intangible asset £'000s	Fair value of interest rate swaps £'000s	Tax losses £'000s	Financing costs £'000s	Total £'000s
At 1 January 2011	88,749	54,690	(36,563)	(16,371)	(607)	89,898
Opening balance reallocation	15,374	–	–	(15,374)	–	–
At 1 January 2011 – restated	104,123	54,690	(36,563)	(31,745)	(607)	89,898
On acquisition of subsidiaries	8,365	2,363	264	(1,551)	583	10,024
Charge/(credit) to income	15,669	(2,279)	95	(11,297)	(65)	2,123
Charge/(credit) to other comprehensive income	39	–	(42,516)	60	(15)	(42,432)
Impact of UK rate change – income	(4,574)	(1,666)	(514)	123	–	(6,631)
Impact of UK rate change – other comprehensive income	–	–	2,892	–	–	2,892
At 31 December 2011	123,622	53,108	(76,342)	(44,410)	(104)	55,874
At 1 January 2010	72,255	59,568	(24,248)	(5,595)	(550)	101,430
Prior year adjustment	2,925	(1,976)	–	–	(382)	567
At 1 January 2010 – restated	75,180	57,592	(24,248)	(5,595)	(932)	101,997
Charge/(credit) to income	11,928	(2,370)	(128)	(8,857)	488	1,061
Prior year adjustment	(676)	119	–	–	51	(506)
Charge/(credit) to other comprehensive income	4,617	–	(12,651)	(1,919)	(214)	(10,167)
Impact of UK rate change – income – restated	(2,300)	(651)	587	–	–	(2,364)
Impact of UK rate change – other comprehensive income	–	–	(123)	–	–	(123)
At 31 December 2010 – restated	88,749	54,690	(36,563)	(16,371)	(607)	89,898

The balance of deferred tax liability is represented on the balance sheet as deferred tax assets £24,617,090 (2010: £3,581,000) and deferred tax liability £80,491,504 (2010 restated: £93,478,887).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 25. Deferred tax continued

The following deferred tax assets are not recognised by the Group at the balance sheet date:

	£'000s
At 31 December 2009	(809)
On acquisition	—
Utilised during the year	—
Current year losses not recognised	(11)
UK rate change	34
At 31 December 2010	(786)
Utilised during the year	—
Current year losses not recognised	(424)
Prior year adjustment	273
UK rate change	50
<b>At 31 December 2011</b>	<b>(887)</b>

A deferred tax asset has not been recognised in respect of these losses as sufficient taxable profits are not expected to be generated in the near future to utilise the losses.

## 26. Trade and other receivables

	31 December 2011 £'000s	31 December 2010 £'000s
Trade receivables	44,405	37,995
Prepayments and accrued income	5,910	5,465
	<b>50,315</b>	<b>43,460</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 27. Operating leases

Operating lease rental income during the year was £2.1 million (2010: £1.9 million) which represents the availability fees on a PFI/PPP service concession. The carrying amount of the leased property was £7.7 million as at 31 December 2011 (2010: £8.1 million).

The concession has committed lease rental revenue until 2025 with a break clause option exercisable by the client in 2015.

At 31 December 2011 the future minimum operating lease rentals receivable were:

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s
<b>Amounts receivable under operating leases</b>		
Within one year	2,014	1,941
In the second to fifth years	9,064	8,843
After five years	10,592	11,562
	<b>21,670</b>	<b>22,346</b>

## 28. Trade and other payables

	31 December 2011 £'000s	31 December 2010 £'000s
Trade creditors	12,254	23,105
Accrued liabilities	30,959	44,738
Deferred income	200	786
Other creditors	20,213	19,073
	<b>63,626</b>	<b>87,702</b>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade creditors and accruals principally comprise amounts outstanding for facility management fees and ongoing costs. The average credit period for trade purchases is 30 days (2010: 30 days). No interest is charged on outstanding balances.

## 29. Provisions

	31 December 2011 £'000s	31 December 2010 £'000s
<b>Current</b>		
Balance as at 1 January	–	900
Release to Income Statement	–	(900)
Balance as at 31 December	–	–
<b>Non-current</b>		
Balance as at 1 January	–	–
Arising during the year	11,474	–
Balance as at 31 December	11,474	–

Current provisions relate to a claim for additional construction costs on a PFI concession. In accordance with IFRS 3 – Business Combinations, this provision was recorded as a contingent liability as part of the net assets and liabilities acquired on acquisition of a subsidiary. The decrease in current provisions in the previous year is due to the successful settlement of the claim for additional construction costs on a PFI concession which has led to the release of the provision.

Non-current provisions have been recognised during the year in relation to decommissioning costs associated with the three offshore transmission projects acquired as assets rather than business combinations. The Group is committed to decommissioning the offshore electricity transmission platforms and certain transmission cables at the end of the relevant regulated revenue generating periods, subject to any repowering of the relevant associated wind farm to which the transmission assets relate.

## 30. Financial instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balances. The capital structure of the Group consists of non-recourse debt and the Group's corporate facility, and includes the borrowings, disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 31 to 34. The Group aims to deliver its objective by investing available cash and using leverage whilst maintaining sufficient liquidity to meet ongoing expenses and dividend payments. The Group's investment policy is set out on pages 22 to 24 of the Annual Report.

### Gearing ratio

The Group's Investment Advisor reviews the capital structure on a semi-annual basis. As part of this review, the Investment Advisor considers the cost of capital and the risks associated with each class of capital. As stated in the initial public offering prospectus, the Group has committed to a maximum gearing ratio of 50% (excluding non-recourse project level debt) as the proportion of recourse debt to portfolio valuation.

