

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2013



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HIGHLIGHTS

for the year ended 31 March 2013 (on an Investment basis unless noted otherwise¹)

Operational performance and cash generation remain strong

Profit before tax of £93.1m, a 50.1% increase (2012: £62.0m)

Second interim distribution of 3.575p for the year to 31 March 2013 declared and paid, with a scrip dividend alternative, giving total distributions of 7.00p per share for the year thus achieving the Company's target set at IPO

The Company is targeting a total distribution of 7.1p per share for the year ending 31 March 2014

Directors' Valuation of the portfolio at 31 March 2013 of £1,213.1m, up from £902.0m at 31 March 2012, a 34% increase

NAV per Ordinary Share post distribution of 116.4p at 31 March 2013 compared to 112.8p at 31 March 2012, a 3.2% increase

21 value-accretive investments acquired, with a combined investment value of £278.0m

Raised £272.6m (before expenses) through an issue of 140m New Ordinary Shares (£167.3m) in March 2013 and aggregate tap issues of 88.3m shares (£105.3m) during the year

Four new investments acquired since 31 March 2013 for £36.1m

Healthy pipeline of further attractive investment opportunities under consideration, including five on an exclusive basis worth over £100m

Two new Directors recruited as part of the long-term succession plan, and to bolster depth and breadth of the Board

1. In order to provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, as in previous periods, the results have been restated in proforma tables with all investments accounted for on an Investment basis.

INFORMATION ON HICL INFRASTRUCTURE COMPANY LIMITED

HICL Infrastructure Company Limited (“HICL” or the “Company” or, together with its 100%-owned subsidiaries, the “Group”) was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects. It was launched in March 2006 as HSBC Infrastructure Company Limited, and raised £250m with which it purchased an initial portfolio of interests in 15 PFI/PPP projects. The Company changed its name to HICL Infrastructure Company Limited in 2011.

In May 2008, December 2009, December 2010, March 2012 and March 2013 the Company raised further equity capital by the issue of C Shares (which subsequently converted into Ordinary Shares) or New Ordinary Shares. As at 21 May 2013, it has a portfolio of 83 investments in infrastructure projects in the UK, Canada, Holland and Ireland.

Since launch, the Company has paid the following dividends:

| Period to 31 March 2007 | Year to 31 March 2008 | Year to 31 March 2009 | Year to 31 March 2010 | Year to 31 March 2011 | Year to 31 March 2012 | Year to 31 March 2013 |
|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| total of 6.10p | total of 6.25p | total of 6.40p | total of 6.55p | total of 6.70p | total of 6.85p | total of 7.00p |

The Company has pursued a progressive distribution policy since launch with an initial target distribution of 7.0p per share within a 7 to 10 year period. At the time of the first C Share issue in May 2008 the target period was revised to 7 years (2013) and the Company achieved this objective in the year to 31 March 2013. The long-term target Internal Rate of Return (“IRR”) is approximately 7% (as stated in the February 2013 New Ordinary Shares prospectus and based on a purchase price of 119.5p per share).

At launch in March 2006, 250,000,000 Ordinary Shares were issued. With the conversion of C Shares and the issuance of New Ordinary Shares, together with Ordinary Shares issued as a result of tap issues and scrip dividends, the total Ordinary Shares in issue at 21 May 2013 was 1,120,252,107.

The Investment Adviser to the Company is InfraRed Capital Partners Limited, which is authorised and regulated by the Financial Conduct Authority. Total headcount of the InfraRed group is over 100 and the infrastructure team now comprises 43 staff in offices in London, Paris, New York and Sydney. Twelve are dedicated to advising the Group and a further five allocate a large part of their time to supporting the Group and its investments.

COMPANY SUMMARY

| | |
|--|---|
| Investment Adviser (“IA”) and Operator | InfraRed Capital Partners Ltd, a wholly-owned subsidiary of InfraRed Partners LLP, is owned 80.1% by senior management and 19.9% by a subsidiary of HSBC Holdings plc |
| Company Secretary and Administrator | Dexion Capital (Guernsey) Ltd |
| Shareholders’ funds | £1,311.3m on an IFRS basis (£1,334.7m on an Investment basis) as at 31 March 2013 |
| Market capitalisation | £1.4bn as at 31 March 2013 |
| Investment Adviser and Operator Fees | <ul style="list-style-type: none">■ 1.1%¹ per annum of the Adjusted Gross Asset Value² of the investments up to £750m, 1.0% per annum up to £1.5bn, 0.9% per annum thereafter■ 1.0% of the value of new acquisitions³■ £0.1m per annum investment advisory fee■ No performance fee■ All fees from underlying Project Companies paid to the Group (and not to the IA) |
| ISA, PEP and SIPP status | The Ordinary Shares are eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs |
| Investment policy | The Company’s investment policy is set out on pages 10 to 11 and can also be found on the Company’s website |
| Website | www.hicl.com |

Notes:

1. For assets in construction or ramp-up the rate is 1.5%
2. Adjusted Gross Asset Value means fair market value, without deductions for borrowed money or other liabilities or accruals, and including outstanding subscription obligations.
3. Does not apply to acquisitions sourced from the InfraRed Capital Partners Group, or entities managed by it.

RESULTS ON AN INVESTMENT BASIS

| for the year to | 31 March 2013 | 31 March 2012 |
|-----------------------------------|---------------|---------------|
| Profit before tax (Revenue) | £49.9m | £33.2m |
| Profit before tax (Capital) | £43.2m | £28.8m |
| Profit before tax | £93.1m | £62.0m |
| Earnings per share | 10.4p | 9.8p |
| Second interim dividend per share | 3.575p | 3.50p |
| Total dividend per share in year | 7.00p | 6.85p |

NET ASSET VALUES

| | Investment basis | Consolidated IFRS basis |
|--|------------------|-------------------------|
| Net Asset Value (NAV) per share at listing | 98.4p | 98.4p |
| Net Asset Value (NAV) per share at 31 March 2013 ¹ | 120.0p | 117.9p |
| Second interim dividend per share (declared 21 February 2013) | 3.575p | 3.575p |
| NAV per share at 31 March 2013 after deducting the second interim dividend | 116.4p | 114.3p |
| NAV per share at 31 March 2012 after deducting the second interim dividend | 112.8p | 113.5p |

RESULTS ON A CONSOLIDATED IFRS BASIS

| for the year to | 31 March 2013 | 31 March 2012 |
|-----------------------------------|---------------|---------------|
| Profit before tax (Revenue) | £43.3m | £20.9m |
| Profit before tax (Capital) | £12.1m | £63.3m |
| Profit before tax | £55.4m | £84.2m |
| Earnings per share | 7.3p | 13.1p |
| Second interim dividend per share | 3.575p | 3.5p |
| Total dividend per share in year | 7.00p | 6.85p |

1. The NAV per share at 31 March 2013 is that applicable to the 976.4m Ordinary Shares in issue on the record date of 1 March 2013. The 140m Ordinary Shares issued on 27 March 2013 pursuant to the New Ordinary Shares Prospectus of 26 February 2013 were not eligible for the second interim dividend of 3.575p. See Note 2 to the pro-forma financial statements and Note 13 to the financial statements.

CHAIRMAN'S STATEMENT

INTRODUCTION

Once again, on behalf of the Board, I am pleased to be able to report that the year to 31 March 2013 has been a busy and successful period for the Company. Not only did the Company achieve its stated long-term distribution target of 7.0p per share, but its strong performance enabled it to deliver a total shareholder return (based on share price and dividends paid) of 14.7% in the year.

With interest rates in many developed markets still at low levels, and no imminent prospect of material increases, the low-volatility, inflation-linked, cash-yielding features of the Group's portfolio are exceptionally attractive to investors looking to match their long term assets and liabilities.

Given the underlying strong fundamentals of the current portfolio, coupled with the new investment pipeline, we expect the Company to be able to provide shareholders with sustainable distributions alongside preservation of capital value.

FINANCIAL RESULTS AND PERFORMANCE

Financial Results

As in previous periods, the Company has prepared pro-forma accounts on an Investment basis (treating all 79 holdings as investments). On an Investment basis profit before tax was £93.1m (2012: £62.0m) and earnings per share were 10.4p (2012: 9.8p per share). This increase reflects a combination of rising secondary market prices, contributions from new investments, actual inflation exceeding the 2.75% p.a. valuation assumption and value enhancements to existing investments.

Cash received from the portfolio by way of distributions, capital repayments and fees was £76.8m (2012: £51.2m). After Group costs, net cash inflows of £64.3m adequately covered the distributions paid in the year. The growth in cash generated was in line with our projections, benefitting from the acquisitions made in the current and the prior year.

On a consolidated IFRS basis, the profit before tax was £55.4m (2012: £84.2m). Profit before tax has decreased due predominantly to a £52.7m reduction in gains on finance receivables arising from lower reductions in UK long term gilt rates in the year compared to the prior year.

The Company has raised a total of £272.6m (before expenses) in the year: £105.3m through tap issues and £167.3m through the New Ordinary Shares capital raising in March 2013.

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) amounted to £13.0m in the year, comprising their management fee, the fees paid on the acquisitions made and the advisory fee. The Investment Adviser does not receive any fees from, nor are there any contracts with, the project companies in the portfolio.

The Association of Investment Companies ("AIC") recommends reporting an Ongoing Charges Percentage. As at 31 March 2013, using the AIC methodology, the Company's Ongoing Charges Percentage was 1.19% (1.38% for the year to 31 March 2012). There is no performance fee payable to any service provider.

More details of the financial results are set out below.

Portfolio Performance

The Group's portfolio continues to perform well, and as at 31 March 2013 consisted of 79 social and transportation infrastructure projects (70 as at 31 March 2012). The return generated from the portfolio (after rebasing it for new investments, disposals and distributions) was 8.9% (2012: 9.1%) which reflects not only the unwinding of the discount rate, but value-accretive acquisitions and asset management derived value enhancements which include contract variation income and insurance benefits.

In November 2012, the Group made its first divestment, the Doncaster Schools PFI project, for £5.3m which yielded a £0.5m capital gain on the September 2012 Directors' valuation.

Following completion of construction works on the M80 Motorway DBFO in Scotland in December 2012, the Group currently has no projects in the construction phase.

The Investment Adviser's asset management team continues to be actively engaged across the Group's portfolio of assets, maintaining dialogue with our public sector clients and partners to find new efficiencies and savings. Guidance published by HM Treasury has prompted a constructive response from public sector clients. Some clients are working very closely with the Group to share our experiences of past initiatives; others have been very pleased with the current levels of service and associated contractual costs and have not sought to make changes.

Valuation

As in previous periods, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 31 March 2013. This valuation is based on a discounted cashflow analysis of the future expected equity and loan note cashflows accruing to the Group from each investment. This valuation uses key assumptions which are benchmarked from a review of recent comparable market transactions in order to arrive at a fair market value.

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

The Directors have approved the valuation of £1,213.1m for the portfolio of 79 investments as at 31 March 2013. This includes one outstanding investment commitment to a single project of £12.7m as at 31 March 2013 which was subsequently paid in April 2013.

“LAST YEAR THE COMPANY WAS AGAIN ABLE TO GROW ITS ASSETS AND ITS DISTRIBUTIONS. THE BUSINESS PERFORMED WELL OPERATIONALLY AND, AS A RESULT, THE COMPANY MET ITS LONG TERM TARGET OF AN ANNUAL DISTRIBUTION OF 7.0P PER SHARE WITHIN THE SEVEN YEAR TIME HORIZON SET AT THE TIME OF THE IPO IN MARCH 2006.”

The valuation of £1,213.1m compares with £902.0m as at 31 March 2012, £1,015.9m as at 30 September 2012, and £1,174.1m as at 31 December 2012 as reported in the Company's prospectus of 26 February 2013 (“Prospectus”). An analysis of the increase in the valuation is detailed in the Investment Adviser's Report.

On an Investment basis the NAV per share was 120.0p at 31 March 2013 (2012: 116.3p). The Investment basis NAV per share after the second interim distribution at 31 March 2013 was 116.4p; an increase of 3.2% over the comparable figure at 31 March 2012 being attributable to increased pricing for secondary market assets, the operational performance of the portfolio and new, value-accretive investments.

The NAV per share on an IFRS basis at 31 March 2013 was 117.9p (2012: 117.0p).

Acquisitions

The Group has made 10 new investments and 11 incremental acquisitions during the year for a total consideration of £278.0m. Further details are set out in the Investment Adviser's report.

The Board is pleased that, even in the competitive environment for these types of investments, the Investment Adviser has been able to generate a consistently strong pipeline of potential acquisitions, sourced through a wide network of industry relationships, the majority of which are then negotiated on an exclusive basis. During the year the Investment Adviser participated in 15 auctions and was successful in three, indicating pricing was higher than the Group was prepared to pay.

Since the financial year end the Group has acquired four new investments totalling £36.1m. These are the 50% interest in the Tameside General Hospital project for £16.0m, 33.3% interest in Addiewell Prison for £10.3m, and a 60% interest in two further LIFT projects in London and Kent for £9.8m.

In addition, the conditional contract to acquire the two Conditional Investments identified in the Prospectus, being a 50% interest in the University of Sheffield Accommodation project and a 29.2% interest in the Bradford Schools Phase I project, has been signed and the acquisitions are now subject to certain third party approvals and consents.

These post period transactions were all part of the identified pipeline of new investments reviewed by the Board at the time of the New Ordinary Shares issue in March 2013. Following the completion of the two Conditional Investments, the Group will have circa £43.2m from the capital raising still to be invested and the Board is very confident that these funds will be invested by the summer and ahead of plan.

DISTRIBUTIONS

On 21 February 2013, the Board declared a second interim distribution of 3.575p per share for the year to 31 March 2013 (2012: 3.50p). This brought the total distributions paid for the year to 7.00p, representing a 2.2% growth on the prior year total of 6.85p. The second interim dividend was declared, and subsequently paid, to allow the share price to trade ex-dividend during the New Ordinary Shares capital raising in March 2013.

As in prior years, a scrip dividend alternative was offered which secured a 13.7% take-up. The distribution (or scrip dividend) was paid on 22 April 2013 to those shareholders on the register as at 1 March 2013.

At the Annual General Meeting (“AGM”) in July 2012, shareholders gave the Board the power to offer a scrip dividend alternative and this power runs until the next AGM on 25 July 2013. Based on the level of take-up and feedback from shareholders, it is the Board's intention to seek a renewal of this power at the forthcoming AGM.

Based on the current performance of the portfolio, the Board is targeting total distributions for the year to 31 March 2014 of 7.1p per share (2013: 7.0p).

“GROWING INVESTOR INTEREST IN INFRASTRUCTURE AS AN ASSET CLASS, AND THE COMPANY IN PARTICULAR, WAS EVIDENCED BY THE STRONG SUPPORT FOR THE COMPANY'S ISSUE OF NEW ORDINARY SHARES IN MARCH AND TWO TAP ISSUES IN NOVEMBER AND DECEMBER.”

RISKS AND UNCERTAINTIES

The UK has been at the forefront of public infrastructure procurement in partnership with private sector capital for almost two decades. Following a consultation on how the original PFI model of procurement could be improved and enhanced, the UK Government used the Chancellor of the Exchequer's Autumn Statement on 5 December 2012 to present the new procurement model called PF2.

The Investment Adviser's Report provides more detailed commentary on both PF2 and the UK Government's 2012 National Infrastructure Plan but, essentially, the framework is now in place for the participation by private sector capital in the construction and funding of new public infrastructure. Moreover, PF2 clearly attaches significant importance to the involvement of long-term institutional investors both in the provision of equity as well as debt capital for these projects. While these are very positive steps, it remains unclear how quickly new projects will come to market and when capital will be required.

A component of the new PF2 model is competition for project equity which is aimed at reducing the cost of capital. It is too early to say whether the risks and rewards achievable under the new model will be suitable for the Group.

The Group's project cashflows are positively correlated with inflation, and future inflation, based on current expectations, is one of the key drivers of the Directors' valuation. In late 2012 the UK's Office for National Statistics ("ONS") undertook a consultation on the method of calculation of RPI and RPIx inflation in the UK. Although there was speculation around a formula change which would deliver a lower figure for RPI, and thus create a one-off downside impact on the Company's portfolio valuation, the ONS announced a 'no change' recommendation in February 2013.

The Group is reliant on its clients, namely public sector entities, to fulfil their payment obligations under the PFI contracts. An NHS trust in South London with financial difficulties, and party to two PFI projects (in neither of which the Company is invested), was put into

special administration in 2012. The outcome of administration was a re-organisation of healthcare services in the area and an agreement on continued central funding to support these projects.

This outcome provided comfort that the UK Government would not unilaterally seek to amend or renege on existing contracts, especially relevant given the importance of private capital for the funding of new infrastructure in the National Infrastructure Plan.

Every project in the Group's portfolio has long-term non-recourse debt. The term is typically one to two years shorter than the term of the contract. There is no refinancing risk.

Projects have exposures to banks in the form of interest rate swaps and deposit accounts. The Investment Adviser monitors and manages these exposures as appropriate.

The projects in the portfolio rely on partners who contract to provide services. There is good diversification amongst our service partners which has again increased with the new acquisitions made in the year. There are no material performance or credit issues to report.

The Investment Adviser monitors project performance and, if issues arise, takes action to minimise any impact. As one would expect for a portfolio of this size, there will always be some investments with operational matters to be resolved, and the Investment Adviser's team is actively engaged in facilitating timely and acceptable outcomes. Our investments in Holland and Ireland have not been impacted by the Eurozone crisis, but we remain watchful.

The Alternative Investment Managers Directive ("AIFMD") is scheduled to come into force in July 2013, with transitional arrangements for a year. This could impact on our ability to market the Company in various European jurisdictions, with a consequent impact on share price and liquidity. We have monitored developments closely and have taken professional advice and worked with the Investment Adviser to ensure that we are appropriately prepared to make any changes required in a timely fashion.

CORPORATE GOVERNANCE

On 30 September 2011 the Guernsey Financial Services Commission (the 'Commission') issued the Finance Sector Code of Corporate Governance. This Code comprises Principles and Guidance, and provides a formal expression of good corporate practice against which shareholders, boards and the Commission can better assess the governance exercised over companies in Guernsey's finance sector. As the Company reports against the AIC Code of Corporate Governance, it is also deemed to meet this Code.