As at the date of this Annual Report all debt was non-recourse project level debt with the exception of the corporate debt facility which is secured over all the assets of the Company.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the Financial Statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 30. Financial instruments continued

### Categories of financial instruments

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s
<b>Financial assets</b>		
<b>Available for sale financial assets</b>		
Listed investments	–	216
Unlisted investments	25,936	17,667
Financial assets at fair value	25,936	17,883
<b>Financial asset loans and receivables</b>		
PFI project financial assets	2,197,587	1,680,639
Subordinated debt	72,196	13,376
Trade and other receivables (excluding prepayments)	44,405	37,995
Cash and cash equivalents	419,609	629,866
Financial assets at amortised cost	2,733,797	2,361,876
<b>Total financial assets</b>	<b>2,759,733</b>	<b>2,379,759</b>
	31 December 2011 £'000s	31 December 2010 £'000s
<b>Financial liabilities</b>		
<b>Derivative instruments in designated hedge accounting relationships</b>	<b>279,427</b>	<b>132,657</b>
Financial liabilities at fair value	279,427	132,657
<b>Financial liabilities at amortised cost</b>		
Trade and other payables (excluding deferred income)	63,426	86,916
Bank loans	2,386,821	2,020,918
Financial liabilities at amortised cost	2,450,247	2,107,834
<b>Total financial liabilities</b>	<b>2,729,674</b>	<b>2,240,491</b>

### Financial risk management objectives

The Group's Investment Advisor provides advice to the Company and also, as operator of International Public Partnerships Limited Partnership ('IPP LP'), co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of risks by using derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. In line with the lending requirements under project agreements for PFI/PPP-type investments, there is generally a requirement for the underlying project entity either to enter a fixed rate loan agreement for the life of the concession or, if a variable interest rate loan is agreed, an interest rate swap agreement is entered into at the commencement of the loan. The effect of the interest rate swap is to mitigate interest rate risk that the underlying project entity may be exposed to. As a result, the Group has minimal exposure to any change in interest rates. The Group may also enter forward foreign exchange contracts to mitigate foreign exchange risk.

Sensitivities around the Group's exposure to foreign currency movements and interest rates are detailed in the note below. There has been no change during the year to the manner in which the Group manages and measures the risks.

**30. Financial instruments** continued**Forward foreign exchange contracts**

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts based on the expected timing of these. Generally, the Group intends to cover forward foreign exchange payments and receipts for up to a four-year period. As at 31 December 2011, the Group had entered into foreign exchange contracts in accordance with the Group's Treasury Policy.

The following table details the forward foreign currency ('FC') contracts outstanding as at 31 December 2011:

	Average exchange rate 2011	Foreign currency 2011 £'000s	Notional value 2011 £'000s	Fair value 2011 £'000s
<b>Outstanding contracts</b>				
Cash flow hedges				
Buy Pound Sterling				
Less than 12 months	1.0000	4,016	4,016	(837)
1 to 4 years	1.0000	1,595	1,595	(386)

	Average exchange rate 2011	Local currency 2011 £'000s	Notional value 2011 £'000s	Fair value 2011 £'000s
<b>Outstanding contracts</b>				
Sell Euro				
Less than 12 months	1.1302	1,709	1,512	69
1 to 4 years	—	—	—	—
Sell Canadian Dollars				
Less than 12 months	—	—	—	—
1 to 4 years	1.792	1,493	831	(111)
Sell Australian Dollars				
Less than 12 months	1.9147	5,299	2,504	(906)
1 to 4 years	1.9147	1,657	764	(275)
Forward foreign exchange liability				(1,223)

	Average exchange rate 2011	Foreign currency 2011 £'000s	Notional value 2011 £'000s	Fair value 2011 £'000s
<b>Outstanding contracts</b>				
Cash flow hedges				
Buy Pound Sterling				
Less than 12 months	1.0000	9,615	9,615	(1,716)
1 to 4 years	1.0000	5,612	5,612	(1,025)

	Average exchange rate 2011	Local currency 2011 £'000s	Notional value 2011 £'000s	Fair value 2011 £'000s
<b>Outstanding contracts</b>				
Sell Euro				
Less than 12 months	1.1344	3,572	3,149	61
1 to 4 years	1.1302	1,709	1,512	27
Sell Canadian Dollars				
Less than 12 months	1.7957	2,558	1,425	(215)
1 to 4 years	1.7960	1,493	831	(118)
Sell Australian Dollars				
Less than 12 months	2.0595	10,383	5,041	(1,562)
1 to 4 years	2.1283	6,955	3,268	(934)
Forward foreign exchange liability				(2,741)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 30. Financial instruments continued

#### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Currency risk arises in financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. Currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

The carrying amounts of the Group's foreign currency denominated monetary financial instruments at the reporting date are set out in the table below:

	Liabilities		Assets	
	31 December 2011 £'000s	31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s
Euro	–	–	42,490	39,901
Canadian Dollar	–	–	–	8
Australian Dollar	–	–	3,050	737

These balances relate to monetary loans to subsidiaries held predominantly to cover future equity investments.

#### Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the following countries:

- Australia (AUD Dollar currency)
- Canada (CAD Dollar currency)
- Belgium, France, Ireland, Italy and Germany (Euro currency).

The following tables detail the Group's sensitivity to a 10% increase and decrease in the Sterling exchange rate against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably possible change in foreign exchange rates.

The sensitivity analysis below includes only outstanding foreign currency denominated monetary financial instruments and adjusts their translation at the year end for a 10% change in foreign currency rates against Sterling. A negative number below indicates a decrease in profit and other equity where Sterling strengthens 10% against the relevant currency.

For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive.

	Euro currency		AUD Dollar currency		CAD Dollar currency	
	31 December 2011 £'000s	31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s
(Loss)/ Profit before tax	(5,979)	(3,627)	(2,218)	(67)	(2,499)	(1)

The reasons for the foreign currency impacts are the exposure of the Group to foreign exchange fluctuations as a result of holding multi-currency financial instruments. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk, as the year end exposure does not reflect the exposure during the year.

In addition, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing at the balance date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve.

The following table details the Group's sensitivity to a 10% increase and decrease in the Sterling exchange rate against the relevant foreign currencies for foreign operations. The sensitivity table adjusts for the exchange rates prevailing at the balance date as applied to the assets and liabilities of the Group's foreign operations and the average rate for the year applied to the income and expense items for a 10% change in foreign currency rates against Sterling. A positive number below indicates an increase in net assets and profit where Sterling strengthens 10% against the relevant currency.

### 30. Financial instruments continued

For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on net assets and profit, and the balances below would be negative.

	Euro currency		AUD currency		CAD currency	
	31 December 2011 £'000s	31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s
Impact on net assets	(1,106)	812	(12,341)	(1,671)	(943)	(1,337)
Impact on profit	(598)	(265)	(222)	(331)	250	528

### Interest rate risk management

The Group has limited exposure to interest rate risk as the underlying borrowings within the Group are either fixed rate loans or an interest rate swap agreement is entered into to mitigate any fluctuations in interest rates. It is generally a requirement under a PFI/PPP concession that any borrowings are matched against the life of the concession. Hedging activities are aligned with the period of the loan, which also mirrors the concession period and are highly effective. The Group's corporate facility is unhedged on the basis it is utilised as an investment bridging facility and therefore drawn for a relatively short period of time. Therefore, the Group is not exposed to cash flow risk due to changes in interest rates over its variable rate borrowings. The fixed rate borrowings are carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

The Group's exposures to interest rate movements on financial assets are detailed in the interest rate sensitivity analysis section of this note.

The Group's derivative financial instruments and certain available for sale financial assets are exposed to fair value movements due to changes in interest rates.

### Interest rate sensitivity analysis

A sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. A 0.5% (2010: 0.5%) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group's available for sale financial assets comprise service concession financial assets that fall within the following categories and have the following values:

Listed and unlisted equity investments not exposed to interest rate risk £25.9 million (restated 2010: £17.9 million).

The Group's loans and receivable financial assets comprise fixed rate financial assets that are being carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

If interest rates had been 0.5% higher and all other variables were held constant, the Group's:

- profit for the years ended 31 December 2011 and 2010 would not be materially impacted as the interest rate risk associated with floating rate liabilities has been significantly mitigated through interest rate Swap agreements; and
- net assets and other equity reserves would increase by £46.6 million and decrease by £59.0 million respectively (2010: decreased by £70.0 million/£161.3 million) as a result of the changes in the fair value of the interest rate Swap agreements, if the interest rate was 0.5% higher/lower.

While the Directors note that due to interest rate movements in the year the valuation of interest rate swaps has moved by £146.8 million (2010: £46.3 million). The Directors' used a reasonably possible estimate that interest rates are unlikely to change by more than plus or minus 50 basis points over the next year.

A sensitivity analysis for monetary assets at 31 December 2011, using a 0.5% increase and a 0.5% decrease in the average interest rate, would result in an increase in profit of £15.8 million (2010: £25.6 million) and a decrease of £15.8 million (2010: £25.6 million), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 30. Financial instruments continued

#### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate yield curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts of interest rate swap contracts outstanding as at the reporting date:

#### Cash flow hedges (floating to fixed rate debt)

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2011 %	2010 %	2011 £'000s	2010 £'000s	2011 £'000s	2010 £'000s
<b>Outstanding receive floating pay fixed contracts liability</b>						
Total	4.45	4.62	878,106	688,141	279,428	132,657

All interest rate swap contracts exchange floating rate interest amounts for fixed rate interest amounts. These are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

#### Other price risks

The Group is exposed to equity price risks arising from equity investments. Investments in listed equity securities present the Group with opportunity for return through dividend income and trading gains. All unconsolidated equity investments are designated as available for sale and are held for strategic rather than trading purposes. The Group does not actively trade these investments. As these movements go through the statement of comprehensive income (except to the extent there has been an impairment) there is no impact on the income statement when the equity prices change.

If the price of the listed equity had been 5% higher or lower and all other variables were held constant as at 31 December 2011 and 2010, the Group's net assets and equity reserves would increase/decrease by £nil (2010: increase/decrease by £nil) and the impairment charge in the income statement would have been decreased/increased by £nil (2010: £nil).

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and PFI/PPP concessions are entered into with government or quasi government or other public or equivalent low-risk bodies.

Receivables consist of a small number of government or quasi government counterparties that are spread across an increasingly diverse geographical area. The Group does not have any significant credit risk exposure to any single non-government or quasi government or similar counterparty. In relation to offshore transmission investments, the Group is protected in accordance with the Energy Act 2004 in the event of an insolvency of the National Electricity Transmission System Operator. The Group is exposed to credit risk on liquid funds, cash held on deposit and financial instruments. The Group mitigates this risk by only transacting with banking counterparties with high credit ratings assigned by international credit rating agencies (currently with Moody's ranging between Aa1 and A1). The Group has considered the creditworthiness of facilities managers and construction sub-contractors and the availability of alternative sub-contractors in the event of default and Group policy is only to deal with creditworthy contractors. Refer to note 23 for further details on the corporate debt facility.

As at 31 December 2011, the Group's maximum exposure to credit risk over financial assets represents the carrying amount of £2.7 billion (2010: £2.4 billion) as disclosed earlier in this note.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining 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. In April 2011, the Group renewed the corporate debt facility in order to allow the Group greater flexibility in respect of accepting investment opportunities as they arise. As at 31 December 2011, the Group had drawn down £18.1 million of the £100 million facility.

### 30. Financial instruments continued

#### Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liabilities	Weighted average effective interest rate %	Less than 1 year £'000s	1–2 years £'000s	3–5 years £'000s	5+ years £'000s	Total £'000s
<b>2011</b>						
Non-interest bearing		63,626	–	–	–	63,626
Variable interest rate instruments	3.55%	142,148	145,494	522,458	2,761,454	3,571,554
Fixed interest rate instruments	5.51%	22,971	22,993	69,221	495,462	610,647
		<b>228,745</b>	<b>168,487</b>	<b>591,679</b>	<b>3,256,916</b>	<b>4,245,827</b>
<b>2010 (restated)</b>						
Non-interest bearing		87,702	–	–	–	87,702
Variable interest rate instruments	3.42%	108,575	112,896	359,766	2,511,077	3,092,314
Fixed interest rate instruments	5.59%	21,091	23,316	70,143	491,823	606,373
		<b>217,368</b>	<b>136,212</b>	<b>429,909</b>	<b>3,002,900</b>	<b>3,786,389</b>

The cash flows set out above in respect of variable rate instruments are presented gross of the effect of the associated interest rate swap referred to in note 24.