The Company reports governance against the Association of Investment Companies (the "AIC") Code of Corporate Governance dated October 2010. In September 2012, the Financial Reporting Council issued a new edition of the UK Corporate Governance Code, and in February 2013, the AIC published its updated AIC Code of Corporate Governance. This new AIC code has been endorsed by the Financial Reporting Council and the Company will report governance against this revised code in the financial year ending March 2014, albeit the Company has been mindful of the amendments to the new AIC code in this Annual Report.

As part of good corporate governance, all four of the Directors offered themselves for re-election at the AGM held in July 2012 and were duly re-elected. It is proposed to continue with this process of all Directors seeking annual re-election, which is more regular than the Company's Articles require.

At the AGM in July 2012 shareholders approved the Board's proposals to adopt, substantially as presented, the recommendations of an independent consultant to increase the Directors' remuneration in line with companies of a similar size and complexity. Inflationary increases, which were also part of the recommendations, have been endorsed by the Board for the year to 31 March 2014 and are subject to shareholder approval at the forthcoming AGM in July.

As mentioned in the Prospectus for the New Ordinary Shares issue in March, the Board felt that given the growth in size and scope of the Company in recent years, it would be beneficial to recruit at least one further Director. It would also facilitate succession planning as both John Hallam, the senior independent Director, and I have been Directors for seven years.

Trust Associates were retained to evaluate potential candidates and we are pleased to have been able to attract individuals of the calibre and experience of Ian Russell, CBE and Susie Farnon. Ian's background as CFO and subsequently CEO of a major listed utility (Scottish Power plc), together with Susie's experience on regulatory, governance and audit matters will be of considerable benefit to the Company. Ian and Susie were appointed with effect from 1 May 2013, and like all the other Directors are offering themselves for re-election at the forthcoming AGM in July.

Following the introduction of a further fee taper agreed with the Investment Adviser last year, the Board believes the fee structure remains transparent, straightforward and competitive for the asset class. The Board is also pleased to see the Investment Adviser further expand the team which services the Group, with an additional four hires. The Group will also benefit from the expansion of the Investment Adviser's global infrastructure team, and notes their opening of a new office in Sydney, Australia.

CORPORATE SOCIAL RESPONSIBILITY

Public Procurement and Engagement

During the last year the UK witnessed sluggish economic growth and there were fears of a triple-dip recession. Capital expenditure on public infrastructure procurement is regarded as having the potential to reinvigorate the economy and the opportunity is not particular to the UK. The US, for example, has now made headway with its infrastructure procurement programme which has achieved broad political acceptance.

The Group, through its Investment Adviser, is an active participant in the evolution of public policy and has a regular dialogue with various interest groups in both the public and private sectors.

A key part of the Investment Adviser's role is to build and maintain good open relationships with all of the stakeholders associated contractually with the Group's projects, especially public sector clients. The Investment Adviser's asset management team is heavily focused on client engagement; resolving issues, seeking efficiencies and/or facilitating variations, which may include the provision of additional services or assets.

Investor Communications

With the capitalisation of the Company exceeding £1.4bn and an investor base of over 4,500 shareholders, the Board is acutely aware of the need to keep shareholders up to date with developments through regular engagement. During the last 12 months, the Investment Adviser has strengthened its Investor Relations team to provide greater coverage of existing shareholders and to cultivate relationships with potential new investors in the UK and overseas.

The Company's Directors also make themselves available to meet with shareholders. During the last year, I have met personally with representatives from some of our larger shareholders in order to promote an understanding of the Company's plans and to receive feedback. The Board welcomes the opportunity to engage directly with investors as a means of correlating and supplementing the regular feedback received from the Investment Adviser and the Broker.

The Board also takes a keen interest in the level and quality of the information which the Company publishes both on the Company website and in reports and presentations. Our intention is to remain at the forefront of disclosure and transparency for our asset class.

January 2013 saw the formal introduction of the legislation proposed under the Retail Distribution Review ("RDR"). As expected, there has been no overnight change as most organisations involved in the distribution of financial products had been adapting to the proposed changes during the prior year. The expected levelling of the playing field, such that investment companies are not disadvantaged by the commissions paid to IFAs and other intermediaries on open-ended/unit trust vehicles, is now taking place. Self-selection and self-execution through trading platforms has begun to increase and, over the medium term, we expect larger, liquid stocks such as ours to benefit.

Environment, Social and Governance Policies

The Investment Adviser is a subscriber to the United Nations' Policies for Responsible Investment and has established and documented environmental, social and governance policies not just for itself as Investment Adviser and Operator, but also for the Group, its subsidiaries and the other project companies in which it has a stake. The Company now operates within this framework and ensures, to the extent that it is able, that project companies adhere to these policies and other relevant best practice.

OUTLOOK

Infrastructure spending is becoming increasingly relevant around the world as other public policy measures reduce costs but often fall short of delivering the necessary economic growth. Against this backdrop, the investment community has developed a much greater understanding of the dynamics of infrastructure as an asset class, and the Company is benefiting from its strategy of investing in lower-risk, operational, social and transportation infrastructure projects with public sector counterparties. Demand for the Company's shares has enabled it to raise, at a premium to NAV per share, capital which it has then successfully deployed by acquiring value-accretive investments. The Group continues to look for further acquisitions in the UK and overseas which meet its investment criteria and its stated return objectives.

With funds available from the recent New Ordinary Shares issue, the Group is well placed to make further acquisitions over the coming months from the healthy pipeline of opportunities that were identified at the time of the equity raising and which continue to arise. Nevertheless, we will not compromise our strict investment criteria and our disciplined investment processes by overpaying for assets or acquiring those with structural or operational issues. The Investment Adviser is currently in exclusive positions on five new

investments, worth over £100m, and this is a testament to its sector knowledge and wide network of industry relationships. Its reputation for diligently valuing new investments and executing the purchases in a timely and efficient manner underpins our success in acquiring suitable assets.

We remain cautious of investing in certain countries where, while the sovereign risk may have diminished, the risk-adjusted returns are still not attractive. Northern Europe, Canada and Australia remain firmly of interest, although aggressive pricing, or structural investment advantages accruing to domestic buyers, has meant that assets in the UK generally offer a more compelling investment case on a risk-adjusted basis.

The investment portfolio performed well last year and, with prior year acquisitions adding value and greater diversification, we are confident that future cashflows are both strong and resilient.

The Company has now met its target distribution of 7.0p per share and is satisfied that this distribution level can be sustained, with some upside potential. In conjunction with the Investment Adviser, the Board has reviewed the performance and cash flow generation of the portfolio forecast for the current year and is setting a target total distribution for the year to 31 March 2014 of 7.1p per share.



Graham Picken
Chairman
21 May 2013

THE GROUP'S INVESTMENT PORTFOLIO

as at 31 March 2013 including further investments made up to 21 May 2013

| | | | | |
|-------------------|--|------------------------------------|--|------------------------------------|
| Education | Barking & Dagenham Schools | Derby Schools | Helicopter Training Facility | Oldham Schools |
| | Boldon School | Doncaster Schools | Highland Schools PPP | Perth & Kinross Schools |
| | Bradford Schools | Ealing Schools | Irish Grouped Schools | Renfrewshire Schools |
| | Conwy Schools | Edinburgh Schools | Kent Schools | Rhondda Schools |
| | Cork School of Music | Fife Schools | Manchester School | Sheffield Schools |
| | Croydon School | Fife Schools 2 | Newport Schools | South Ayrshire Schools |
| | Darlington Schools | Haverstock School | North Tyneside Schools | Wooldale Centre for Learning |
| | Defence 6th Form College | Health & Safety Labs | Norwich Schools | West Lothian Schools |
| Health | Barnet Hospital | Central Middlesex Hospital | Nuffield Hospital | Sheffield Hospital |
| | Birmingham Hospitals | Doncaster Mental Health Hospital | Oxford Churchill Oncology | Staffordshire LIFT |
| | Birmingham & Solihull LIFT | Ealing Care Homes | Oxford John Radcliffe Hospital | Stoke Mandeville Hospital |
| | Bishop Auckland Hospital | Glasgow Hospital | Pinderfields & Pontefract Hospitals | Tameside General Hospital |
| | Blackburn Hospital | Lewisham Hospital | Queen Alexandra Hospital | West Middlesex Hospital |
| | Blackpool Primary Care Facility | Medway LIFT | Redbridge & Waltham Forest LIFT | Willesden Hospital |
| | Brentwood Community Hospital | Newton Abbott Hospital | Romford Hospital | |
| Fire, Law & Order | Addiewell Prison | D & C Firearms Training Centre | Medway Police | Sussex Custodial Centre |
| | Dorset Fire & Rescue | Exeter Crown Courts | Metropolitan Police Training Centre | Swindon Police |
| | Dorset Police | Greater Manchester Police Stations | South East London Police Stations | Tyne & Wear Fire Stations |
| Transport | A249 Road | Connect PFI | Kicking Horse Canyon P3 | NW Anthony Henday P3 |
| | A92 Road | Dutch High Speed Rail Link | M80 Motorway DBFO | |
| Accommodation | Colchester Garrison | Home Office | Northwood MoD HQ | |
| | Health & Safety Headquarters | Newcastle Libraries | Oldham Library | |

Key:

| | | | | |
|-------------------------------|--|------------------------------|---------------------------|----------|
| Portfolio as at 31 March 2012 | Acquisition in the year to 31 March 2013 | Acquired since 31 March 2013 | Additional stake acquired | Disposal |
|-------------------------------|--|------------------------------|---------------------------|----------|

INVESTMENT POLICY

INVESTMENT OBJECTIVE

The Company seeks to provide investors with long-term distributions, at levels that are sustainable, and to preserve the capital value of its investment portfolio over the long-term with potential for capital growth. The Company targets an annual distribution of at least 7.00p per Ordinary Share, with the prospect of increasing this figure provided it is sustainable with regard to the portfolio's forecast operational performance and the prevailing macro-economic outlook. The Company is targeting an IRR of 7 to 8% on the original issue price of its Ordinary Shares in March 2006, to be achieved over the long-term via active management, including the acquisition by the Group (being the Company and its wholly-owned subsidiaries) of further investments to complement the Current Portfolio and by the prudent use of gearing.

INVESTMENT CRITERIA

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

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

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

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

GEOGRAPHIC FOCUS

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

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

SINGLE INVESTMENT LIMIT AND DIVERSITY OF CLIENTS AND SUPPLIERS

When any new acquisition is made, the Company will ensure that the investment acquired does not have an acquisition value (or, if it is an additional stake in an existing investment, the combined value of both the existing stake and the additional stake acquired) greater than 20% of the total gross assets of the Company immediately post acquisition.

The total gross assets will be calculated based on the last published gross investment valuation of the portfolio plus acquisitions made since the date of such valuation at their cost of acquisition.

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

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

OTHER INVESTMENT RESTRICTIONS

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

- (a) The Company's primary objective is investing and managing its assets with a view to spreading or otherwise managing investment risk. The Company must, at all times, invest and manage its assets in a way which is in accordance with the Investment Policy;
- (b) The Company will not conduct a trading activity which is significant in the context of the Group as a whole. The Company will not cross-finance businesses forming part of the Group's investment portfolio; and
- (c) No more than 10%, in aggregate, of the Company's assets will be invested in other listed closed-ended investment funds.

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

GEARING

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

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

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

AMENDMENTS

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

NEW INVESTMENTS AND CONFLICTS OF INTEREST

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

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

Key features of the Rules of Engagement include:

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

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

INVESTMENT ADVISER'S REPORT

MARKET DEVELOPMENTS

The primary market in the UK for new social infrastructure slowed further during the last year in anticipation of the announcement of the outcome of the UK Government's consultation on future infrastructure procurement. The announcement of PF2 in December 2012 was welcomed by market participants as it not only put forward a more refined and efficient form of procurement, albeit very similar to PFI, but it augured well for a pipeline of new projects. Moreover, the revised National Infrastructure Plan 2012 saw more projects announced with an even greater value than its predecessor. The Plan now specifies 576 projects with a capital value of £310bn (source: HM Treasury).

The UK Government hopes that this revised procurement approach together with the "Infrastructure Procurement Routemap" published by HM Treasury in January 2013 will accelerate the roll-out of the pipeline whilst improving the efficiency, transparency and value for money of infrastructure spending through the partnership between the public and private sectors.

Despite the initial positive response to these announcements, there has been limited progress to date in converting the pipeline into live procurement processes. A delay in primary procurement does not affect the Group in the near to medium term as it is not typically an investor in new primary projects. It does however mean the pool of secondary opportunities in the UK market is barely growing currently. It is also too early to say whether future UK projects procured under PF2 will have sufficiently attractive risk/return profiles to make them acceptable potential investments for the Group.

The secondary market for social infrastructure assets in the UK continues to be active, and in the year there has been a good flow of assets onto the market with both single assets and portfolios being marketed by contractors, operators and financial investors. This is expected to continue over the next few years as certain owners seek to monetise the value of these assets.

The number of buyers has increased in recent years with several new listed and unlisted infrastructure funds entering the market, as well as some pension funds looking to invest directly in the asset class. This increase in demand has had a slight impact on pricing during the year, leading to a small reduction in the weighted average discount rate used to value the portfolio of 0.2%.

The Investment Adviser's broad network of long-standing relationships with potential vendors is proving extremely valuable in this environment, enabling direct negotiations with the relevant seller and the conclusion of transactions on acceptable terms in a timely and cost efficient way for both parties. Over the last 12 months, the majority of the Group's acquisitions have been completed in this manner.

Similarly, the Investment Adviser has been able to capitalise on its relationships with co-shareholders on projects in which the Group does not own a 100% stake. Through these relationships, the Group has successfully acquired a further eleven stakes in existing investments during the year to 31 March 2013.

Based on an analysis of the portfolio and an assessment of whether co-shareholders are likely to be sellers, the Investment Adviser estimates that there is at least £150m of potential incremental investment which the Group is in a strong position to acquire over the next three years.

During the year, the Investment Adviser participated in 15 auctions to acquire new investments and was successful on three, indicating others were prepared to pay a higher price than the Group for these investments. Careful bid management ensures that the costs of due diligence are generally only incurred after shortlisting or preferred bidder status.

The overseas social and transportation infrastructure market for secondary purchases continues to grow, but is smaller than the UK market. With near-term opportunities less numerous, the increase in the number of new infrastructure projects currently being procured in these markets should hopefully lead to more opportunities in the medium-term.

InfraRed has a main office in London as well as smaller offices in New York, Paris and, more recently, Sydney. Through this network, the team has sourced and evaluated appropriate investment opportunities in a number of overseas markets over the last 12 months.

During the year, the Investment Adviser was unsuccessful in bids to acquire social infrastructure investments in France, Belgium, Holland and Germany where local investors appear willing to accept lower returns.

In such cases, the Group chose not to match the prices paid by local investors, who either had a domestic tax advantage or seemed to take a more bullish view on price and risk. This trend is not expected to change materially in the foreseeable future and, whilst the Investment Adviser is optimistic of acquiring additional overseas investments, the portfolio will continue to have a UK focus for the most part.

The team continues to evaluate new investment opportunities in countries with developed pipelines of opportunities and a stable fiscal position. North America, Australia and countries in Northern Europe broadly satisfy our requirements, while the risk/return balance in Southern Europe remains insufficiently compelling to target this region at the present time.

CURRENT INVESTMENT PRIORITIES

The Group, as part of its Investment Policy, adopts an investment strategy which has been consistently applied since May 2009. The investment strategy remains focused on social and transportation infrastructure (such as PFI/PPP/P3) concessions, predominantly with availability-based contracts and likely to be operational, although projects under construction will be considered. Of possible secondary interest, but only selectively, are:

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

- operational renewable energy projects such as wind farms, solar parks or hydro-electric schemes, where there are suitable contractual structures in place which enable the Group to secure long-term income streams, comparable in nature to those of social infrastructure projects.

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

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

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

Since 2009, a number of renewable energy projects have been considered by the Investment Adviser but no investments have been made. This is because the risk profile of the potential acquisition has been too high, or the yield profile insufficiently attractive when compared to a social infrastructure investment.

During the year, the Investment Adviser has considered a number of potential investments in all segments of the investment strategy. In one case, Investment Committee approval was granted to acquire a tranche of infrastructure debt, but ultimately the vendor was unwilling to sell a sufficiently large stake, as originally marketed. In another case, the vendor of a European road investment decided not to sell.

PORTFOLIO UPDATE

Current Performance

The Group's portfolio continues to perform in line with expectations enabling the dividend to be increased to 7.0p per share for the year to 31 March 2013. The operational strategy for each project within the portfolio is to deliver services to the required contractual standards and to maximise value through active asset management.

The Group and its clients, contractors, and co-shareholders have worked together successfully on a number of cost-saving pilot studies in the UK, including at Romford Hospital, the Greater Manchester Police Stations, the Defence Sixth Form College, and the Dorset Fire & Rescue project. These studies have been carried out by reference to HM Treasury guidance on how to facilitate and achieve cost savings from existing PFI projects in the UK.

On the basis of this experience, the Investment Adviser's asset management team has initiated cost saving and efficiency programmes involving clients and contractors across more UK projects than simply those with formal pilot studies. Such programmes cover a wide variety of themes of which improved energy management is the most prevalent.

A typical spend-to-save scheme will involve an initial investment by either the shareholders, a sub-contractor or the client with a view to payback from savings in the short term followed by incremental savings shared with the client over the medium term. Savings come from using energy at the time, place and level at which it is specifically required through the use of intelligent control systems. Space reconfiguration and better asset utilisation benchmarked on private sector occupancy levels are also releasing excess capacity for additional occupants.

On certain projects, notably schools, promoting the community use of facilities has increased revenue for our clients e.g. a variety of local groups have taken school classrooms and halls outside school hours and at weekends, thus generating incremental revenue and promoting community goodwill.

The Group owns a large portfolio of projects across which such experiences can be shared and implemented for the benefit of all stakeholders. The Investment Adviser will continue to encourage clients to take advantage of such schemes by assisting their facilitation even when the Group itself does not receive an economic benefit.