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets, except where the Group anticipates that the cash flow will occur in a different period.

Assets	Weighted average effective interest rate %	Less than 1 year £'000s	1–2 years £'000s	3–5 years £'000s	5+ years £'000s	Total £'000s
<b>2011</b>						
Cash and cash equivalents		419,609	–	–	–	419,609
Non-interest bearing		44,405	–	–	–	44,405
Fixed interest rate instruments	7.17%	197,807	190,280	604,805	4,271,159	5,264,051
		<b>661,821</b>	<b>190,280</b>	<b>604,805</b>	<b>4,271,159</b>	<b>5,728,065</b>
<b>2010</b>						
Cash and cash equivalents		629,866	–	–	–	629,866
Non-interest bearing		37,995	–	–	–	37,995
Fixed interest rate instruments	6.52%	105,677	110,868	344,117	4,106,324	4,666,986
		<b>773,538</b>	<b>110,868</b>	<b>344,117</b>	<b>4,106,324</b>	<b>5,334,847</b>

The Group expects to meet its other obligations from existing cash balances, operating cash flows and proceeds of maturing financial assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 30. Financial instruments continued

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

	Less than 1 month £'000s	1–3 months £'000s	3 months to 1 year £'000s	1–5 years £'000s	5+ years £'000s	Total £'000s
<b>31 December 2011</b>						
<b>Interest rate swaps</b>						
Net payments	3,644	7,525	19,902	119,708	301,100	451,879
<b>Currency swaps</b>						
Gross payments	–	–	4,016	1,595	–	5,611
	<b>3,644</b>	<b>7,525</b>	<b>23,918</b>	<b>121,303</b>	<b>301,100</b>	<b>457,490</b>
<b>31 December 2010</b>						
<b>Interest rate swaps</b>						
Net payments	2,383	6,310	15,672	94,475	264,942	383,782
<b>Currency swaps</b>						
Gross payments	–	–	9,615	5,612	–	15,227
	<b>2,383</b>	<b>6,310</b>	<b>25,287</b>	<b>100,087</b>	<b>264,942</b>	<b>399,009</b>

### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include equity shares.
- The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current market data.

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Statements approximate their fair values:

	Carrying amount		Fair value	
	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s
<b>Financial assets</b>				
Loans and receivables	2,269,783	1,694,015	2,705,502	2,719,973
<b>Financial liabilities</b>				
Bank loans at fixed interest rates	310,879	308,516	406,986	442,265

### Assumptions used in determining fair value of financial assets and liabilities

The fair value of the Group's loans and receivables has been determined using discounted cash flow methodology. In determining the discount rate, consideration is given to a number of market factors including but not limited to the prevailing risk-free rate, an appropriate project specific risk premium and recent transactions that have similar characteristics.

At 31 December 2011, for project debt (which is non-recourse to the Group), covenants are in respect of historic and future interest cover ratios in the range of 1.01 times historic interest cover ratio and 1.75 times future interest cover ratio.

The fair value of the fixed rate bank loans has been calculated using discounted cash flow methodology. The discount rate used reflects changes in the LIBOR rates and lending margins.

At 31 December 2011, the weighted average range of discount rates applied was 1.8% to 6.1% (2010: 1.06% to 5.9%).

**30. Financial instruments** continued**Fair value measurements recognised in the balance sheet**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2011			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Available-for-sale financial assets	–	–	25,936	25,936
Total	–	–	25,936	25,936
Derivative financial liabilities	–	279,428	–	279,428
Total	–	279,428	–	279,428

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

	2010 (Restated)			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Available-for-sale financial assets	216	–	17,667	17,883
Total	216	–	17,667	17,883
Derivative financial liabilities	–	132,657	–	132,657
Total	–	132,657	–	132,657

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

**Reconciliation of Level 3 fair value measurements of financial assets:**

	Available-for-sale Unlisted equities 2011 £'000s	Available-for-sale Unlisted equities 2010 (Restated) £'000s
Balance at 1 January	17,667	22,144
Total gains or losses:		
– in profit or loss	(1,308)	6
– in other comprehensive income	–	(4,483)
Investments	9,577	–
Balance at 31 December	25,936	17,667

The table above only includes financial assets. There were no financial liabilities subsequently measured at fair value on Level 3 fair value measurement bases.

All gains and losses included in other comprehensive income relate to unlisted equities held at the balance sheet date.

**Significant assumptions used in determining fair value of financial assets and liabilities****Unlisted shares**

The Financial Statements include holdings in unlisted shares which are measured at fair value (note 20). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value a risk adjusted weighted average discount factor of 10.56% (2010: 12.0%) is used. If these inputs to the valuation model were 0.5% higher/lower while all the other variables were held constant, the carrying amount of the shares would decrease/increase by £1.0 million (2010: decrease/increase by £0.1 million). The majority of the increase is due to the inclusion of underlying BSFI project investments acquired during the year to 31 December 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 31. Share capital

	31 December 2011 shares	31 December 2010 shares
On issue 1 January	479,040	374,715
Issued for cash	48,428	98,495
Issued as a scrip dividend alternative	6,766	2,839
Issued to the Investment Advisor as a performance fee alternative	–	2,991
On issue at 31 December – fully paid	534,234	479,040

At present, the Company has one class of Ordinary Shares which carry no right to fixed income.

### For the year ended 31 December 2011

On 13 January 2011, the Company raised an additional £2.34 million of equity through an existing Tap facility of 2,000,000 new Ordinary Shares. The shares were issued at a price of 117.0 pence per share (inc. dividend).

In March 2011, 3,244,167 new Ordinary Shares of 0.01 pence each fully paid were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the six months ending 31 December 2010.

In September 2011, the Group raised an additional £52.03 million of equity through its Tap Issues for Subscription of 46,428,447 Ordinary Shares at an issue price per share of 112.15 pence (ex dividend).

In October 2011, 3,521,274 new Ordinary Shares of 0.01 pence each fully paid were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the six months ending 30 June 2011.

The total number of Ordinary Shares in issue at 31 December 2011 was 534,234,191.

### Share capital

	31 December 2011 £'000s	31 December 2010 £'000s
Opening balance	198,259	81,795
Issue of Ordinary Equity Shares	61,971	118,268
Expenses on issue of Ordinary Shares	(467)	(1,804)
Balance at 31 December	259,763	198,259

As a result of changes in the Companies (Guernsey) Law, 2008 ('the Law') proceeds of share issues are now required to be credited to share capital, not share premium account. In addition, there is no longer a requirement to seek court approval to make distributions from the share premium account and distributions may now be made from share capital and share premium accounts, as well as other reserves, subject to meeting the relevant solvency tests in the Law. The existing balance on share premium account has, therefore been transferred to share capital account.

## 32. Revaluation reserve

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Opening balance	–	–	(7,694)
Restatement – change in accounting policy (note 1)	–	–	7,694
Revaluation of unlisted investments	361	–	–
Closing balance	361	–	–

**33. Other distributable reserve**

	31 December 2011 £'000s	31 December 2010 £'000s
Opening balance	247,235	272,991
Dividends paid	(27,875)	(25,756)
Balance at 31 December	219,360	247,235

**34. Retained earnings**

	31 December 2011 £'000s	(Restated) 31 December 2010 £'000s	(Restated) 1 January 2010 £'000s
Opening balance	16,822	2,177	(7,361)
Dividends paid	–	–	(20,515)
Transfer from other distributable reserves	–	–	20,515
Net profit for the year	16,538	14,645	9,538
Closing balance	33,360	16,822	2,177

Retained earnings have been restated in 2010 as detailed in note 1.

**35. Acquisition of subsidiaries****1. Liverpool Library**

On 31 March 2011, the Group acquired 80.1% of the issued share capital of Inspire Partnership Holdings Limited for cash consideration of £2.1 million, including the cost of acquisition of £0.2 million.

Inspire Partnership Holdings Limited is the parent company of the entity holding the PFI concession of Liverpool Library. This transaction has been accounted for by the purchase method of accounting.

The acquiree's identified assets and liabilities that meet the conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date.

The intangible asset arising on acquisition is attributable to the right to future profits on the services element of the related concessions acquired.

All amounts shown above are at book value and fair value.

Inspire Partnership Holdings Limited contributed £0.37 million in revenue and a £1.68 million loss before tax for the period between the date of acquisition and 31 December 2011.

**At 31 March 2011**

	£'000s
Cash consideration	1,949
<b>Total consideration</b>	<b>1,949</b>
<b>Fair value of the Group's equity interest held before the business combination</b>	<b>–</b>
	1,949

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 35. Acquisition of subsidiaries continued

	£'000s
Loans and receivables	13,124
Trade and receivables	271
Cash and cash equivalents	1,695
Intangible asset	2,692
Trade and other payables	(3,031)
Bank loans	(12,081)
Deferred tax liability	(727)
<b>Total identifiable net assets</b>	<b>1,943</b>
Non-controlling interest	6
	<b>1,949</b>

### 2. Long Bay Forensic and Prison Hospital

On 6 May 2011, the Group acquired an additional 50% of the issued share capital of PPP Solutions (Long Bay) Nominee Pty Ltd and 50% of the partnership capital and existing partnership loans of PPP Solutions (Long Bay) Partnership for cash consideration of £6.7 million, including the cost of acquisition of £0.04 million.

PPP Solutions (Long Bay) Nominee Pty Ltd is the trustee company of the entity holding the PFI concession of Long Bay Forensic and Prison Hospital. This transaction has been accounted for by the purchase method of accounting.

The acquiree's identified assets and liabilities that meet the conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date.

All amounts shown below are at book value and fair value.

PPP Solutions (Long Bay) Partnership contributed £11.9 million revenue and profit before tax of £1.9 million for the period between the date of acquisition and the 31 December 2011.

### At 6 May 2011

	£'000s
Cash consideration	6,745
Total consideration	6,745
Fair value of the Group's equity interest held before the business combination	8,559
	<b>15,304</b>

	£'000s
Financial asset loans and receivables	12,674
Trade and receivables	7,594
Cash and cash equivalents	5,448
Intangible asset	5,455
Trade and other payables	(1,652)
Bank loans	(8,552)
Deferred tax liability	(5,663)
Total identifiable net assets	15,304
Non-controlling interest	–
	<b>15,304</b>

**35. Acquisition of subsidiaries** continued**3. Royal Melbourne Showgrounds**

On 6 May 2011, the Group acquired an additional 50% of the issued share capital and existing shareholder loan notes of PPPS Showgrounds Pty Ltd for cash consideration of £3.3 million, including the cost of acquisition of £0.2 million.

PPPS Showgrounds Pty Ltd is the parent company of the entity holding the PFI concession of the Royal Melbourne Showgrounds. This transaction has been accounted for by the purchase method of accounting.

The acquiree's identified assets and liabilities that meet the conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date.

All amounts shown below are at book value and fair value.

The additional 50% acquisition in PPPS Showgrounds Pty Ltd contributed £1.0 million in revenue and profit before tax of £1.8 million for the period between the date of acquisition and the 31 December 2011.

**At 6 May 2011**

	£'000s
Cash consideration	3,285
<b>Total consideration</b>	<b>3,285</b>
<b>Fair value of the Group's equity interest before the business combination</b>	<b>3,793</b>
	<b>7,078</b>
	£'000s
Financial asset loans and receivables	67,210
Trade receivables and other assets	3,941
Cash and cash equivalents	909
Deferred tax asset	404
Derivative financial instruments	881
Trade and other payables	(1,058)
Bank loans	(61,038)
Deferred tax liability	(3,756)
<b>Total identifiable net assets</b>	<b>7,493</b>
Non-controlling interest	—
Gain recognised in Income Statement	(415)
	<b>7,078</b>

**4. Building Schools for the Future Investments LLP**

On 12 August 2011, the Group acquired 100% of the partnership interests (including investor loans) in Building Schools for the Future LLP from the Department for Education and Partnerships UK for cash consideration of £58.4 million, including the cost of acquisition of £1.3 million.