Contract Variations

The Investment Adviser's asset management team continues to seek value enhancements across the portfolio, an important component of which are project variations. Variations are requests from the client to amend the scope of services delivered, be it a capital project or an additional or amended service for which the project earns incremental revenue. During the year the team has worked on a number of variations, many of which have been environmentally focused, and which have included:

- On the Dutch High Speed Rail link, the client has recently commissioned a pilot study to test various technologies to improve noise attenuation relating to the high speed trains, especially at bends in the route. Solutions include the use of rail dampening and noise absorption materials between or beside the tracks and the scope includes removal at the end of the 1 year study period. We have responded to the client's request and the implementation works are due to commence shortly.
- At West Middlesex Hospital in London, the project assisted the client in procuring £0.5m of match-funding from Salix, an independent not-for-profit company, which, together with a £0.3m investment from the client, was spent on implementing the findings of an energy-saving consultancy project. This has led to the introduction of variable speed power drives, LED lights, and other advanced energy management systems which will achieve overall energy savings of circa 15% p.a. and effect a significant reduction in carbon emissions for the Trust.

- At the Metropolitan Police Specialist Training Centre, the client funded several million pounds of upfront capital investment through a spend-to-save programme focused on more efficient energy consumption. This included the installation of a voltage optimiser, occupancy sensors and PV panels as well as additional metering and enhanced boiler management. The result has been an 11% reduction in energy consumption in 2012, together with the separate generation of over 85,000 Kwh of additional electricity. A feasibility study into the use of a wind turbine is also currently being progressed.
- At the Medium Support Helicopter Aircrew Training Facility at RAF Benson in Oxfordshire, the project team has been working with CAE (Canadian Aviation Electronics Ltd) to deliver the latest of a number of variations to the helicopter simulators. It is essential that the simulators accurately reflect live aircraft in terms of performance, equipment and physical layout. This year the variations included major upgrades in respect of the Puma Mk 2 helicopter and the Dutch Block 6 Chinook. These upgrades require downtime of the simulators which reduces availability to the MoD and third party customers, so effective relationship management is vitally important to a successful outcome.

Acquisitions

As noted in the Chairman's Statement, the Group made ten new investments and 11 incremental acquisitions during the year for an aggregate consideration of £278.0m.

- In May 2012 the Group acquired an additional 14% stake in the Colchester Garrison project for £15.0m taking its interest up to 56%. The Group also completed the acquisition of a 19.5% interest in the Connect PFI project for £39.0m, and the acquisition of a 30% interest in the Birmingham Hospitals project for £34.6m from a division of RBS.
- In July 2012 the Group announced the acquisition of a 75% interest in a primary care facility in Blackpool from the Eric Wright Group for £2.9m.
- In August 2012, additional interests were acquired in four PFI projects for a total consideration of £10.4m taking the Group's total interests in these projects to 66.67% on Romford Hospital, 50.0% on Fife Schools (completed January 2013), and 100% on both Exeter Crown Courts and Stoke Mandeville Hospital.
- In September 2012 the Group paid £4.9m in aggregate to acquire incremental stakes in Dorset Fire & Rescue (final 33%) and Ealing Care Homes (further 16%).
- In October 2012, the Group acquired 30% stakes in two operational LIFT companies, the Birmingham & Solihull LIFTCo and the Staffordshire LIFTCo, as well as a further interest in the Connect PFI Project, giving it a 28.5% interest overall. The combined consideration was £33.8m. The Group also acquired a 30% interest in the Fife Schools 2 PPP, a 25 year concession for nine primary schools and one special education needs facility for £3.9m from The Miller Group.
- In November 2012 the Group signed a contract to acquire a 50% equity and loan note interest in the Northwood MoD HQ PFI project from Carillion for £30.6m. This completed on 14 January 2013.

- In December 2012 the Group paid £75.0m aggregate consideration for 100% interests in the Edinburgh Schools PFI project and the Perth & Kinross Schools PFI project (17 schools across 13 sites), both from Eiser Infrastructure Partners Ltd, as well as a 37.5% interest in the West Lothian Schools PFI project from Dawn Construction Ltd. It also acquired the remaining 10.1% equity interest in the Sussex Police Authority Custody Centre PFI project for £0.5m.
- In March 2013, the Group acquired the remaining 50% interest in the Highland Schools PFI project from 3i Infrastructure plc for £21.2m, as well as an additional 37.5% stake in the West Lothian Schools PFI project from Hochtief PPP Solutions (UK) Ltd for £6.2m.

Full control of a project can give rise to opportunities for value enhancement which would not be available as a co-shareholder.

As part of the consideration for the Perth & Kinross Schools PFI project acquisition in December, the Group had a contractual investment obligation of £12.7m which was paid in April, after the financial year end.

Since 31 March 2013, the Group has announced four further acquisitions:

- On 30 April 2013, the Group acquired a 60% shareholding in two further LIFT companies, the Medway LIFTCo and the Redbridge & Waltham Forest LIFTCo, which have together successfully developed seven new primary care facilities with a total development cost of approximately £50m. The total consideration paid by the Group for the investment in the two LIFTCos was £9.8m.
- On 1 May 2013, the Group announced that it had acquired a 50% stake in the Tameside General Hospital PFI project from Balfour Beatty Infrastructure Investments Limited for £16.0m.
- On 8 May 2013 the Group acquired a 33.3% interest in the Addiewell Prison PFI project from a division of RBS for £10.3m

Acquisitions during the year increased the Group's portfolio to 79 social and transportation infrastructure investments as at 31 March 2013. The acquisitions completed since the year end and highlighted above have increased the portfolio to 83 investments, all of which are now fully operational following the completion of construction of the M80 DBFO Road in Scotland in December 2012.

Since the year end, the Group has signed a conditional contract to acquire the two Conditional Investments from a fund managed by an affiliate of the Investment Adviser. This was documented in the February 2013 Prospectus and was subject to shareholder approval at the Extraordinary General Meeting in March 2013. It is expected that these two investments will be acquired when the conditions have been satisfied and the necessary approvals obtained. The total consideration for these two investments will be £27.5m and no acquisition fee will be payable to the Investment Adviser. The Rules of Engagement as set out in the Investment Policy were followed and the Directors received a third party valuation opinion.

Disposals

In November 2012 the Group made its first disposal. This was its 50% stake in the Doncaster Schools PFI project for £5.3m which the Group originally acquired in December 2011 within a 26 project portfolio. The purchaser of the stake was Vinci Pensions Limited, an affiliate of the 50% co-shareholder in the project, Vinci (Holdings) Limited.

The Group had originally sought to take its own stake up to 100%. However, a price was offered for our stake well in excess of our valuation of the project and which delivered a capital gain of £0.5m on the 30 September 2012 valuation.

VALUATION OF THE PORTFOLIO

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

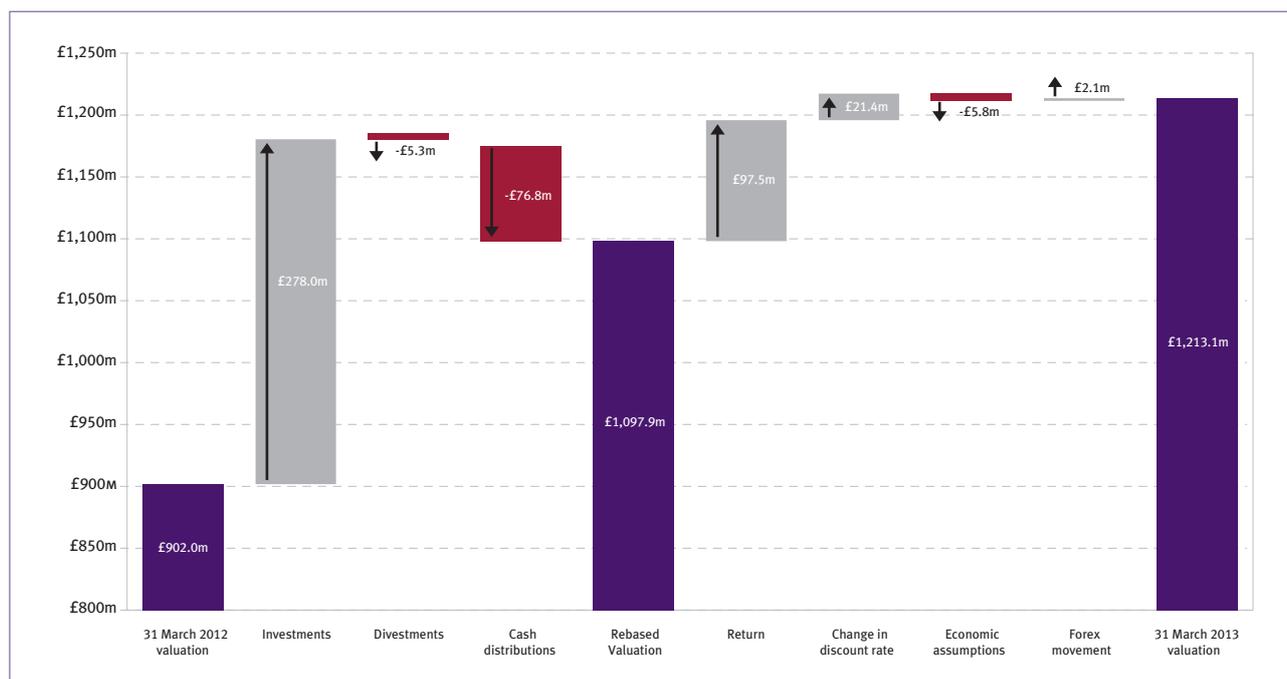
The Directors receive an independent third party report and opinion on this valuation from a third party valuation expert.

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

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

The Directors' Valuation of the portfolio as at 31 March 2013 was £1,213.1m, including the £12.7m outstanding investment obligation on Perth and Kinross Schools PFI project. This valuation compares to £902.0m as at 31 March 2012 (up 34%). A reconciliation between the valuation at 31 March 2013 and that shown in the financial statements is given in Note 1 to the unaudited consolidated pro-forma financial statements, the principal difference being the £12.7m equity commitment outstanding on the Perth & Kinross Schools PFI project, which has now been satisfied.

Valuation Movement in the year from 31 March 2012 to 31 March 2013



INVESTMENT ADVISER'S REPORT *(continued)*

A breakdown in the growth in the Directors' Valuation in the year is tabled below.

| Valuation movement during the year to 31 March 2013 | | £'m |
|--|--------------|----------------|
| Valuation at 31 March 2012 | | 902.0 |
| Investments | 278.0 | |
| Divestment | (5.3) | |
| Cash receipts from investments | (76.8) | |
| | <u>195.9</u> | |
| Rebased valuation of the portfolio | | 1,097.9 |
| Return from the portfolio | 97.5 | |
| Change in discount rate | 21.4 | |
| Economic assumptions | (5.8) | |
| Forex movement on non-UK investments | 2.1 | |
| | <u>115.2</u> | |
| Valuation at 31 March 2013 | | 1,213.1 |

Allowing for the acquisitions during the year of £278.0m, the divestment of £5.3m (Doncaster Schools) and investment receipts of £76.8m, the rebased valuation was £1,097.9m. The growth in the valuation of the portfolio at 31 March 2013 over the rebased value was 10.5%. This increase is a product of the return from the portfolio, the reduction in the discount rate, the lowering of deposit rate assumptions and UK corporate tax rates, and forex movements.

The return from the portfolio of £97.5m represents a 8.9% increase in the rebased value of the portfolio and includes:

- The unwinding of the discount rate (future cashflows are a year closer and hence more valuable);
- Value enhancement initiatives from existing investments;
- Contributions from new investments;
- Acquisitions made at above the portfolio discount rate;
- Actual inflation in the year being greater than the 2.75% p.a. valuation assumption;
- Gain from the disposal.

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

Discount Rates

The discount rate used for valuing each investment is based on the appropriate long term Government Bond yield and a risk premium. The risk premium takes into account risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by project phase and market participants' appetite for these risks.

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

| Discount rate | 31 March 2013 | 30 September 2012 | 31 March 2012 |
|--------------------|---------------|-------------------|---------------|
| Range | 8.0% to 10.0% | 8.1% to 10.0% | 8.2% to 11.0% |
| Weighted average | 8.4% | 8.5% | 8.6% |
| Phase | | | |
| Operational phase | 8.4% | 8.5% | 8.6% |
| Construction phase | n/a | 9.0% | 9.0% |
| Portfolio | 8.4% | 8.5% | 8.6% |

We use our judgement in arriving at the appropriate discount rate. This is based on our knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers knowledgeable of these markets and publicly available information on relevant transactions.

The discount rate to reflect market pricing for an operational asset has been judged as 8.4% – down 0.2% from the prior year – reflecting market conditions discussed in the *Market Developments* section above.

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

| Country | 31 March 2013 | | | 31 March 2012 Discount rate | Movement |
|------------------|------------------------------------|--------------|---------------|--------------------------------|---------------|
| | Long term Government Bond yield | Risk premium | Discount rate | | |
| UK | 2.9% | 5.5% | 8.4% | 8.6% | (0.2%) |
| Canada | 2.5% | 5.6% | 8.1% | 8.2% | (0.1%) |
| Holland | 2.4% | 6.2% | 8.6% | 8.8% | (0.2%) |
| Ireland | 5.5% | 4.5% | 10.0% | 11.0% | (1.0%) |
| Portfolio | 2.9% | 5.5% | 8.4% | 8.6% | (0.2%) |

The risk premium for each country is derived from the market discount rate for operational social and transportation infrastructure investments less the appropriate long term Government Bond yield. Long term Government Bond yields in the UK, Canada and Holland are currently low and this is reflected in higher country risk premium, which includes a buffer to allow for increases from these historically low yields.

For the Irish assets, where there is limited transactional evidence, we believe the appropriate discount rate for the operational school projects in which the Group is invested is 10%. This is also the opinion of the third-party valuation expert appointed by the Board.

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

| Year ending | 31 March 2013 | 31 March 2012 | Movement |
|-----------------------|---------------|---------------|---------------|
| Government Bond yield | 2.9% | 3.2% | (0.3%) |
| Risk premium | 5.5% | 5.4% | 0.1% |
| Discount rate | 8.4% | 8.6% | (0.2%) |

Long term Government Bond yields have continued to trend lower over the year as the authorities use all means at their disposal to try and stimulate economic growth. However, as in previous years we have not reduced our discount rate to the same extent, as investors in the social and transportation infrastructure market believe Government Bond yields are artificially low as a result of government intervention and other factors, and yields will return to more normalised levels in due course. The discount rate therefore reduces this potential short term volatility and, all other factors being equal, could accommodate a material rise in yields before the discount rate would need to rise.

The 0.2% reduction is attributable to a more competitive environment for social infrastructure assets. While there is a steady supply of new investment opportunities, new market entrants, attracted by the favourable risk-adjusted returns, have had a small upward impact on pricing, and hence caused a slight reduction in discount rates during the year.

INVESTMENT ADVISER'S REPORT *(continued)*

VALUATION ASSUMPTIONS

Discount Rate Sensitivity

The discount rates used to derive the Directors' valuation is a key judgement, based on the knowledge of the Investment Adviser and the third party advice which the Board receives on the valuation. As in previous years, the Company prepares certain valuation sensitivities including changing the weighted average discount rate. A change to the weighted average rate of 8.4% by plus or minus 0.5% has the following effect on the valuation:

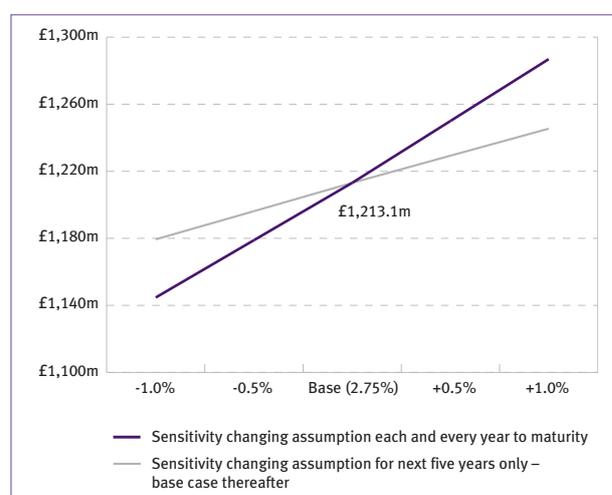
| Discount rate | -0.5% change | Base 8.4% | +0.5% change |
|---|--------------|-----------|--------------|
| Directors' valuation | +\$58.4m | £1,213.1m | -\$54.1m |
| Implied change in NAV per Ordinary Share ¹ | +5.2p/share | | -4.8p/share |

1. NAV per share based on 1,116m Ordinary Shares as at 31 March 2013

Discount Rate Sensitivity



Inflation Rate Sensitivity



Inflation Rate Sensitivity

The projects in the portfolio have contractual income streams with public sector clients, which are rebased every year for inflation. UK projects tend to use either RPI (Retail Price Index) or RPIx (RPI excluding mortgage payments), and revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing). Facilities management sub-contracts have similar indexation arrangements. The portfolio valuation assumes UK inflation of 2.75% per annum for both RPI and RPIx, the same assumption as for the prior year. The March 2013 forecasts for RPI out to December 2014 range from 1.7% to 4.0% from 25 independent forecasters as compiled by HM Treasury, with an average forecast of 3.0%.

As mentioned by the Chairman, during the year the Office for National Statistics ("ONS") undertook a consultation on the method of calculation of RPI and RPIx inflation in the UK. While not directed at the infrastructure sector, a change in the calculation methodology could have had a one-off adverse impact on the value of the Group's portfolio. In February 2013, the ONS announced that its consultation had concluded that so many aspects of the financial services industry would have been unduly impacted by such a change that no change should be made to the calculation methodology and that RPI would continue to be measured and reported as before. This outcome is clearly positive for the sector and for the Company.