Building Schools for the Future Investments LLP is the holding entity for 10% interests in 32 local education partnership entities and 49 secondary school PFI concessions. This transaction has been accounted for by the purchase method of accounting.

The acquiree's identified assets and liabilities that meet the conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date.

All amounts shown below are at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 35. Acquisition of subsidiaries continued

Building Schools for the Future Investments LLP contributed £1.8 million revenue and profit before tax of £0.8 million for the period between the date of acquisition and the 31 December 2011.

### At 12 August 2011

	£'000s
Cash consideration	58,438
<b>Total consideration</b>	<b>58,438</b>
<b>Fair value of the Group's equity interest before the business combination</b>	<b>–</b>
	<b>58,438</b>
	£'000s
Financial asset loans and receivables	59,078
Cash and cash equivalents	282
Trade and other payables	(922)
<b>Total identifiable net assets</b>	<b>58,438</b>
Non-controlling interest	–
	<b>58,438</b>

## 36. Notes to the cash flow statement

	31 December 2011 £'000s	31 December 2010 £'000s
Profit for the year after taxation	16,030	15,062
Adjusted for:		
Investment revenue recognised in profit and loss	(32,350)	(40,756)
Share of profits/(losses) of associates	405	(4,547)
Interest on bank loans (finance costs)	146,342	121,755
Depreciation of plant property and equipment	350	416
Amortisation of intangible assets	9,579	9,341
Income tax (credit)/charge recognised in profit and loss	(2,860)	1,476
Other losses/(gains)	(5,614)	4,470
Impairment of financial assets	6,286	9,620
<b>Operating cash flows before movements in working capital</b>	<b>138,168</b>	<b>116,837</b>
Increase in receivables	(47,046)	(15,580)
Increase in payables	(29,185)	(2,051)
<b>Cash generated by operations</b>	<b>61,937</b>	<b>99,206</b>
Income tax paid	(3,650)	235
Interest paid	(131,022)	(119,369)
<b>Net cash outflow from operating activities</b>	<b>(72,735)</b>	<b>(19,928)</b>

Cash and cash equivalents held by the Group are short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

## 37. Contingent liabilities

The Group has commitment to provide ongoing working capital facilities to certain underlying BSFI investment entities. The total undrawn amount of these facilities as at 31 December 2011 was £0.9 million.

As at 31 December 2011, the Group also had a commitment to invest additional subordinated debt into one of the BSFI projects of £0.5 million, which was made since the end of the year.

The Directors have not identified any contingent liabilities at the date of this report.

### 38. Events after the balance sheet date

There were no material events after the balance sheet date requiring disclosure.

### 39. Disclosure – service concession arrangements

The Group operates 28 consolidated service concession arrangements in the Accommodation, Custodial, Energy and Transport sectors. The concessions vary, based on the nature of the asset but typically require the construction and operation of an asset during the concession period. The concession may require the acquisition or replacement of an existing asset or the construction of a new asset. The operation of the accommodation-based assets normally includes the provision of facilities management services such as cleaning, catering, caretaking, security, maintenance, and lifecycle. At the end of the concession period on the majority of the concessions, the assets are returned back to the concession provider. However, on seven of the projects the Group has a right to retain the asset.

The rights of both the concession provider and concession operator are stated within the specific project documentation. 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.

The table overleaf sets out the Group's economic interests in PFI concessions that are consolidated within the Financial Statements. All economic interests reflect an investment in the capital of the underlying project.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 39. Disclosure – service concession arrangements continued

Project	Short description of concession arrangements
Abingdon Police Station	Design, construction, financing and provision of facilities management to a police facility including HQ, station and training base for Thames Valley Police Authority.
Access Justice Durham	Design, construction, financing and provision of services for a new courthouse facility in Durham, Ontario, Canada.
Alberta Schools	Design, construction, financing and provision of services for 18 new schools throughout Edmonton and Calgary, Canada.
Amiens Hospital Project	Design, construction, financing and operation of an instrument sterilisation facility at Amiens, France.
Bootle Government Offices	Design, construction, financing and provision of facilities management to fully serviced accommodation in Bootle for the occupation of HM Revenue & Customs.
Calderdale Schools	Design, construction, financing and provision of facilities management to five schools in Calderdale.
Derbyshire Magistrates Courts	Design, construction, financing and provision of facilities management services to two courthouses in Derbyshire.
Derbyshire Schools Phase 1	Design, building, financing and provision of facilities management services to two secondary schools in Derbyshire.
Derbyshire Schools Phase 2	Design, building, financing and provision of facilities management services to two secondary schools in Derbyshire.
Diablo Project	Design, construction, financing and subsequent operation of a rail link in Belgium.
Dublin Criminal Courts	Design, construction, financing and subsequent operation of a courthouse Dublin, Ireland.
Hereford & Worcester Magistrates Courts	Design, construction, financing and subsequent operation of four courthouses in Hereford & Worcester.
Liverpool Central Library & Archive Project	Design, building, financing and provision of facilities management services for the Central Library and Archive facility in Liverpool, England.
Long Bay Prison & Forensic Hospital	Design, construction, financing and subsequent operation of prison and forensic hospital in Sydney, Australia.
Maesteg Schools Project	Design, building, financing and provision of facilities management services for new build schools in Maesteg, Wales.
Melbourne Showgrounds	Design, construction, financing and subsequent operation of the redevelopment of Melbourne showgrounds in Australia.

Start date	End date	No. of years	Construction value	Key contractual details
25 March 2000	09 March 2030	30 Years	£6.9m	Development value of approximately £8m. Retains an insignificant residual value in buildings/land
2 March 2007	30 November 2039	30 Years	£98.0m	Concession payment basis is both availability and service performance-based
15 September 2008	30 September 2040	32 Years	CAD490m	An associated company of one member of the construction JV is a 25% equity holder in this project
1 January 2008	31 July 2026	19 Years	£7.1m	Concession payment basis is both availability and service performance-based
17 July 2000	16 July 2025	25 Years	£4.1m	Public Sector Client has an option to break in 2015. Retains an insignificant residual value in buildings/land
31 August 2004	17 March 2030	26 Years	£44.6m	Start date applies to first operational school – Savile Park Primary
04 June 2003	02 September 2028	25 Years	£21.3m	Authority has option to extend Concession date by five years
28 March 2003	28 March 2029	26 Years	£25.3m	Concession payment basis is both availability and service performance-based
13 February 2006	12 February 2032	26 Years	£28.3m	Concession payment basis is both availability and service performance-based
2 October 2007	30 June 2047	40 Years	€285m	Concession has both availability and an element of demand-based revenue
18 April 2007	30 June 2035	25 Years	£105.0m	Concession payment basis is both availability and service performance-based
03 March 2003	05 March 2025	22 Years	£23.5m	Concession payment basis is both availability and service performance-based
19 July 2010	07 November 2037	27 Years	£40.8m	Concession payment basis is both availability and service performance-based
01 August 2006	31 May 2034	28 Years	AUD147m	Concession payment basis is both availability and service performance-based
29 July 2008	30 September 2033	25 Years	£17.6m	Concession payment basis is both availability and service performance-based
01 July 2005	01 August 2031	26 Years	AUD103m	Concession payment basis is both availability and service performance-based

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 39. Disclosure – service concession arrangements continued

Project	Short description of concession arrangements
Northamptonshire Schools	Design, construction (being a mixture of new build and refurbishment), financing and provision of facilities management services in respect of 30 existing schools and 11 new build schools in Northamptonshire.
North Wales Police HQ	Design, construction, financing and subsequent supply of facilities management services to the North Wales Police HQ.
Norfolk Police HQ	Design, construction, financing and subsequent provision of facilities management services of serviced accommodation for a new HQ and ancillary facilities to the Norfolk Police Authority.
Orange Hospital	Design, building, financing and provision of facilities management services to the Orange Hospital.
Pforzheim Schools	Building, financing and provision of facilities management services in respect of two new secondary schools buildings and outside facilities in the City of Pforzheim.
Royal Children's Hospital	Design, building, financing and provision of facilities management services to the Royal Children's Hospital.
Strathclyde Police Training Centre	Design, building, financing and provision of facilities management services to the Strathclyde Police Training Centre.
St Thomas More School	Design, construction, financing and provision of facilities management services to St Thomas More School.
TC Barrow OFTO	Financing, operation and maintenance of onshore/offshore substations & under-sea cables connecting the mainland electricity grid network to offshore wind farms.
TC Gunfleet Sands OFTO	Financing, operation and maintenance of onshore/offshore substations & under-sea cables connecting the mainland electricity grid network to offshore wind farms.
TC Robin Rigg OFTO	Financing, operation and maintenance of onshore/offshore substations & under-sea cables connecting the mainland electricity grid network to offshore wind farms.
Tower Hamlets Schools	Design, construction (mix of new build and refurbishment) and provision of facilities management services in respect of 27 schools in Tower Hamlets.

Start date	End date	No. of years	Construction value	Key contractual details
31 December 2005	31 December 2037	32 Years	£191.3m	Payments increase as schools are completed
01 March 2004	08 December 2028	24 Years	£13.2m	Concession payment basis is both availability and service performance-based
17 December 2001 (operational services), 15 January 2002 (full service)	16 December 2036	35 Years	£22.5m	Authority has option to extend for a further 15 years and a second option to extend for a further 15 years thereafter. Project retains an insignificant residual value in buildings/land
21 December 2007	21 December 2035	28 years	AUD170m	Concession payment basis is both availability and service performance-based
11 September 2009	11 September 2039	30 years	€47.1m	Concession payment basis is both availability and service performance-based
20 December 2007	31 December 2036	29 years	AUD1.4bn	Concession is a two stage project that includes new building and refurbishment of the existing facility. The payment basis is availability-based
17 October 2001	16 October 2026	25 Years	£18.9m	Retains an insignificant residual value in buildings/land
28 March 2003	28 March 2028	25 Years	£12.9m	Concession payment basis is both availability and service performance-based
27 September 2011	27 March 2030	18.5 years	£33.5m	Concession payment basis, based both on availability and service performance
19 July 2011	19 July 2031	20 years	£49.0m	Concession payment basis, based both on availability and service performance
02 March 2011	02 March 2031	20 years	£65.0m	Concession payment basis, based both on availability and service performance
28 June 2002 (contract start date), June 2007 (construction completion)	27 August 2027	25 Years	£74.1m	Under the concession the unitary payment commenced at financial close. There is provision for the sale of surplus land following the completion of the redevelopment

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 40. Related party transactions

During the period, Group companies entered into certain transactions with related parties who are not members of the Group and who are related parties by reason of being in the same group as Amber Infrastructure Group Holdings Limited, which is the ultimate holding company of the Investment Advisor, AFML.

Under the Investment Advisory Agreement ('IAA'), Amber Fund Management Limited ('AFML') was appointed to provide investment advisory services to the Company including advising the Company as to the strategic management of its portfolio of investments.

AFML is a subsidiary company of Amber Infrastructure Group Holdings Limited ('Amber Group'), in which Mr G Frost is a Director and also a substantial shareholder.

As Mr G Frost is also a Director of International Public Partnerships Limited ('the Company'), International Public Partnerships Lux 1 Sarl. (a wholly owned subsidiary of the Company) and the majority of other companies in which the Company indirectly has an investment; the transactions with the Amber Group are considered related party transactions under IAS 24 'Related Party Disclosures'.

The emoluments for Mr G Frost are paid to his employer, Amber Infrastructure Limited.

The amounts of the transactions in the year that were related party transactions are set out in the table below.