A change of 0.5% p.a. to the assumed inflation rate of 2.75% p.a. would have the following effect on the valuation:

| Inflation assumption (UK) | -0.5% p.a. change | Base 2.75% p.a. | +0.5% p.a. change |
|---|-------------------|-----------------|-------------------|
| Directors' valuation | -\$34.2m | £1,213.1m | +\$36.9m |
| Implied change in NAV per Ordinary Share ¹ | -3.1p/share | | +3.3p/share |

1. NAV per share based on 1,116m Ordinary Shares as at 31 March 2013

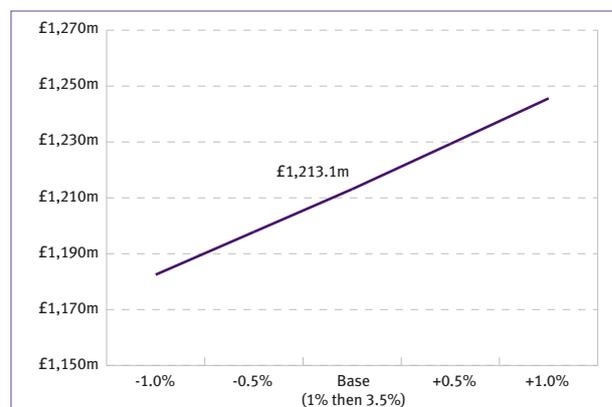
Changing the assumption for future inflation by a 1.0% p.a. increase (i.e. from 2.75% p.a. to 3.75% p.a. for the UK investments) has the effect of increasing the forecast return from the portfolio from 8.4% (being the weighted average discount rate) to 9.0%.

Deposit Rate Sensitivity

Each project's interest costs are at fixed rates, either through fixed rate bonds or bank debt which is hedged with an interest rate swap, or linked to inflation through index-linked bonds. A project's sensitivity to interest rates relates to the cash deposits which the project is required to maintain as part of its senior debt funding. For example most projects would have a debt service reserve account in which 6 months of debt service payments are held.

As at 31 March 2013 cash deposits for the portfolio were earning interest at a rate of 0.4% per annum on average. There is a consensus that UK base rates will remain low for an extended period, with a current median forecast for UK base rates in December 2014 of 0.5%.

Deposit Rate Sensitivity



The portfolio valuation assumes UK deposit interest rates are 1% to March 2017 and 3.50% thereafter. This is lower than applied in the March 2012 valuation, which assumed 1% deposit interest rates to March 2015 and 3.75% thereafter. These changes have reduced the portfolio valuation by approximately £11.9m and are included within the £5.8m aggregate reduction in portfolio value attributable to changes in Economic assumptions.

A change of 0.5% p.a. to the assumed deposit rates would have the following effect on the valuation:

| Cash deposit rate | -0.5% p.a. change | Base 1.0% p.a., then 3.5% p.a. | +0.5% p.a. change |
|---|-------------------|--------------------------------|-------------------|
| Directors' valuation | £15.3m | £1,213.1m | £16.3m |
| Implied change in NAV per Ordinary Share ¹ | 1.4p/share | | 1.5p/share |

1. NAV per share based on 1,116m Ordinary Shares as at 31 March 2013

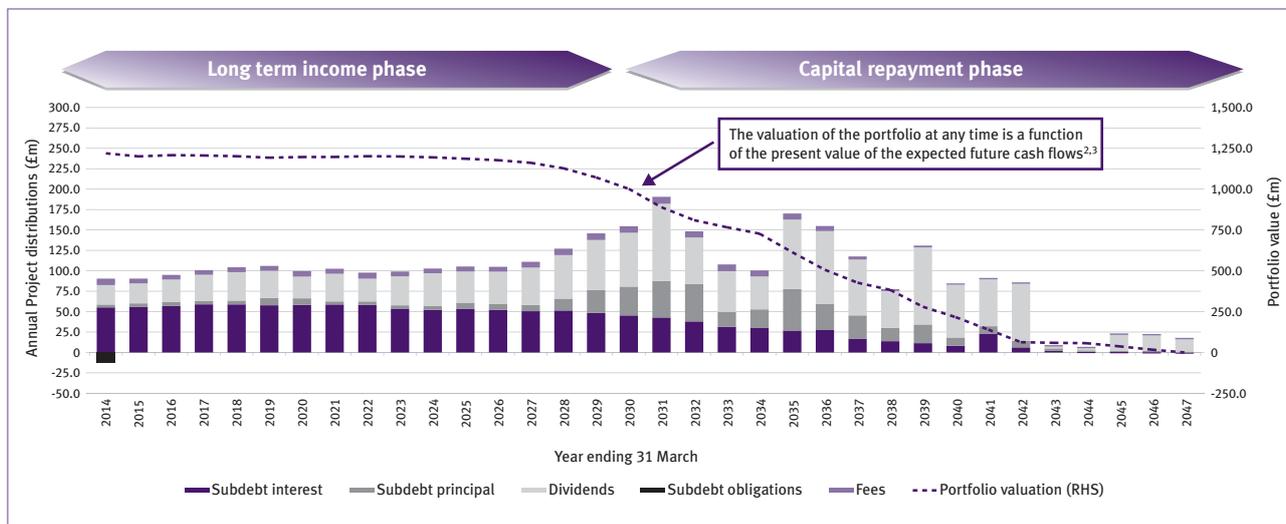
TAX RATES

The profits of each UK project company are subject to UK corporation tax. On 1 April 2013 the prevailing rate of corporation tax reduced from 24% to 23%. In the 2013 Budget Statement the Chancellor announced the Government's intention to bring UK corporation tax down to 20%, reducing the rate in April 2014 to 21% and by a further 1% the following year.

The UK corporation tax assumption for the portfolio valuation is 23%, which has reduced by 1% from 24% at March 2012, to reflect the current rate of UK corporation tax. This change has increased the portfolio valuation by approximately £6.1m and is included within the £5.8m aggregate change in portfolio value attributable to changes in Economic assumptions.

FUTURE CASHFLOWS

The chart below sets out the expected future cashflows to be received by the Group from the portfolio as at 31 March 2013 and how the portfolio valuation is expected to evolve over time using current forecasts and assumptions.



Source: Investment Adviser

1. The chart represents a target only and is not a profit forecast. There can be no assurance that this target will be met.
2. Portfolio valuation assumes a Euro to Sterling exchange rate of 0.84, a Canadian Dollar to Sterling Exchange rate of 0.65 and a weighted average discount rate of 8.4% per annum. These assumptions and the valuation of the current portfolio may vary over time.
3. The cashflows and the valuation are from the portfolio of 79 investments as at 31 March 2013 and does not include other assets or liabilities of the Group, and assumes that during the period illustrated above, (i) no new investments are purchased, (ii) no existing investments are sold and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains.

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

FINANCING

The Company raised £272.6m (before expenses) during the year from the issue of 140m of New Ordinary Shares in February 2012 raising £167.3m, and £105.3m by way of Ordinary Share tap issues in November and December 2012. The net proceeds from the share issues were used to fund new investments and to reduce the Group's debt. As at 31 March 2013, the Group had overall net cash of £146m and £12.7m of outstanding future investment obligations.

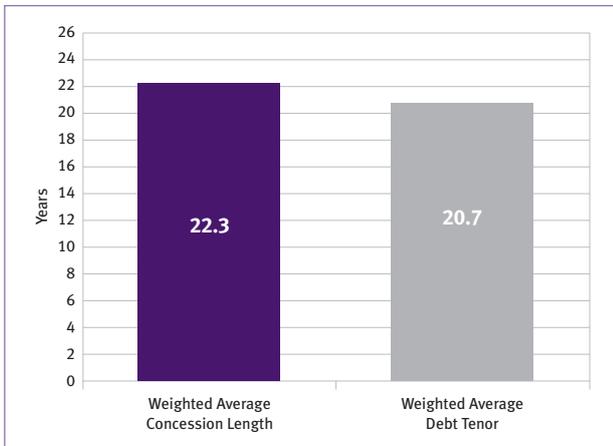
The AIC has recently published new guidance in relation to gearing disclosures which is defined for a company with net cash as: a company's net exposure to cash and cash equivalents expressed as a percentage of shareholders' funds after any offset against its gearing. It is calculated on an Investment basis by dividing total assets (less cash/cash equivalents) by shareholders funds. On this basis, the Group had a net cash position of 10.0% at 31 March 2013 (2012: 11.4%).

The Group uses its £100m revolving debt facility, which matures in February 2015, to fund new acquisitions, and to provide letters of credit for future investment obligations. This facility was put in place for working capital purposes just before the Company's C Share issue in March 2012, and it originally included a further £50m tranche which matured after 18 months. The Company cancelled this tranche in August 2012 as the benefit of the incremental £50m did not justify the commitment fee.

The Board's policy is that the Company should not hold cash to any material extent above any outstanding equity commitments in respect of existing investments or the amount required to fund potential acquisitions which are likely to be secured in the near future. The target and maximum size of the recent New Ordinary Shares issue was therefore set by the Board based on an analysis of the pipeline of potential new investment opportunities that were likely to be concluded by September 2013. Even though the issue was heavily oversubscribed, the Company only issued the maximum of 140m shares, and the Investment Adviser is confident that the remaining proceeds will be invested by the summer, ahead of plan.

All the projects in the portfolio all have long-term debt in place which does not need refinancing to meet their business plans. The weighted average project concession length remaining is 22.3 years at 31 March 2013 and the weighted average debt tenor is 20.7 years.

Weighted Averages

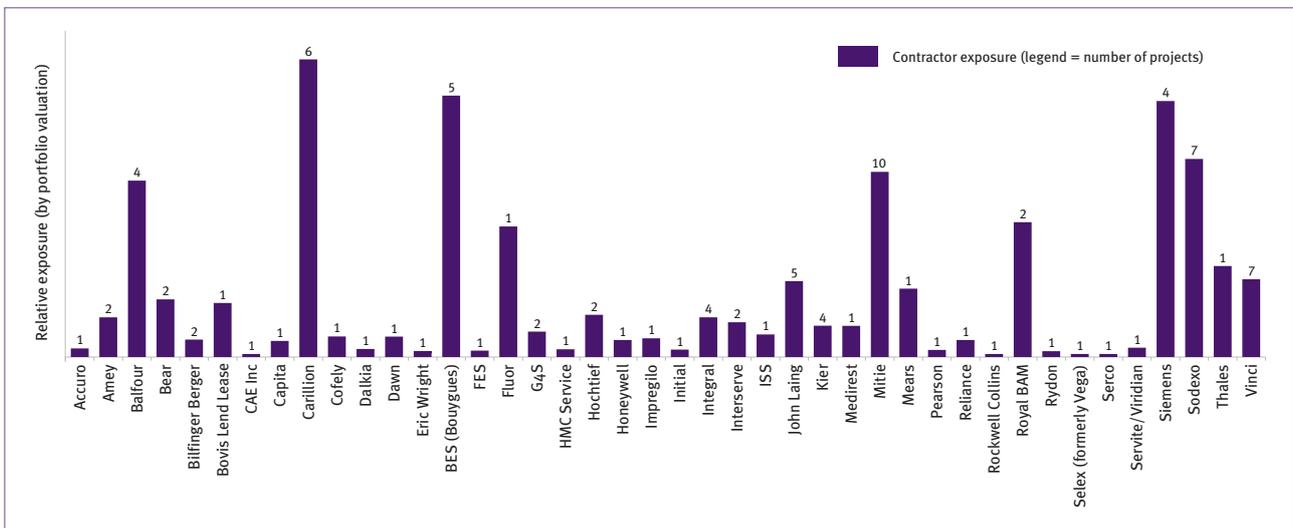


COUNTERPARTY EXPOSURES

All project clients are public sector bodies. Each project subcontracts the delivery of services to one or more experienced facilities managers such as Carillion, Bouygues, Siemens, Mitie or Sodexo. The Group has a diversified range of facilities management companies, with the acquisitions in the year providing further diversification of the supply chain.

The chart below provides an analysis of the exposure to the key subcontractors as measured against the Directors’ portfolio valuation, and the number of projects in which each contractor is involved. On some projects there is more than one sub-contractor (e.g. Dutch High Speed Rail where Royal BAM, Siemens and Fluor provide services) so that the sum of the bars is in excess of the Directors’ valuation.

Spread of Facilities Management contracts on the 79 projects



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

FINANCIAL RESULTS

ACCOUNTING

At 31 March 2013, the Group had 25 investments classified for IFRS reporting purposes as subsidiaries which it was deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the project entities. This has increased by five over the year due to three incremental acquisitions and the purchase of two wholly-owned new investments. Under International Financial Reporting Standards (“IFRS”), the results of these companies are required to be consolidated in the Group’s financial statements on a line-by-line basis.

However, these investments form part of a portfolio of similar investments which are held for investment purposes and managed as a whole and there is no distinction for operational purposes made between those investments classified as subsidiaries and those which are not. Further, all debt owed by the Group’s investments is non-recourse and the Group does not participate in their day-to-day management.

As in previous periods, in order to provide shareholders with further information regarding the Group’s net asset value, coupled with greater transparency in the Company’s capacity for investment and ability to make distributions, the results have been restated in pro-forma tables which follow the Financial Results. The pro-forma tables show all investments accounted for on an Investment basis, which are reconciled to the consolidated financial statements on a line by line 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.

In October 2012 revised IFRS standards were issued (Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27) to address the consolidation of investments held by investment companies. These revised accounting standards are expected to require the Group in the future to prepare IFRS financial statements which do not consolidate subsidiaries in a similar manner to the Group’s current pro-forma Investment basis tables. The Group expects that these revised standards will apply to the Group and anticipate adoption of these standards in respect of the year ending March 2014 following their official adoption by the EU.

INCOME AND COSTS

Summary income statement

| | Year to 31 March 2013 | | | Year to 31 March 2012 | | |
|---|------------------------------|---------------------------------------|------------------------|------------------------------|---------------------------------------|------------------------|
| | Investment basis £million | Consolidation adjustments £million | IFRS basis £million | Investment basis £million | Consolidation adjustments £million | IFRS basis £million |
| Total income | 67.7 | 265.3 | 333.0 | 48.1 | 201.7 | 249.8 |
| Expenses & finance costs | (17.8) | (271.9) | (289.7) | (14.9) | (214.0) | (228.9) |
| Profit/(loss) before tax & valuation movements | 49.9 | (6.6) | 43.3 | 33.2 | (12.3) | 20.9 |
| Fair value movements | 43.2 | (31.1) | 12.1 | 28.8 | 34.5 | 63.3 |
| Tax and non-controlling interests | (0.1) | 9.9 | 9.8 | (0.1) | (1.3) | (1.4) |
| Earnings | 93.0 | (27.8) | 65.2 | 61.9 | 20.9 | 82.8 |
| Earnings per share | 10.4p | | 7.3p | 9.8p | | 13.1p |

On an Investment basis, Profit before tax and valuation movements was £49.9m (2012: £33.2m), an increase due to contributions from acquisitions.

Fair value movements are a £43.2m profit (2012: £28.8m) which represents the increase in the portfolio valuation recognised in the income statement. The portfolio valuation benefited from a 0.2% reduction in the weighted average discount rate applied in the Directors’ valuation, positive contributions from acquisitions, actual inflation above the 2.75% valuation assumption and a solid performance from the portfolio. Further detail on the valuation movement is given in the Investment Adviser’s Report.

Earnings on an Investment basis were £93.0m (2012: £61.9m), an increase of £31.1m compared to the prior year, with earnings per share of 10.4p up 0.6p or 6.1% as compared to 2012. The uplift in earnings reflects a reduction in the weighted average discount rate of 0.2%, positive contributions from acquisitions and a good operation performance from the portfolio.

On a consolidated IFRS basis, the earnings per share were 7.3p (2012: 13.1p). The results on a consolidated IFRS basis show a reduction in earnings per share due to lower gains on financial receivables and higher adverse inflation swap mark to market costs. Gains on finance receivables have reduced due to the 0.3% fall in UK long term gilt rates in the year compared with the 1% reduction in the prior year.

Total income on a consolidated IFRS basis increased to £333.0m (2012: £249.8m) driven by contributions from new subsidiaries. Profit before tax and valuation movements on a consolidated IFRS basis increased materially driven by growth in gains on investments reflecting contributions from acquisitions.

Cost analysis

| | Year to 31 March 2013 Investment basis £million | Year to 31 March 2012 Investment basis £million |
|-------------------------------------|--|--|
| Interest income | (0.2) | (0.3) |
| Interest expense | 3.2 | 2.4 |
| Investment Adviser fees | 13.0 | 11.1 |
| Auditor – KPMG – for the Group | 0.3 | 0.2 |
| Directors fees & expenses | 0.2 | 0.2 |
| Other expenses | 1.3 | 1.3 |
| Expenses & finance costs | 17.8 | 14.9 |

Interest was a net cost of £3.0m in the year (2012: £2.1m). It increased from the prior year due to a £0.9m write-off of debt arrangement costs in relation to the cancellation of the £50m 18 month tranche of the Group's debt facility.

Total fees accruing to InfraRed Capital Partners Limited (the Investment Adviser) were £13.0m (2012: £11.1m) for the year, comprising the 1.1% per annum management fee (1.0% for assets above £750m, 0.9% for assets above £1.5bn, and 1.5% for assets in construction), the 1.0% fee on the acquisitions made from third parties, and the £0.1m per annum advisory fee. The increase reflects the management fee on a growing portfolio value.

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

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

Ongoing Charges ('OCs')

| | Year to 31 March 2013 Investment basis £million | Year to 31 March 2012 Investment basis £million |
|---------------------------------|--|--|
| Investment Adviser ¹ | 11.3 | 8.7 |
| Auditor – KPMG – for the Group | 0.3 | 0.3 |
| Directors' fees and expenses | 0.2 | 0.1 |
| Other ongoing expenses | 1.0 | 0.9 |
| Total expenses | 12.8 | 10.0 |
| Average NAV ² | 1,077.2 | 724.3 |
| Ongoing charges | 1.19% | 1.38% |

1. Excludes acquisition fees of £1.7m (2012: 2.4m)

2. Excludes £164.7m net share capital raised in March 2013 (and £246.8m raised in March 2012)

In 2012 the AIC published new guidance in relation to calculating Ongoing Charges which is defined as annualised ongoing charges (i.e. excluding acquisition costs and other non-recurring items) divided by the average published undiluted net asset value in the period. On this basis, the Ongoing Charges Percentage is 1.19% (2012 equivalent: 1.38%). There are no performance fees paid to any service provider.

The Ongoing Charges reduced in the year by 0.2% reflecting a combination of lower gearing during the year on an Investment basis and the Group's expenses being spread over a larger capital base. As the Investment Adviser's management fee is based on a percentage of the portfolio value, lower gearing on an Investment basis means that the Investment Adviser's fee as a percentage of net assets is lower and hence the Ongoing Charge Percentage is reduced.

FINANCIAL RESULTS *(continued)*

BALANCE SHEET Summary balance sheet

| | 31 March 2013 | | | 31 March 2012 | | |
|---|------------------------------|---------------------------------------|------------------------|------------------------------|---------------------------------------|------------------------|
| | Investment basis £million | Consolidation adjustments £million | IFRS basis £million | Investment basis £million | Consolidation adjustments £million | IFRS basis £million |
| Investments at fair value | 1,200.4 | (529.9) | 670.5 | 902.0 | (377.7) | 524.3 |
| Other non-current assets | – | 3,009.1 | 3,009.1 | – | 2,224.3 | 2,224.3 |
| Working capital | (11.7) | 15.9 | 4.2 | (12.0) | 21.8 | 9.8 |
| Net cash/(borrowings) | 146.0 | (1,770.3) | (1,624.3) | (116.3) | (1,357.0) | (1,473.3) |
| Other non-current liabilities | – | (739.8) | (739.8) | – | (498.6) | (498.6) |
| Non-controlling interests | – | (8.4) | (8.4) | – | (8.4) | (8.4) |
| Net assets¹ attributable to Ordinary Shares | 1,334.7 | (23.4) | 1,311.3 | 773.7 | 4.4 | 778.1 |
| NAV per Ordinary Share (before distribution) ² | 120.0p | | 117.9p | 116.3p | | 117.0p |
| NAV per Ordinary Share (post distribution) | 116.4p | | 114.3p | 112.8p | | 113.5p |
| Net assets attributable to 2012 C Shares | – | | – | 246.8 | | 246.8 |
| NAV per C Share | – | | – | 98.7p | | 98.7p |

1. This is net assets attributable to the Group net of non-controlling interests

2. The NAV per share at 31 March 2013 is that applicable to the 976.4m Ordinary Shares in issue on the record date of 1 March 2013. The 140m Ordinary Shares issued on 27 March 2013 pursuant to the New Ordinary Shares Prospectus of 26 February 2013 were not eligible for the second interim dividend of 3.575p. See Note 2 to the pro-forma financial statements and Note 13 to the financial statements.

On an Investment basis, Investments at fair value were £1,200.4m (2012: £902.0m), net of the £12.7m of future investment obligations on Perth and Kinross Schools PFI project. This is an increase from 31 March 2012 of £298.4m or 33%. Further detail on the movement in Investments at fair value is given in this Report under Valuation.

Following the acquisitions and share issues during the year, the Group had a net cash position at 31 March 2013 on an Investment basis of £146.0m (2012: net cash of £129.4m). An analysis of the movements in net cash is shown in the cashflow analysis below. The £164.7m of net proceeds of the New Ordinary Shares issue were used to pay down £27.9m of drawings under the credit facility as well as to fund two acquisitions with an aggregate consideration of £27.4m at the end of March. Since 31 March 2013, the Group has made a further four acquisitions totalling £36.1m and these have been funded from cash resources.

On an Investment basis, NAV per Ordinary Share was 116.4p after the 3.575p distribution (2012: 112.8p post dividend distribution of 3.5p).

On a consolidated IFRS basis, net assets attributable to Ordinary Shares have increased to £1,311.3m (2012: £778.1m) reflecting £274.8m from the issue of shares (net of costs) in the year and £11.6m of retained profits. NAV per Ordinary Share was 117.9p (2012: 117.0p).

CASHFLOW ANALYSIS

Summary cash flow

| | Year to 31 March 2013 Investment basis £million | Year to 31 March 2012 Investment basis £million |
|--|--|--|
| Net cash at start of year | 129.4 | 54.7 |
| Cash from investments ¹ | 78.2 | 51.2 |
| Operating and finance costs outflow | (13.9) | (10.2) |
| Net cash inflow before acquisitions/financing | 64.3 | 41.0 |
| Disposal/Redemption of investment | 3.9 | 30.0 |
| Cost of new investments | (270.2) | (283.3) |
| Share capital raised net of costs | 270.1 | 320.9 |
| Forex movement on borrowings/hedging ² | (3.4) | 2.9 |
| Distributions paid: | | |
| Relating to operational investments | (46.6) | (33.2) |
| Relating to investments in construction | (1.5) | (3.6) |
| Distributions paid | (48.1) | (36.8) |
| Net cash at end of year | 146.0 | 129.4 |

1. The year to 31 March 2013 includes £1.4m profit on disposal of Doncaster Schools

2. Includes amortisation of debt issue costs of £1.7m (2012: £0.4m)

On an Investment basis the Group's net cash at 31 March 2013 was £146.0m (31 March 2012: net cash of £129.4m).

Cash inflows from the portfolio were up 52.7% at £78.2m (2012: £51.2m). The growth in cash generation was driven by contributions from acquisitions combined with active cash management across the portfolio.

Cost of investments of £270.2m (2012: £283.3m) represents the cash cost of the 10 new investments and 11 incremental acquisitions, and associated acquisition costs of £5.1m. The disposal in the year was Doncaster Schools which had been acquired in December 2011 for £3.9m.

The £3.4m (2012: £2.9m) movement in forex and hedging arises from the strengthening of the Euro against Sterling in the year. The forward sales are to hedge the Group's forex exposure on the Dutch High Speed Rail Link, two Irish assets and two Canadian assets.

The 140m New Ordinary Shares capital raising in March 2013, placing of 88.3m Ordinary Shares via tap issues and the £1.8m of delayed C Share proceeds provided net cash receipts in the year of £270.1m (2012: £320.9m).

Dividends paid increased £11.3m to £48.1m (2012: £36.8m) for the year (being the payment of 3.50p in June 2012 and the payment of 3.425p per share in December 2012). The dividends declared for the year to 31 March 2013 represent a total of 7.00p per share (2012: 6.85p).

Dividend cash cover, which compares operational cash flow of £64.3m (2012: £41.0m) to dividends attributable to operational assets, was 1.38 times (2012: 1.23 times). The proportion of the total dividend attributable to operational assets (96.9%) and construction assets (3.1%) is based on their respective share of the portfolio valuation during the year.

GEARING

The Group started the financial year with a committed £150m revolving credit facility comprising a £50m 18 month tranche and a £100m three year multi-currency tranche jointly provided by Royal Bank of Scotland and National Australia Bank. The facility was signed in February 2012 and for regulatory reasons was sized to reflect the maximum potential working capital requirements for the 18 months following the £250m C Share issue in March 2012. In August 2012 the Company cancelled the £50m 18 month tranche as the anticipated level of utilisation prior to expiry did not justify the ongoing commitment fee.

FINANCIAL RESULTS *(continued)*

The Group's debt 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 March 2013, the Group's cash drawings under the £100m facility were £27.9m, the balance having been repaid in April from the proceeds of the New Ordinary Shares issue. As such, on an Investment basis the Group is ungeared with net cash as at 31 March 2013 of £146.0m (2012: £129.4m).

Since 31 March 2013, the Group has utilised £36.1m to make four new investments, £12.7m to finance the loan note subscription on Perth and Kinross Schools project, as well as £30.1m for the payment of the second interim dividend of 3.575p per share on 22 April.

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

On a consolidated IFRS basis, the Group had net debt of £1,624.3m at 31 March 2013 (2012: £1,473.3m). This increase in net debt over the year reflects the consolidation of five new subsidiaries arising from the various acquisitions in the year.

As previously reported, all of the projects have either long-term bank borrowings with interest rate hedges, or bonds with fixed or indexed coupon payments. This ensures the Group's investments have minimal exposure to interest rate volatility or debt market appetite.

FOREIGN EXCHANGE RISK

Foreign exchange risk from non-Sterling assets has been managed on a balance sheet basis through the forward sale of Euros and Canadian Dollars and by debt drawings under the Group's credit facility. This has minimised the volatility in the Group's NAV from foreign exchange movements. The Group has undertaken increased hedging of investment income from overseas assets through the forward sale of the respective foreign currency and reduced the balance sheet hedge. The net effect of these changes is expected to give more yield certainty and to limit NAV per share sensitivity to no more than 1.0p for a 10% forex movement.

UNAUDITED CONSOLIDATED PROFORMA INCOME STATEMENTS

for the year ended 31 March 2013

| | Year ended 31 March 2013 | | | | |
|---|--------------------------|---------------------|-------------------|---------------------------------------|-------------------------------------|
| | Investment basis | | | Consolidation adjustments £million | Consolidated IFRS basis £million |
| | Revenue £million | Capital £million | Total £million | | |
| Services revenue | – | – | – | 190.4 | 190.4 |
| Gains on finance receivables | – | – | – | 149.0 | 149.0 |
| Gains/(loss) on investments | 67.7 | 45.0 | 112.7 | (44.6) | 68.1 |
| Total income | 67.7 | 45.0 | 112.7 | 294.8 | 407.5 |
| Services costs | – | – | – | (169.2) | (169.2) |
| Administrative expenses | (14.8) | – | (14.8) | (5.2) | (20.0) |
| Profit before net finance costs and tax | 52.9 | 45.0 | 97.9 | 120.4 | 218.3 |
| Finance costs | (3.2) | (1.8) | (5.0) | (158.9) | (163.9) |
| Finance income | 0.2 | – | 0.2 | 0.8 | 1.0 |
| Profit/(loss) before tax | 49.9 | 43.2 | 93.1 | (37.7) | 55.4 |
| Income tax (expense)/credit | (0.1) | – | (0.1) | 12.2 | 12.1 |
| Profit for the year | 49.8 | 43.2 | 93.0 | (25.5) | 67.5 |
| Attributable to: | | | | | |
| Equity holders of the parent | 49.8 | 43.2 | 93.0 | (27.8) | 65.2 |
| Non-controlling interests | – | – | – | 2.3 | 2.3 |
| | 49.8 | 43.2 | 93.0 | (25.5) | 67.5 |
| Earnings per share – basic and diluted (pence) | 5.6 | 4.8 | 10.4 | (3.1) | 7.3 |

| | Year ended 31 March 2012 | | | | |
|---|--------------------------|---------------------|-------------------|---------------------------------------|-------------------------------------|
| | Investment basis | | | Consolidation adjustments £million | Consolidated IFRS basis £million |
| | Revenue £million | Capital £million | Total £million | | |
| Services revenue | – | – | – | 149.9 | 149.9 |
| Gains on finance receivables | – | – | – | 177.8 | 177.8 |
| Gains/(loss) on investments | 48.1 | 24.0 | 72.1 | (22.0) | 50.1 |
| Total income | 48.1 | 24.0 | 72.1 | 305.7 | 377.8 |
| Services costs | – | – | – | (130.0) | (130.0) |
| Administrative expenses | (12.8) | – | (12.8) | (4.6) | (17.4) |
| Profit before net finance costs and tax | 35.3 | 24.0 | 59.3 | 171.1 | 230.4 |
| Finance costs | (2.4) | – | (2.4) | (149.5) | (151.9) |
| Finance income | 0.3 | 4.8 | 5.1 | 0.6 | 5.7 |
| Profit/(loss) before tax | 33.2 | 28.8 | 62.0 | 22.2 | 84.2 |
| Income tax (expense)/credit | (0.1) | – | (0.1) | 0.7 | 0.6 |
| Profit for the year | 33.1 | 28.8 | 61.9 | 22.9 | 84.8 |
| Attributable to: | | | | | |
| Equity holders of the parent | 33.1 | 28.8 | 61.9 | 20.9 | 82.8 |
| Non-controlling interests | – | – | – | 2.0 | 2.0 |
| | 33.1 | 28.8 | 61.9 | 22.9 | 84.8 |
| Earnings per share – basic and diluted (pence) | 5.2 | 4.6 | 9.8 | 3.3 | 13.1 |

See Note 2(a) of Notes to the consolidated financial statements for the definition of revenue and capital items.

UNAUDITED CONSOLIDATED PROFORMA BALANCE SHEET

as at 31 March 2013

| | | 31 March 2013 | | | 31 March 2012 | |
|--|---------------------------------|--|--|---------------------------------|--|--|
| | Investment basis £million | Consolidation adjustments £million | Consolidated IFRS basis £million | Investment basis £million | Consolidation adjustments £million | Consolidated IFRS basis £million |
| Non-current assets | | | | | | |
| Investments at fair value through profit or loss (<i>Note 1</i>) | 1,200.4 | (529.9) | 670.5 | 902.0 | (377.7) | 524.3 |
| Finance receivables at fair value through profit or loss | – | 2,435.0 | 2,435.0 | – | 1,739.4 | 1,739.4 |
| Intangible assets | – | 420.7 | 420.7 | – | 375.2 | 375.2 |
| Deferred tax assets | – | 153.4 | 153.4 | – | 109.7 | 109.7 |
| Total non-current assets | 1,200.4 | 2,479.2 | 3,679.6 | 902.0 | 1,846.6 | 2,748.6 |
| Current assets | | | | | | |
| Trade and other receivables | 0.2 | 26.4 | 26.6 | 1.8 | 27.4 | 29.2 |
| Other financial assets | 0.8 | – | 0.8 | – | – | – |
| Finance receivables at fair value through profit or loss | – | 40.2 | 40.2 | – | 31.2 | 31.2 |
| Cash and cash equivalents | 172.9 | 153.7 | 326.6 | 267.9 | 105.8 | 373.7 |
| Total current assets | 173.9 | 220.3 | 394.2 | 269.7 | 164.4 | 434.1 |
| Total assets | 1,374.3 | 2,699.5 | 4,073.8 | 1,171.7 | 2,011.0 | 3,182.7 |
| Current liabilities | | | | | | |
| Trade and other payables | (12.2) | (49.1) | (61.3) | (12.5) | (35.6) | (48.1) |
| Other current financial liabilities | (0.5) | – | (0.5) | – | – | – |
| Current tax payable | – | (1.6) | (1.6) | (0.2) | (1.2) | (1.4) |
| Loans and borrowings | (26.9) | (52.6) | (79.5) | (138.5) | (52.9) | (191.4) |
| Total current liabilities | (39.6) | (103.3) | (142.9) | (151.2) | (89.7) | (240.9) |
| Non-current liabilities | | | | | | |
| Loans and borrowings | – | (1,871.4) | (1,871.4) | – | (1,409.9) | (1,409.9) |
| Other financial liabilities (fair value of derivatives) | – | (452.2) | (452.2) | – | (259.9) | (259.9) |
| Deferred tax liabilities | – | (287.6) | (287.6) | – | (238.7) | (238.7) |
| Total non-current liabilities | – | (2,611.2) | (2,611.2) | – | (1,908.5) | (1,908.5) |
| Total liabilities | (39.6) | (2,714.5) | (2,754.1) | (151.2) | (1,998.2) | (2,149.4) |
| Net assets | 1,334.7 | (15.0) | 1,319.7 | 1,020.5 | 12.8 | 1,033.3 |
| Equity | | | | | | |
| Shareholders' equity | 1,334.7 | (23.4) | 1,311.3 | 1,020.5 | 4.4 | 1,024.9 |
| Non-controlling interests | – | 8.4 | 8.4 | – | 8.4 | 8.4 |
| Total equity | 1,334.7 | (15.0) | 1,319.7 | 1,020.5 | 12.8 | 1,033.3 |
| Net assets per Ordinary Share (pence) (Note 2) | 120.0 | (2.1) | 117.9 | 116.3 | 0.7 | 117.0 |
| Net assets per C Share (pence) | – | – | – | 98.7 | – | 98.7 |