	Amounts paid to related parties in Income Statement		Amounts paid to/(received from) related parties in Balance Sheet <sup>1</sup>		Amounts owing to/(from) related parties in Balance Sheet <sup>2</sup>	
	For the year ended 31 December 2011	For the year ended 31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s	31 December 2011 £'000s	31 December 2010 £'000s
Amber Fund Management Ltd (a)	1,447	21	–	–	–	–
International Public Partnerships GP Limited (b)	7,545	6,526	–	–	3,976	3,402
Amber Asset Management Limited (c)	1,737	2,035	48	2,257	774	421
Amber Australia Pty Ltd (d)	1,219	2,018	1,591	–	311	295
Amber GmbH (e)	257	272	–	–	–	–
ANALLC (f)	555	–	–	–	–	–
Amber Infrastructure Ltd (g)	384	–	7,148	–	–	–
<b>Total</b>	<b>13,144</b>	<b>10,872</b>	<b>8,787</b>	<b>2,257</b>	<b>5,061</b>	<b>4,118</b>

<sup>1</sup> Represents amounts paid to related parties to acquire or make investments or advisory fees associated with investments which are subsequently recorded in the balance sheet.

<sup>2</sup> Represents debtors and creditors outstanding with related parties at each balance sheet date.

- a) AFML, the Investment Advisor, is a related party of the Group. The aggregate fees payable to AFML in its capacity as Investment Advisor include both base and performance fees; however, the amount is reduced by any base or performance fees that have been paid (or are due and payable) to International Public Partnerships GP Limited (see b). The amounts paid to AFML for the year ended 31 December 2011 was £1,447,000 (2010: £21,000) and relates to advisory fees.

Material provisions of the Investment Advisory Agreement include that AFML is entitled to a Base Fee in each year at the annual rate of 1.2% per annum of the Gross Asset Value less project specific liabilities of the Investment Portfolio. AFML is also entitled to an Incentive Fee in respect of each Incentive Period equal to 20% of the excess (if any) of the Ordinary Share Return over the Benchmark Return (as defined in the IAA) in the Incentive Period, provided that the Incentive Fee shall only be payable if and to the extent that the change in the Ordinary Share Return Index in the relevant Incentive Period is greater than the change in the Benchmark Return Index. The Investment Advisory Agreement may be terminated by either party giving to the other five years notice of termination, expiring at any time after 15 years from the date of the IAA.

The IAA may also be terminated immediately by either party: (a) if the other party fails to make a payment when due which is not paid within 30 days of being notified of the failure to make a payment; or (b) in the case of the material breach by the other party which remains unremedied for 30 days after such party has been notified of the breach or, if such breach is not capable of remedy, if the breaching party fails to offer compensation in respect of such breach which is reasonably acceptable to the other party. In addition, subject to the Shareholders passing an ordinary resolution directly to the Directors to terminate the IAA, the Company can terminate the IAA by giving one year's written notice to the Investment Advisor in either of the following circumstances: (a) if at any time after the expiry of five years from the date of the IAA, the Benchmark Return Index outperforms the Ordinary Share Index by more than 3%. In at least eight out of the immediately preceding ten quarterly periods unless the reason for the outperformance of the Benchmark Return Index was to a material extent caused by the occurrence of an event of force majeure; or (b) if at any time a material (in number of and seniority) of employees in the Amber group's infrastructure and project finance group cease to be employed by any member of

#### 40. Related party transactions continued

the Amber group and are not replaced (before the end of the one year written notice period) by suitably qualified other staff who will enable the services to be provided under the IAA in a manner at least comparable to that in which the services were provided prior to the occurrence of such event.

Material provisions of this agreement include that the Operating Agreement may be terminated by either the Partnership or the Operator giving to the other five years notice of termination, expiring at any time after 15 years from the date of the Operating Agreement. The Operating Agreement may also be terminated immediately by the Partnership or the Operator: (a) if the other party fails to make a payment when due which is not paid within 30 days of being notified of the failure to make a payment; or (b) in the case of the material breach by the other party which remains unremedied for 30 days after such party has been notified of the breach or, if such breach is not capable of remedy, if the breaching party fails to offer compensation in respect of such breach which is reasonably acceptable to the other party. The Partnership can terminate the Operating Agreement immediately in any of the following circumstances: (a) on the insolvency or analogous event occurring in respect of the Operator; (b) if the Operator is no longer permitted by applicable laws, rules and regulations to provide its services under the Operating Agreement; and (c) if the Investment Advisor is removed or replaced in accordance with the IAA, save that in the case of (a) and (b), the General Partner shall, if so required by AFML, novate the Operating Agreement in favour of another member of the Amber Group that is reasonably acceptable to the Limited Partner, who is not insolvent and who can provide the services in accordance with relevant laws and regulations.

- b) International Public Partnerships GP Limited is a related party of the Group. This company was acquired by the Amber Group of companies on 23 June 2009 and as General Partner pursuant to the Deed of Limited Partnership dated 10 October 2006, between the General Partner and the Limited Partner (International Public Partnerships Lux 2 Sarl.) is entitled to a Base Priority Profit Share and an Incentive Priority Profit Share that is calculated in accordance with the IAA. In part settlement of the performance fee that was payable at 31 December 2009, 40% of the value was accepted in shares by the Investment Advisor, being £3.4 million. As a result, Amber Infrastructure Limited ('AIL') received 2,991,220 Ordinary Shares of the Company on 5 May 2010 at 114.1 pence per share. This shareholding helps strengthen the alignment of interests between the Company and the Investment Advisor. As at 31 December 2011 AIL still held these shares and received dividends in respect of these.
- c) Amber Asset Management Limited (registered in England and Wales) is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and has various asset management agreements with the underlying PFI concession companies of the Group to provide asset management services.
- d) Amber Australia Pty Limited (registered in NSW, Australia) is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and has various asset management agreements with the underlying PFI concession companies of the Group to provide asset management services in Australia.
- e) Amber GmbH is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and has a services agreement with International Public Partnerships Infrastructure Group & Co KG.
- f) Amber North America LLC ('ANALLC') is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and asset management agreements in place with the underlying PFI concession companies of the Group to provide asset management services.
- g) Amber Infrastructure Limited is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor.
- h) During the year dividends of £0.2 million (2010: £3.2 million) were received from associates and as shown in note 19, a further £9.5 million was invested in associates during the year.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

#### Transactions with Directors

There were no purchases of shares from the Company by Directors during the year ended 31 December 2011 (2010: 192,625 shares were purchased as part of the capital raising of New Ordinary Shares).

Remuneration paid to the Non-Executive Directors is disclosed on page 30.

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# NOTES

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# NOTES

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