UNAUDITED CONSOLIDATED PROFORMA CASH FLOW

for the year ended 31 March 2013

| | Investment basis £million | Year ended 31 March 2013 Consolidation adjustments £million | Consolidated IFRS basis £million | Investment basis £million | Year ended 31 March 2012 Consolidation adjustments £million | Consolidated IFRS basis £million |
|--|---------------------------------|---|--|---------------------------------|---|--|
| Cash flows from operating activities | | | | | | |
| Profit/(loss) before tax | 93.1 | (37.7) | 55.4 | 62.0 | 22.2 | 84.2 |
| Adjustments for: | | | | | | |
| (Gains)/loss on investments | (112.7) | 44.6 | (68.1) | (72.1) | 22.0 | (50.1) |
| Gains on finance receivables | – | (149.0) | (149.0) | – | (177.8) | (177.8) |
| Interest payable and similar charges | 3.2 | 90.8 | 94.0 | 2.4 | 80.0 | 82.4 |
| Changes in fair value of derivatives | 1.8 | 68.1 | 69.9 | (4.8) | 69.5 | 64.7 |
| Operator acquisition investment fees | 1.7 | – | 1.7 | 2.4 | – | 2.4 |
| Interest income | (0.2) | (0.8) | (1.0) | (0.3) | (0.6) | (0.9) |
| Amortisation of intangible assets | – | 17.6 | 17.6 | – | 13.5 | 13.5 |
| Operating cash flow before changes in working capital | (13.1) | 33.6 | 20.5 | (10.4) | 28.8 | 18.4 |
| Changes in working capital: | | | | | | |
| (Increase)/Decrease in receivables | 0.8 | (0.2) | 0.6 | 0.9 | 2.2 | 3.1 |
| (Decrease)/Increase in payables | – | (1.5) | (1.5) | 0.5 | – | 0.5 |
| Cash flow (used in)/from operations | (12.3) | 31.9 | 19.6 | (9.0) | 31.0 | 22.0 |
| Interest received on bank deposits and finance receivables | 0.2 | 0.8 | 1.0 | 0.3 | 0.6 | 0.9 |
| Cash received from finance receivables | – | 134.3 | 134.3 | – | 99.9 | 99.9 |
| Interest paid | (1.9) | (79.5) | (81.4) | (3.5) | (81.6) | (85.1) |
| Corporation tax received/(paid) | – | (0.6) | (0.6) | 0.5 | (0.7) | (0.2) |
| Interest received on investments | 51.1 | (12.2) | 38.9 | 32.9 | (14.2) | 18.7 |
| Dividends received | 16.0 | (3.1) | 12.9 | 15.1 | (5.4) | 9.7 |
| Fees and other operating income | 8.1 | (1.7) | 6.4 | 2.2 | (0.9) | 1.3 |
| Loanstock and equity repayments received | 1.6 | – | 1.6 | 31.0 | – | 31.0 |
| Net cash from operating activities | 62.8 | 69.9 | 132.7 | 69.5 | 28.7 | 98.2 |
| Cash flows from investing activities | | | | | | |
| Proceeds from disposal of investment | 5.3 | – | 5.3 | – | – | – |
| Purchases of investments | (270.2) | 82.1 | (188.1) | (283.3) | 66.4 | (216.9) |
| Acquisition of subsidiaries net of cash acquired | – | (54.6) | (54.6) | – | (15.9) | (15.9) |
| Net cash (used in)/from investing activities | (264.9) | 27.5 | (237.4) | (283.3) | 50.5 | (232.8) |
| Cash flows from financing activities | | | | | | |
| Proceeds from issue of share capital | 270.1 | – | 270.1 | 320.9 | – | 320.9 |
| Proceeds from issue of loans and borrowings | 64.5 | – | 64.5 | 183.2 | – | 183.2 |
| Repayment of loans and borrowings | (177.8) | (47.1) | (224.9) | (44.5) | (30.2) | (74.7) |
| Distributions paid to Company shareholders | (48.1) | – | (48.1) | (36.8) | – | (36.8) |
| Distributions paid to non-controlling interests | – | (2.4) | (2.4) | – | (3.4) | (3.4) |
| Net cash from/(used in) financing activities | 108.7 | (49.5) | 59.2 | 422.8 | (33.6) | 389.2 |
| Net increase in cash and cash equivalents | (93.4) | 47.9 | (45.5) | 209.0 | 45.6 | 254.6 |
| Cash and cash equivalents at beginning of year | 267.9 | 105.8 | 373.7 | 54.7 | 60.2 | 114.9 |
| Exchange gains on cash | (1.6) | – | (1.6) | 4.2 | – | 4.2 |
| Cash and cash equivalents at end of year | 172.9 | 153.7 | 326.6 | 267.9 | 105.8 | 373.7 |

NOTES TO THE UNAUDITED CONSOLIDATED PROFORMA FINANCIAL STATEMENTS

for the year ended 31 March 2013

1. INVESTMENTS

The valuation of the Group's portfolio at 31 March 2013 reconciles to the consolidated balance sheet as follows:

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|--|----------------------------------|----------------------------------|
| Portfolio valuation | 1,213.1 | 902.0 |
| Less: undrawn investment commitments | (12.7) | – |
| Portfolio valuation on an investment basis | 1,200.4 | 902.0 |
| Less: equity and loanstock investments in operating subsidiaries eliminated on consolidation | (529.9) | (377.7) |
| Investments per audited consolidated balance sheet on an IFRS basis | 670.5 | 524.3 |

Portfolio valuation on an investment basis is represented by:

| | | |
|-----------------------------|---------|-------|
| Less than one year | – | – |
| Greater than one year | 1,200.4 | 902.0 |
| Carrying amount at year end | 1,200.4 | 902.0 |

Investments per audited consolidated balance sheet on an IFRS basis is represented by:

| | | |
|------------------------------------|--------------|--------------|
| Less than one year | – | – |
| Greater than one year | 670.5 | 524.3 |
| Carrying amount at year end | 670.5 | 524.3 |

2. NET ASSETS ON INVESTMENT BASIS

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|--|----------------------------------|----------------------------------|
| Shareholders' equity at 31 March | 1,334.7 | 773.7 |
| Less: Second interim dividend | (34.9)* | (23.3)† |
| | 1,299.8 | 750.4 |
| Number of shares at 31 March | 1,116.3 | 665.4 |
| Net assets per share after deducting second interim dividend | 116.4p | 112.8p |
| Add second interim dividend | 3.575p | 3.5p |
| Net assets per share at 31 March | 120.0p | 116.3p |

* 3.575p declared on 21 February 2013 and paid on 22 April 2013

† 3.5p declared on 12 April 2012 and paid on 29 June 2012

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

The Net assets per share at 31 March 2013 applicable to the 140 million Ordinary Shares issued on 27 March 2013 is 116.4p on an Investment basis.

ANALYSIS OF THE GROUP'S PORTFOLIO

As at 31 March 2013, the Group had 79 investments, details of which are set out in the table below.

| PROJECT | Equity | Group Holdings Subdebt | Mezzanine debt |
|---|--------|---------------------------|----------------|
| Ten largest investments | | | |
| Birmingham Hospitals | 30.0% | 30.0% | |
| Colchester Garrison | 56.0% | 56.0% | |
| Connect | 28.5% | 28.5% | |
| Dutch High Speed Rail Link | 43.0% | 43.0% | |
| Edinburgh Schools | 100.0% | 100.0% | |
| Home Office | 100.0% | 100.0% | |
| Highland Schools | 100.0% | 100.0% | |
| M80 DBFO Road | 50.0% | 50.0% | |
| Oxford John Radcliffe Hospital | 100.0% | 100.0% | |
| Queen Alexandra Hospital | 100.0% | 100.0% | |
| Remaining investments | | | |
| A249 Road | 50.0% | 50.0% | |
| A92 Road | 50.0% | 50.0% | |
| Barking and Dagenham Schools | 85.0% | 100.0% | |
| Barnet Hospital | 100.0% | 100.0% | |
| Birmingham & Solihull LIFT | 30.0% | 44.0% | |
| Bishop Auckland Hospital | 36.0% | 37.0% | 100.0% |
| Blackburn Hospital | 100.0% | 100.0% | |
| Blackpool Primary Care Facility | 75.0% | 75.0% | |
| Boldon School | 100.0% | 100.0% | |
| Bradford Schools BSF (Phase II) | 34.0% | 34.0% | |
| Brentwood Community Hospital | 75.0% | 75.0% | |
| Central Middlesex Hospital | 100.0% | 100.0% | |
| Conwy Schools | 90.0% | 90.0% | |
| Cork School of Music | 50.0% | 50.0% | |
| Croydon School | 100.0% | 100.0% | |
| Darlington Schools | 50.0% | 50.0% | |
| Defence Sixth Form College | 45.0% | 45.0% | |
| Derby Schools | 80.0% | 80.0% | |
| Doncaster Mental Health Hospital | 50.0% | 50.0% | |
| Dorset Fire & Rescue | 100.0% | 100.0% | |
| Dorset Police Stations | 80.0% | 80.0% | |
| Durham and Cleveland Firearms Training Centre | 72.9% | 72.9% | |
| Ealing Care Homes | 84.0% | 84.0% | |
| Ealing Schools | 50.0% | 50.0% | |
| Exeter Crown Courts | 100.0% | 100.0% | |
| Fife Schools | 50.0% | 50.0% | 100.0% |
| Fife Schools 2 | 30.0% | 30.0% | |
| Glasgow Hospital | 25.0% | 25.0% | |
| Greater Manchester Police Stations | 72.9% | 72.9% | |
| Haverstock Schools | 50.0% | 50.0% | |
| Health and Safety Laboratory | 80.0% | 90.0% | |
| Helicopter Training Facility – AssetCo | 87.6% | 7.2% | |
| ProjectCo | 23.5% | 74.1% | |
| HSE Merseyside HQ | 50.0% | 50.0% | |
| Irish Grouped Schools | 50.0% | 50.0% | |
| Kent Schools | 50.0% | 50.0% | |
| Kicking Horse Canyon P3 Road | 50.0% | – | |
| Lewisham Hospital | 100.0% | 100.0% | |

ANALYSIS OF THE GROUP'S PORTFOLIO *(continued)*

| PROJECT | Equity | Group Holdings | |
|---|--------|----------------|----------------|
| | | Subdebt | Mezzanine debt |
| Remaining investments <i>(continued)</i> | | | |
| Manchester School | 50.0% | 50.0% | |
| Medway Police Headquarters | 80.0% | 80.0% | |
| Metropolitan Police Training Centre | 72.9% | 72.9% | |
| Newcastle Libraries | 50.0% | 50.0% | |
| Newport Schools | 80.0% | 80.0% | |
| Newton Abbot Hospital | 50.0% | 100.0% | |
| North West Anthony Henday Road | 50.0% | 50.0% | |
| Northwood Ministry of Defence HQ | 50.0% | 50.0% | |
| North Tyneside Schools | 50.0% | 50.0% | |
| Norwich Schools | 75.0% | 75.0% | |
| Oldham Library | 50.0% | 50.0% | |
| Oldham Schools | 75.0% | 75.0% | |
| Oxford Churchill Oncology | 40.0% | 40.0% | |
| Oxford Nuffield Hospital | 25.0% | 25.0% | |
| Perth & Kinross Schools | 100.0% | 100.0% | |
| Pinderfields and Pontefract Hospitals | 50.0% | 50.0% | |
| Renfrewshire Schools | 30.0% | 30.0% | |
| Rhondda Cyon Taf Schools | 100.0% | 100.0% | |
| Romford Hospital | 66.7% | 66.7% | |
| Sheffield Hospital | 75.0% | 75.0% | |
| Sheffield Schools | 37.5% | 37.5% | |
| South Ayrshire Schools | 100.0% | 100.0% | |
| South East London Police Stations | 50.0% | 50.0% | |
| Staffordshire LIFT | 30.0% | 44.0% | |
| Stoke Mandeville Hospital | 100.0% | 100.0% | |
| Sussex Custodial Centre | 100.0% | 100.0% | |
| Swindon Police Headquarters | 80.0% | 80.0% | |
| Tyne and Wear Fire Stations | 100.0% | – | |
| West Lothian Schools | 75.0% | 75.0% | |
| West Middlesex Hospital | 100.0% | 100.0% | |
| Willesden Hospital | 50.0% | 50.0% | |
| Wooldale Learning Centre | 50.0% | 50.0% | |

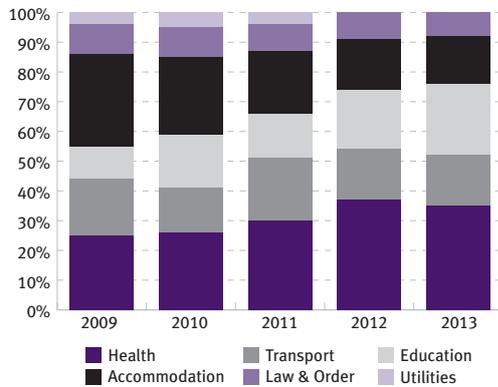
Since the year end, the Group has acquired the following four investments (as at 21 May 2013):

| PROJECT | Equity | Group Holdings | |
|---------------------------------|--------|----------------|----------------|
| | | Subdebt | Mezzanine debt |
| Addiewell Prison | 33.3% | 33.3% | |
| Medway LIFT | 60.0% | 60.0% | |
| Redbridge & Waltham Forest LIFT | 60.0% | 60.0% | |
| Tameside General Hospital | 50.0% | 50.0% | |

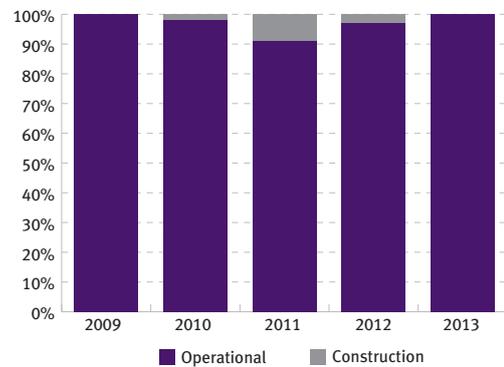
Following formal completion of construction of the M80 DBFO Road, all of the projects in the portfolio are now fully operational. The charts on page 33 show how the portfolio has developed over the last five years in terms of sector split, investment stage, geographic location, average remaining concession and debt terms, portfolio concentration and ownership stakes.

ANALYSIS OF THE PORTFOLIO – LAST FIVE YEARS

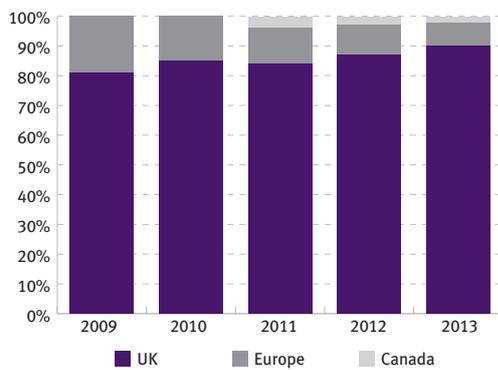
By Sector¹



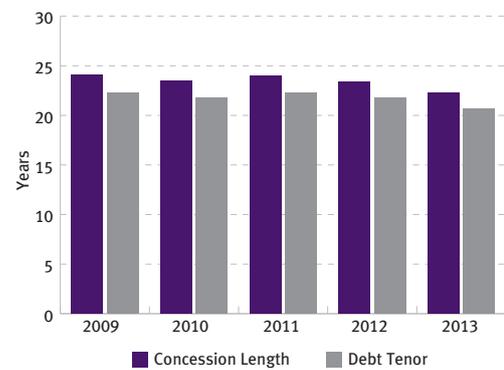
By Investment Status¹



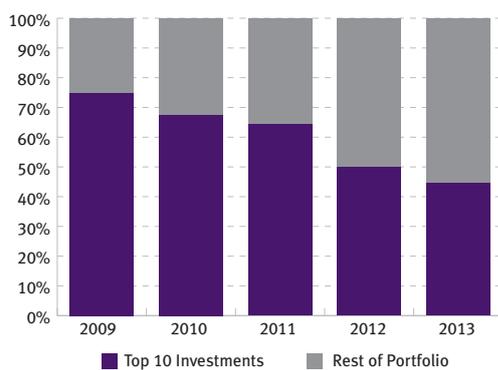
By Geography¹



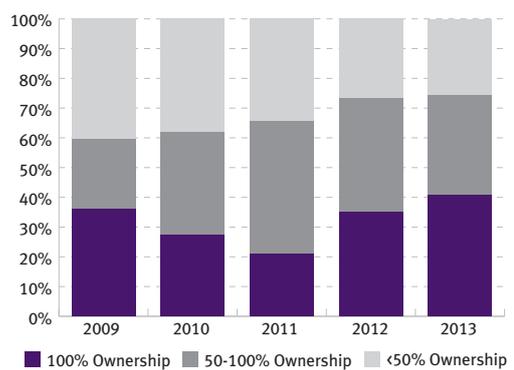
By Concession & Debt Term²



By Investment Concentration¹



By Ownership Stake³



1. Based on the Directors' valuation of the Group's investments at 31 March 2013 and the preceding 4 years.

2. Based on the Group's portfolio as at 31 March 2013 and the preceding 4 years, taking the weighted average concession length and debt term outstanding.

ANALYSIS OF THE GROUP'S PORTFOLIO *(continued)*

TEN LARGEST INVESTMENTS

Set out below are details of the ten largest investments in the portfolio and details of each project. As at 31 March 2013, the largest investment (the Home Office project) accounted for less than 8% (2012: 10%) of the portfolio.

| PROJECT | Directors' Valuation | |
|--|--|--|
| | 31 March 2013 Valuation as a percentage of Directors' portfolio valuation <i>£million</i> | 31 March 2012 Valuation as a percentage of Directors' portfolio valuation <i>£million</i> |
| Directors' Valuation – £m | 1,213.1 | 902.0 |
| Birmingham Hospitals | 3.3% | n/a |
| Colchester Garrison | 4.2% | 5.0% |
| Connect | 4.6% | n/a |
| Dutch High Speed Rail Link | 6.7% | 8.8% |
| Edinburgh Schools | 3.1% | n/a |
| Home Office | 7.6% | 10.0% |
| Highland Schools | 3.5% | n/a |
| M80 Motorway DBFO | 2.9% | 3.3% |
| Oxford John Radcliffe Hospital | 3.1% | 3.2% |
| Queen Alexandra Hospital | 5.5% | 7.2% |
| Total – ten largest investments | 44.5% | 49.8% |

BIRMINGHAM HOSPITALS

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

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

The acute hospital was substantially completed and handed over in September 2011, with the remaining works finished in August 2012. The hospital provides for 1,213 inpatient beds and 30 operating theatres. Balfour Beatty Workplace Limited is providing hard facilities management services to the project.

COLCHESTER GARRISON

The Colchester Garrison project is a 35 year concession to design, construct, finance and maintain a new garrison facility at Colchester, Essex for The Secretary of State for Defence (the "MOD"). The new garrison has been built partly on an existing garrison site and partly on an adjacent brownfield site owned by the MOD. The project involved capital expenditure of approximately £550 million. Financial close was on 9 February 2004.

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

The new configuration enabled approximately 84 hectares of surplus land to be released for development and this has been successfully sold by the project company, RMPA Services plc, to Taylor Woodrow Developments Limited. The proceeds from the land sale were used to fund parts of the project.

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

Strong partnership working relationships continue with the Barracks remaining at peak capacity. Operations continue in a "steady state" with minimal deductions and good customer satisfaction.

RMPA continue to work with the MOD and the Defence Infrastructure Organisation to identify operational savings including energy efficiencies.

CONNECT

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

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

CityLink is managed by staff on secondment to the company from Thales.

DUTCH HIGH SPEED RAIL LINK

The project is a 25 year concession (from the date the assets are available for use) with the State of the Netherlands, represented by the Minister of Transport, Public Works and Water Management and the Minister of Finance and is the largest PPP contract ever awarded by the Dutch State. More specifically the project involves the design, construction, financing, operation and maintenance of one of the largest high speed railway projects in Europe. The project involved capital expenditure of over £625 million on the construction of track, noise attenuation, catenary, signalling, traction power distribution and command-control-communication systems infrastructure. Financial close was achieved on 31 October 2001.

The project involved the design and construction of two new sections of high speed rail track between Amsterdam and the Belgian border. Construction has been completed successfully. An unrelated train operating company is responsible for rolling stock and its operation. Train services commenced in September 2009. Revenues are receivable from the State of the Netherlands, varying with the level of performance but independent of the level of traffic.

The project is responsible for maintenance of the system (and substructure) and the undertaking of renewals works during the concession period, and availability is measured, inter alia, by reference to any delays to trains attributable to the project. The project has additional obligations in relation to safety management and liaison with the State, the regulator, traffic allocator, traffic controller, the owner of the existing and connecting infrastructure as well as the substructure contracts.

Maintenance obligations are carried out by a joint venture, IMBV, comprising Siemens Nederland Bv, Koninklijke BAM NBM NV and Fluor Infrastructure BV.

Availability has been at 100% for almost the entire period and only minor deductions have been incurred. Further progress has been achieved during the year closing out on residual issues between the parties and only a small number of issues remain. IMBV has further consolidated its managerial and operational structures, systems and processes during the past year. The Client introduced the new high speed train sets (AnsaldoBreda V250's) to the network in December 2012; however these were removed from service in January 2013 due to poor reliability and performance. As the infrastructure remains available for use by the existing trains and rolling stock, the Group is not liable for poor performance in this regard.

EDINBURGH SCHOOLS

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

The construction of the project was carried out by Laing O'Rourke Limited and involved capital expenditure of approximately £165 million. The schools were handed over in a phased completion between November 2008 and January 2010.

Mitie PFI Limited undertakes the hard and soft facilities management services for the project under a long-term concession life agreement.

HOME OFFICE

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

The project involved capital expenditure of approximately £200 million and the demolition of the existing offices on a 4.3 acre site and the construction of a Terry Farrell Partners-designed building comprising three purpose built interconnecting office blocks totalling c. 75,000 square metres, for up to 3,450 staff. Construction was carried out by Byhome Limited, a joint venture between Bouygues (UK) Limited and its sister facilities management company Bouygues E&S FM UK Limited (both subsidiaries of Bouygues Construction S.A.). ETDE was rebranded to Bouygues E&S FM UK Limited in March 2013.

The project was completed and has been occupied by the Home Office since January 2005. The services being provided include health and safety, cleaning, catering and energy management. Operations are managed by Bouygues E&S FM UK Limited.

The project is now into its eighth year of operations following the handover of the building in 2005. The Home Office has over 3,000 staff working in the building at present and they have benefited from a world-class working environment. The building also continues to receive some 10,000 visitors per month.

The Authority has confirmed that it is proposed that DCLG (Department for Communities and Local Government) will move into 2 Marsham Street at the end of September 2014. The Authority is currently developing plans for the re-organisation of 2 Marsham Street for the purpose of implementing DCLG's relocation to increase the number of staff working in the building to 5,000.

AGP, the Authority and Bouygues E&S FM UK Limited continue to hold regular meetings to review energy efficiency measures.

HIGHLAND SCHOOLS

The Highland Schools PFI project is a 30 year concession with the Highland Council to design, build and operate eleven urban and rural schools with a total capital value of £143 million. The project comprises five primary schools, three secondary schools, a combined primary and secondary school, and a special needs school. This all-new build concession runs until 2037.

Morrison Construction Limited commenced the building phase in 2006 on the 11 new schools and community facilities built through the Highland Council's second Public Private Partnership (PPP) programme. Construction has been completed in stages and, with the exception of some outdoor sporting facilities, is now complete.

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

M80 MOTORWAY DBFO

The M80 Motorway DBFO project is a 30-year concession to upgrade a 10 kilometre stretch of the existing M80, between Stepps and Haggs in Scotland, as well as to construct a new eight-kilometre section of motorway, seven new junctions and 60 additional structures. The construction works were performed under a Bilfinger Berger UK, Northstone (NI) Ltd and John Graham (Dromore) Ltd joint venture.

Highway Management Scotland Limited ("HMS"), the project company, is 50% indirectly owned by the Company. The project achieved traffic availability in December 2011 and final completion of the new works has now been achieved as a result of the execution of the remaining works agreement on 7 December 2012. This has backdated final completion to 31 May 2012.

HMS is paid an availability revenue stream by the Scottish Ministers. The motorway is being operated and maintained by BEAR Scotland Ltd under a long-term services agreement.

The on-line and off-line new sections of the M80 from Stepps to Haggs were opened on 26 August 2011, one month ahead of the planned date.

HMS is working with the local community on the possible development of a local nature reserve adjacent to the road.

OXFORD JOHN RADCLIFFE HOSPITAL

The Oxford John Radcliffe PFI Hospital project involves the design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary in Oxford. The concession runs until 31 December 2036.

The new wing was constructed by Carillion Construction Limited and reached operational completion in December 2006. The new facilities built under the contract formed the 'West Wing' and the 'New Children's Hospital'. A number of adult and children services were relocated from the Radcliffe Infirmary and other sites within the Oxford Radcliffe Hospitals NHS Trust to centralise them into one facility.

Facilities management services are subcontracted to Carillion Services Limited.

During the year, issues with the previous reporting and payment of certain services were resolved and the Portering and the Estates Services performance levels have improved.

QUEEN ALEXANDRA HOSPITAL

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

The client is Portsmouth Hospitals NHS Trust. The new hospital buildings were developed and built by Carillion Construction Limited, a subsidiary of Carillion plc. The majority of the new facilities have been operational since June 2009.

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

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

RISKS AND RISK MANAGEMENT

The Company has put a risk management framework in place covering all aspects of the Group's business. Due to the nature of the Company (being an Investment Company) and the outsourcing of key services to the Investment Adviser and other service providers, reliance is placed on the Group's service providers' own systems and controls.

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

The Directors set out the material risks relating to the Group's portfolio and to individual investments in the Company as at February 2013 in the Company's New Ordinary Shares Prospectus, which is available from the Company's website.

The Investment Adviser and the Operator have established internal controls to manage these risks, and also review and consider the Group's key risks on a quarterly basis. The Board reviews the key risks affecting the Company at each regular board meeting, by reference to a risk analysis matrix developed and monitored in

conjunction with the Investment Adviser. If a new risk arises or the likelihood of a risk occurring increases, a mitigation strategy is, where appropriate, developed and implemented, together with enhanced monitoring by the Investment Adviser.

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

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

RISK ASSESSMENT

| Risk groups | Risk type |
|------------------------|--|
| External | <ul style="list-style-type: none"> ■ Economic factors ■ Legal – new laws and legislation ■ Tax and accounting – changes in practice and policies ■ Political – changes in policy, both in relation to procurement and the day-to-day management of existing projects ■ Regulatory – changes in polices and requirements |
| Strategic | <ul style="list-style-type: none"> ■ Financial objectives – impacting on achieving targets ■ Share price discount/premium to NAV |
| Management | <ul style="list-style-type: none"> ■ Group's reliance on service providers – underperformance, solvency and breach of regulations |
| Investment | <ul style="list-style-type: none"> ■ Bidding – overpaying for assets ■ Acquisition – due diligence fails to unearth risks which impact performance ■ Equity risks associated with social and transportation infrastructure projects ■ Performance – under-performance by service providers ■ Project termination ■ Concentration – over-reliance on a client or service contractor |
| Financial and Treasury | <ul style="list-style-type: none"> ■ Finance and liquidity – lack of financial resources ■ Counterparties – reliance on financial institutions ■ Currency – exchange rate exposure ■ Interest rates – both on debt funding and deposit accounts |

EXTERNAL RISKS

The Group currently has a broad exposure to social and transportation infrastructure markets in the UK, the EU (currently the Netherlands and Ireland), and Canada. The Group has investments, business activities, registered companies and limited partnerships in the UK, Luxembourg and Guernsey. These activities and entities can be affected by changes in economic factors, local legislation, taxation and regulatory frameworks.

The performance of the portfolio of 79 investments (as at 31 March 2013) is affected by a number of economic factors including inflation rates, interest rates, and foreign exchange rates. Most, if not all of the projects mitigate to some extent against changes in inflation rates by seeking to match their indexation of contractual revenues to their indexation of contractual costs. This is not always achievable where costs are not indexed, an example being where bank debt interest rate exposure has been swapped into a fixed rate.

Most social and transportation infrastructure concessions provide some or total protection, through their contractual structures, in relation to changes in legislation which affect either the project asset or the way the services are provided.

Changes in tax legislation and accounting practices can affect both the individual investments and have an impact on the Group's corporate subsidiaries and corporate structure. Where possible, this will be mitigated, but there will be instances where this may not be possible and in these instances there could be an adverse impact on the financial performance of the Group.

The UK Government has now completed its review of alternative procurement methods to PFI and has established a new regime which it has called PF2. As explained earlier in the Investment Adviser's Report, PF2 very closely resembles the principal features of the original PFI procurement model, but also incorporates further refinements. In particular, it is structured to encourage new sources of private sector capital to participate in the funding of new public infrastructure. With procurement about to commence, it is too early to say what opportunities there may be for the Group. With 576 projects in the 2012 update of the National Infrastructure Plan, procurement of some of these should lead to a growth in the primary market and subsequently, the secondary infrastructure market in the UK in which the Group participates.

With an increasing number of other countries developing their own social and transportation infrastructure models and procuring new infrastructure, the number of projects globally continues to grow. The USA in particular now seems to be making progress with its programme, albeit still at a slower rate than most market participants would like. The Group is not reliant on any particular procurement pipeline for its new investments and remains well positioned to take advantage of opportunities as they arise.

Our UK public sector clients continue to seek ways to find operational savings from existing contracted PFI projects, based on guidance issued by HM Treasury in July 2011. The Investment Adviser's asset management team is pro-active in assisting clients who wish to make savings and this work has been ongoing since the guidance was issued. We have leveraged our experiences in this respect from pilot schemes and are in the process of rolling these out across the portfolio where appropriate.

Each of the Group's projects is built from a legal contract with a public sector client. There is a risk, albeit low, that a political decision could be taken to seek to unilaterally change the terms of a contract. Although such a development would have wide ranging implications for the market, if it were attempted and was successful, the value of the Group's investment portfolio and its ability to meet target distributions would be affected.

Last summer the UK's Secretary of State for Health exercised his powers in respect of an under-performing NHS health trust (the South London NHS Healthcare Trust) which is the contractual counterparty under a major hospital PFI project. He put the trust into special administration and appointed a new management team to conduct a review of the trust's operations and finances. In January

2013 the Secretary of State for Health announced that he had accepted the Trust Special Administrator's recommendations and that the Department for Health will pay for the excess costs of the PFI contracts over and above what the trust is able to afford itself. This has provided some comfort to new and existing private capital invested in UK infrastructure.

Under Guernsey legislation, the Company is an Authorised Closed-Ended Investment Scheme and is supervised by the Guernsey Financial Services Commission. The Investment Adviser is authorised and regulated by the Financial Conduct Authority in the UK, in accordance with the Financial Services and Markets Act 2000. Both the Company and its advisers continually monitor any potential or actual changes to regulations to ensure both the Group and its service providers remain compliant.

Following lengthy consultations, the EU Alternative Investment Fund Managers ("AIFM Directive") will have to be transposed into the national law of each EU Member State by 22 July 2013. However, even at this stage in the process not all member states' regulatory bodies have yet published their final version of the Directive and the precise determination of a specific fund manager's obligations is often not entirely clear.

The Company and the Investment Adviser have been receiving professional advice, and it is our current expectation that the Company will itself be the alternative investment fund manager (the "AIFM") rather than the Investment Adviser or another specialist third party. Furthermore, the Guernsey Financial Services Commission is expected to adopt the same approach as the UK's Financial Conduct Authority and will allow existing managers like the Company a grace period of a further year to comply with the full scope of the legislation. The full impact of its implementation on the Company remains uncertain, but it will increase regulatory and compliance costs, and it may restrict marketing of the Company's shares in the EU, which in turn may have a negative effect on marketing and liquidity of the Company's shares generally.

STRATEGIC RISKS

Having achieved its long-held objective of a 7.0p per share annual dividend in the year to 31 March 2013, the Company's strategy remains one of maintaining or growing the net asset value ("NAV") while maintaining the annual dividend at 7.0p per share or such higher level which could be sustained in the long-term in light of the forecast operating performance of the Company and prevailing long-term macro-economic conditions. Based on the current performance of the portfolio, the Board is targeting an annual dividend of 7.1p per share for the year to 31 March 2014.

The ability both to deliver further growth in distributions to shareholders and to maintain and grow its NAV is dependent on a number of economic factors outside the Company's or the Investment Adviser's control. Whilst reasonable assumptions have been factored into business plans, significant external factors could materially affect the Company and impede its ability to deliver its financial objectives. Examples of such events include a prolonged period of deflation, a rise in corporation tax rates, and changes in tax legislation affecting the Group and its investments.

The current portfolio consists of investments in concessions with finite lives and, if no new acquisitions are made, there will come a point in the Company's evolution when it will become necessary to start repaying capital. This is shown diagrammatically in the chart on page 20.

The Company publishes a NAV per share twice a year. The method of valuing the Group's investments is described in detail in the Investment Adviser's Report. To assist in managing the share price premium or discount to NAV, the Board has the powers to both buy back shares as well as issue additional shares via tap issues or full equity raisings. There is no guarantee that these measures will minimise the discount or premium to NAV.

The Investment Adviser meets existing and potential new shareholders throughout the year to explain the Company, its investments, its performance, and the key risks. The Board believes these ongoing meetings and briefings help educate the market and inform both existing and potential new shareholders.

MANAGEMENT RISKS

The Group is heavily reliant on the Investment Adviser for the day-to-day management of the Group and to achieve the Group's objectives. The Investment Adviser is supported by other service providers to the Group. Failure by the Investment Adviser or another service provider could have a material impact on the Group. Equally a loss of key personnel from a service provider may have an impact on the performance of the Group.

The 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. The most recent review was in February 2013. Any performance issues are monitored carefully, and if the Board is not satisfied with the level of service delivery, the Board will seek to change service providers.

In relation to the Investment Adviser, the Board takes comfort from the fact that the Investment Adviser has a track record in managing infrastructure investments and has developed an appropriate and detailed set of policies, procedures, compliance systems, and risk controls. The Investment Adviser has been recruiting additional staff within its infrastructure team over the last year, and this has both strengthened and deepened the team of resources on which the Group relies.

The Investment Adviser is subject to routine review and the Board is satisfied that there is sufficient depth of expertise within the Investment Adviser's infrastructure team for the Group not to be reliant on any single individual. Nevertheless, for good governance purposes the Board has decided to periodically conduct an independent assurance review of the Investment Adviser's current policies, procedures, compliance systems, and risk controls. An assurance project by an independent third party is currently being carried out on the valuation procedures, process and controls.

INVESTMENT RISKS

Acquiring a new investment in an infrastructure project via a trade sale involves a certain level of risk. These are mitigated where possible by a structured process of thorough due diligence, the agreement of suitable protections in the sale and purchase agreements with the vendor, and site visits to view and inspect the project's assets. However due diligence may fail to identify risks and the business plan assumptions in the acquisition model may not subsequently be achieved.

The Investment Adviser and Operator has internal processes and controls, developed from its experience of managing funds and investing in infrastructure, to minimise these risks through regular peer group review and internal approval processes. All investment decisions are made by an Investment Committee which has approved terms of reference to ensure that only those staff with appropriate skill sets have been appointed, any conflicts should they arise are suitably managed, and an appropriate quorum is achieved. Investment approval is subject to unanimous consent.

In February, the Investment Committee was increased to seven members with the addition of another Director from within the Investment Adviser's primary infrastructure team, thereby further broadening the Committee's experience as well as increasing the balance of non-executive members. Specialist advisers (such as lawyers, technical consultants, and tax advisers) are retained to carry out specific due diligence on potential acquisitions to minimise this risk.

Investments are normally acquired through competition, and so it is important to analyse the potential investment and determine the appropriate price the Group is prepared to pay. The risk of overpaying at auction is less than for infrastructure assets requiring revenue forecasts, since the majority of the revenue and cost streams in social infrastructure projects and similar asset types are contractual and therefore fixed in real terms. The Group has been increasingly successful in sourcing assets through direct negotiations with vendors, hence mitigating this risk.

Whilst most construction and operational risks in a social infrastructure and transportation project are laid off to sub-contractors through a well-established contractual framework, there are occasions when costs and/or risks are retained within the SPV. These include a number of routine running cost items and are also likely to include:

- Insurance Premiums. If insurance premiums are not subject to pass-down to a service provider, any increases are for the account of the project. To provide some protection against substantial increases the majority of the projects have negotiated premium risk sharing agreements with the public sector authority such that when an agreed cap is met the increased premium is mostly, or wholly, taken by the authority.

- **Life Cycle** (also called Asset Renewal or Major Maintenance). Lifecycle is the budget to replace parts of the project's assets which are outside the routine maintenance contract. Examples in a building will include floor finishes (e.g. carpets), doors, windows, ceilings and mechanical and electrical equipment. In some cases this risk and the budget for replacement is passed down to the maintenance contractor, and in the remaining projects, it sits with the project company. There is a risk that the budget is inadequate or expenditure needs to be carried out earlier than forecast. For the current portfolio, the Group regularly assesses the risk and considers that the current lifecycle provisions are reasonable and adequate.

Once acquired, investments need to perform in line with their business plans. Underperformance can be caused by a number of factors, the most likely of which is the underperformance of a service delivery partner. The Investment Adviser plays an active role in the management of the Group's investments to ensure any trends in performance are picked up and if necessary, corrected accordingly. In a severe case, the project can terminate a sub-contractor who fails to perform and either self-manage the services or tender for a new service provider. The cost of this action would, where possible, be recovered from the previous supplier.

There is a risk that an existing project might be terminated, either voluntarily or for default. In these circumstances, the compensation payable may not cover the carrying value of the investment. This risk is not considered to be high due, in part, to the requirement for the public sector client to fund these termination costs which include the cost of repaying the debt secured to finance the project.

A key risk within a project is the various counterparty exposures: the client, the sub-contractors, and the providers of finance and financial services. The Group is careful to manage its concentration exposures to any one party carefully. Whilst the Group's portfolio is currently predominantly made up of UK PFI/PPP investments, the Group has five non-UK investments. Sub-contractor and financial counterparties exposures are monitored and the Group seeks a balanced portfolio with no over-reliance on a single party.

FINANCIAL AND TREASURY

The Group's investments and the Group itself require debt finance to achieve its business objectives. All of the Group's PFI/PPP/P3 investments have long term funding in place and do not need refinancing to meet their financial plans. The Group renewed its debt facilities in February 2012 and has a committed £100m revolving credit facility available until February 2015. This facility is utilised to make further acquisitions of new investments and there is a risk that it will not be possible to raise equity capital to pay down this facility either by way of tap issues or further C Share or New Ordinary issues. If this proves to be the case, the Group will either need to extend or refinance the facility or dispose of selected investments to enable it to meet its repayment obligations.

The Group and its PFI/PPP/P3 investments have a number of financial counterparties providing a range of facilities including debt funding, hedges, monoline insurance wrapping, bank deposit facilities, and insurance. Failure of a financial party could have a material effect on the Group depending on the nature of the service being provided and the current replacement cost of such a service, if available. The greatest risk is with the deposit banks where the Group and its investments have cash on short and medium term deposits. The Investment Adviser monitors this exposure across the portfolio to make sure there is no over-reliance on any single institution and that all counterparties have acceptable investment grade credit ratings.

The Group has limited foreign currency exposure at present, with three investments in Euros and two in Canadian dollars. This may change in the future depending on whether UK or non-UK investments are acquired. To date the Group has used a combination of balance sheet hedging, through multi-currency drawings under its credit facility or through rolling forward sales of the respective currency, and hedging prospective income on a short term basis through outright forward currency sales.

The Group is exposed to interest rate fluctuations, both on its borrowing and cash deposits. The PFI/PPP/P3 projects which are bank funded have fixed-rate or inflation-linked interest rate hedges in place on their borrowings for the life of the debt to minimise interest volatility. For other types of loan, such as bond issues, the debt has been issued on a fixed rate or inflation-linked basis for the full term of the instrument. It is possible, to some extent, to mitigate rate fluctuations on the cash deposits by selecting the deposit period. However in the current low interest rate economy, the PFI/PPP/P3 projects are not earning as much from their cash deposits as they were four years ago. This has impacted the valuation of the portfolio, since it is an inherent risk where options to mitigate are limited.

All of the projects within the portfolio have revenue linked either wholly or partially to inflation. To the extent possible, the operating costs, both financial (e.g. debt facilities) and operational (e.g. facilities management service contracts), have also been linked to inflation or fixed at the outset. The excess cashflow, or profitability, of these contracts is therefore also indirectly linked to inflation. With approximately 90% of the projects located in the UK, the Group has exposure to UK inflation such that for every 1.00% rise in UK RPI, the gross return on the portfolio rises by approximately 0.6%. The Company's valuation also assumes long-term inflation of 2.75% p.a. Since October 2009 UK RPI has been positive; however, if the UK were to enter an environment of falling inflation such that RPI was below 2.75% p.a. on average for the remainder of the current projects' lives, or deflation took hold for a sustained period, the valuation of the portfolio would be adversely impacted.

BOARD OF DIRECTORS



Left to right: Sarah Evans, Chris Russell, Graham Picken, John Hallam, Susie Farnon and Ian Russell CBE

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

MR GRAHAM PICKEN (64) – CHAIRMAN

Appointed to the Board 12 January 2006

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

Graham has no other listed company directorships.

MRS SARAH EVANS (58)

Appointed to the Board 9 June 2008

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

Other public company directorships (listed in London)*:

Crystal Amber Fund Limited (listed on AIM)

CQS Diversified Fund Limited

Harbourvest Senior Loans Europe Limited

BOARD OF DIRECTORS *(continued)*

MRS SALLY-ANN FARNON (53)

Appointed to the Board on 1 May 2013

Sally-Ann Farnon (known as Susie) (Guernsey), resident in Guernsey, is a fellow of the Institute of Chartered Accountants in England and Wales and qualified in 1983. She was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001 and Head of Audit KPMG Channel Islands from 1999. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of The States of Guernsey Audit Commission and The Guernsey Public Accounts Committee. She is Vice-Chairman of The Guernsey Financial Services Commission and a Non-Executive Director of a number of property and investment companies.

Other public company directorships

(listed in London unless noted otherwise)*:

Breedon Aggregates Limited (listed on AIM)

Cenkos Channel Islands Limited (listed on CISX)

Dexion Absolute Limited

Standard Life Investments Property and Income Trust Limited

MR JOHN HALLAM (64) – SENIOR INDEPENDENT DIRECTOR

Appointed to the Board 12 January 2006

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

Other public company directorships

(listed in London unless noted otherwise)*

BH Global Limited (listed on London, Bermuda and Dubai)

Dexion Absolute Limited

NB Distressed Debt (listed on SFM London)

NB Private Equity Partners Limited

(listed on SFM London and Amsterdam)

Partners Group Global Opportunities Limited (listed in Ireland)

MR CHRIS RUSSELL (64)

Appointed to the Board on 1 June 2010.

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

Other public company directorships

(listed in London unless noted otherwise)*:

JP Morgan Japan Smaller Companies Trust plc

Macau Property Opportunities Fund Limited

MR IAN RUSSELL (60)

Appointed to the Board on 1 May 2013

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

Other public company directorships

(listed in London unless noted otherwise)*:

Johnston Press plc

British Polythene Industries plc

Mercantile Investment Trust plc

British Assets Trust plc

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

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

REPORT OF THE DIRECTORS

The Directors present their report and accounts of the Group for the year to 31 March 2013.

PRINCIPAL ACTIVITY

The Company is an Authorised Closed-Ended Guernsey incorporated investment company. Its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange.

A review of the business during the year is contained in the Chairman's Statement and the Investment Adviser's Report.

RESULTS AND DISTRIBUTIONS

The results for the year are set out in the attached accounts. The Company has declared two interim dividends, relating to the year ended 31 March 2013 as follows:

- 3.425p declared on 15 November 2012, to shareholders on the register as at 23 November 2012, paid on 31 December 2012; and
- 3.575p declared on 21 February 2013, to shareholders on the register as at 1 March 2013, paid on 22 April 2013.

At the Annual General Meeting on 25 July 2012 shareholders renewed their approval to the Board, at its discretion, to offer a scrip dividend alternative. This alternative was offered to shareholders for both of the interim dividends declared for the year ended 31 March 2013. The Board is proposing to seek shareholder approval for renewal of the scrip authority at the Annual General Meeting on 23 July 2013.

GUERNSEY REGULATORY ENVIRONMENT

The Company is an Authorised Closed-Ended Investment Scheme and is subject to certain ongoing obligations to the Guernsey Financial Services Commission.

SHARE CAPITAL

Following the C Share conversion in April 2012 and the redemption and cancellation of the two Management Shares (following shareholder approval at the AGM in July 2012 as these are no longer required due to changes in Guernsey law since the Company was formed), the Company only has one class of share capital, Ordinary Shares, of which there were 1,116,360,139 in issue at 31 March 2013.

As a result of the scrip dividend alternative announced on 24 May 2012, the Company issued 1,496,645 new Ordinary Shares of 0.01p each in the Company, in lieu of the 3.5p dividend, to those shareholders who had elected to receive the same.

As a result of the scrip dividend alternative announced on 30 November 2012, the Company issued 3,044,058 new Ordinary Shares of 0.01p each in the Company, in lieu of the 3.425p dividend, to those shareholders who had elected to receive the same.

On 23 November 2012 and 17 December 2012, a total of 88,347,221 new Ordinary Shares were issued by way of tap issues at 119.0p and 119.5p respectively.

On 26 February 2013, the Company launched a New Ordinary Shares issue seeking to raise up to £167.3m, by way of a Placing, Open Offer and Offer for Subscription with a target size of 100 million Ordinary Shares and a maximum size of 140 million Ordinary Shares at an issue price of 119.5p per Ordinary Share. The issue was oversubscribed and £167.3m was raised (before issue costs).

In order to avoid paying a second interim dividend on the New Ordinary Shares shortly after they were issued, the Board decided to declare, and pay, the second interim dividend for 2013 earlier than usual. A scrip dividend alternative was offered, and as a result, the Company issued 3,891,968 new Ordinary Shares of 0.01p each in the Company, in lieu of the 3.575p dividend, to those shareholders who had elected to receive the same. As at 21 May 2013 there were 1,120,252,107 Ordinary Shares in issue.

DIRECTORS

The Directors who held office during the year to 31 March 2013 were:

G Picken
S Evans
J Hallam
C Russell

Biographical details of each of the Directors are shown on pages 41 and 42.

During the year the Directors were paid the following emoluments in the form of fees:

| Director | Total Fees |
|-----------|------------|
| G Picken | £60,000 |
| S Evans | £45,000 |
| J Hallam | £45,000 |
| C Russell | £40,000 |

The fees above include an additional £10,000 per director in respect of the additional work in relation to the New Ordinary Shares issue in March 2013. Mrs Evans also receives an additional £5,000 for work in connection to two Luxembourg subsidiaries.

Last year, following a review by the Remuneration Committee who retained the services of an independent consultant, Trust Associates, the Board proposed, and shareholders approved at the Annual General Meeting in July 2012, an increase in the fees for directors for the year to 31 March 2013 to bring them in line with directors of other listed companies of comparable, size, complexity and status. The consultant's report also recommended regular annual reviews rather than periodic updates. As a result, at the AGM to be held on 23 July 2013, the Board is seeking approval of the Remuneration Committee's recommendation to increase the directors' fees for routine matters to the following levels for the year to 31 March 2014; £52,500 (2013: £50,000) for the Chairman, £36,750 (2013: £35,000) for Mr Hallam, and £31,500 (2013: £30,000) each for Mrs Evans and Mr Russell. In addition, one director (currently Mrs Evans) acts as a director of the two Luxembourg subsidiaries and is paid an additional £5,000 p.a. for work in connection with those companies. As in previous years, should the Company require directors to work on specific corporate actions such as a further C Share or New Ordinary Share raising, an additional fee will be appropriately determined.

REPORT OF THE DIRECTORS (continued)

On 1 May 2013, the Board appointed two new additional directors to the Board, Mr Ian Russell, CBE, and Mrs Susie Farnon. The Board will also seek approval at the AGM in July for annual directors' fees for routine business of £31,500 for each of these directors in line with Mrs Sarah Evans and Mr Chris Russell. Like the other directors, they will also be entitled to fees for additional specific corporate actions.

All fees paid to directors in the year must fall within the annual fee cap, currently set at £250,000. Based on the increase in the number of directors and the fee levels proposed above, the Board has decided to seek approval to increase the annual fee cap from £250,000 to £350,000.

INVESTMENT ADVISER AND OPERATOR

InfraRed Capital Partners Limited (the "Investment Adviser" or "IRCP") is authorised and regulated by the Financial Conduct Authority. IRCP acts as Investment Adviser to the Company and acts as Operator of the limited partnership which holds and manages the Group's investments. A summary of the contract between the Company, its subsidiaries and IRCP in respect of services provided is set out in Note 24 to the accounts.

IRCP was formerly called HSBC Specialist Fund Management Limited and was an indirect subsidiary of HSBC Holdings plc until the completion in April 2011 of the management buy-out by senior management. The HSBC Group retains a 19.9% indirect interest in IRCP.

The Management Engagement Committee met in February 2013 to consider the performance of, and services provided by, IRCP. This took the form of a written paper in which the Investment Adviser explained its activities in the year and summarised its performance against the agreed targets set by the Group as part of its annual budget and strategy approval process. The Committee discussed the paper with the Investment Adviser and took soundings from other service providers, shareholders and advisers.

After careful consideration of IRCP's performance, primarily in terms of advice, managing the portfolio, securing additional investments, and communicating effectively with stakeholders, the Committee recommended to the Board that it would be in the best interests of the Company that IRCP continue on the agreed contractual terms.

BROKER, ADMINISTRATOR AND COMPANY SECRETARY

The Company's sole broker during the year was Canaccord Genuity Limited.

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

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 21 May 2013, the Company has received notification in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5 of the following interests in 5% or more of the Company's Ordinary Shares to which voting rights are attached:

| | Number of Ordinary Shares Held | Percentage Held |
|--|--------------------------------|-----------------|
| Investec Wealth and Investment Limited | 94,677,613 | 8.45% |

DIRECTORS' INTERESTS

The Directors of the Company on 31 March 2013, and their interests in the Ordinary Shares of the Company, are shown in the table below.

| | 31 March 2013 Ordinary | 31 March 2012 Ordinary | C Shares |
|-----------------|---------------------------|---------------------------|----------|
| Graham Picken | 120,443 | 73,780 | 25,000 |
| Sarah Evans* | 249,680 | 224,530 | 28,596 |
| John Hallam | 117,736 | 73,780 | 25,000 |
| Chris Russell** | 93,895 | 47,091 | 25,001 |

* of which 181,665 were held by her spouse

** of which 6,930 were held by his family

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

DONATIONS

The Company made no political donations during the year and three Operating Subsidiaries made charitable donations totalling £3,250. A number of project companies in which the Group has an investment made small charitable donations in the year.

PAYMENT OF SUPPLIERS

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

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Adviser's Report on pages 12 to 21. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Financial Results on pages 22 to 26. In addition, Notes 1 to 4 and 21 to 22 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

SHARE REPURCHASES

No shares have been bought back in the year. The latest authority to purchase Ordinary Shares for cancellation was granted to the Directors on 25 July 2012 and expires on the date of the next Annual General Meeting. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming Annual General Meeting.

TREASURY SHARES

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

There are current no shares held in treasury.

The Board currently would only authorise the sale of shares from treasury at prices at or above the prevailing net asset value per share (plus costs of the relevant sale). If such a measure were to be implemented, this would result in a positive overall effect on the Company's net asset value.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

AUDITORS

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

By order of the Board
Authorised signatory
Dexion Capital (Guernsey) Ltd
Company Secretary
21 May 2013

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

CORPORATE GOVERNANCE

INTRODUCTION

The Board recognises the importance of a strong corporate governance culture that meets the listing requirements. The Board has put in place a framework for corporate governance which it believes is appropriate for an investment company. All Directors contribute to the Board discussions and debates. The Board believes in providing as much transparency for investors as is reasonably possible.

AIC

The Company is a member of the Association of Investment Companies (the "AIC") and has carefully considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and has decided to follow the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide") dated October 2010. The AIC Code and AIC Guide were updated in February 2013 to take into account the newly issued UK Corporate Governance Code, and the Company will use this revised Code for the current financial year to March 2014.

On 22 January 2013, the Financial Reporting Council provided the AIC with an updated endorsement letter to cover the latest edition of the AIC Code. The endorsement confirms that the current AIC Code fully meets, for investment company boards, their obligations in relation to the UK Corporate Governance Code and paragraph LR9.8.6 of the Listing Rules.

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

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function.

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

GUERNSEY REGULATORY ENVIRONMENT

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

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

THE BOARD

Disclosure under Principle 5 of the AIC Code

Following the appointment of two new directors with effect from 1 May 2013 the Board currently consists of six non-executive Directors. In accordance with Principle 2 of the AIC Code all of the non-executives are independent of the Investment Adviser.

The Chairman, Mr Picken, met the independence criteria of the AIC Code Principle 1 upon appointment and has continued to meet this condition throughout his term of service. Although not a requirement of the AIC Code, in accordance with guidance in Principle 1, the Board has a Senior Independent Director, Mr Hallam, who was appointed as Senior Independent Director on 11 February 2010. Being non-executive Directors, no Director has a service contract with the Company.

The Articles of Incorporation currently provide that at least one third of the Directors retire by rotation at each annual general meeting. If their number is not three or a multiple of three, the number nearest to, but not exceeding, one third, shall retire from office. In accordance with Principle 3 of the AIC Code, all six Directors intend to retire and offer themselves for election or re-election at the forthcoming AGM in July.

The Board believes that long serving Directors should not be automatically prevented from forming part of an independent majority of the Board upon reaching nine years' service. In accordance with Principle 4 of the Code, if a Director has served more than nine years, the Board will consider the issue of independence carefully on an annual basis as part of the Board self-evaluation and will disclose its conclusions in the Directors' Report.

As the Company was formed in 2006 no Director has yet served for nine years or more. A Director who retires at an annual general meeting may, if willing to act, be reappointed. The Directors are not subject to automatic re-appointment.

Following the appointment of the two new directors, the Board believes that the balance of skills, gender, experience and knowledge, coupled with the mixed length of service, provides for a sound base from which the interests of investors will be served to a high standard.

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

The Board recommends the re-election of each Director and supporting biographies, including length of service, are disclosed on pages 41 to 42 of this annual report, together with a list of other public company directorships for each Director.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Investment Adviser, the Secretary and the Company's Broker. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company that should be brought to the attention of the Directors. The Directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The attendance record of Directors for the year to 31 March 2013 is set out below:

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

During the year a further 13 ad hoc Board/Committee meetings were held to deal with matters substantially of an administrative nature and these were attended by those directors available and outside the UK at the time. In addition, there were four meetings to discuss and approve the New Ordinary Shares issue which was launched in February and completed in March 2013.

As previously mentioned, the Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. The two new Directors appointed to the Board have already undertaken an induction process and will be available to meet Shareholders upon request.

The Board considers agenda items laid out in the notice and agenda of meeting which are formally circulated to the Board in advance of the meeting as part of the Board papers. Directors may request any agenda items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The Board constantly considers the Company's strategy with regard to market conditions and feedback from shareholders. The investment strategy, which is set out in the Company's latest prospectus, is reviewed regularly with the Investment Adviser and during the year, there was also a Board meeting in September 2012 dedicated to this purpose. All Directors attended.

The primary focus at Board meetings is a review of investment performance and associated matters such as marketing/investor relations, risk management, gearing, general administration and compliance, peer group information and industry issues.

PERFORMANCE EVALUATION

As noted in last year's report, the Board engaged Trust Associates in November 2011 to conduct an external evaluation of the Board in relation to its skills and workings in accordance with Principle 7 of the AIC Code. The results of this evaluation process were presented to and discussed by the Board and it was agreed that the composition of the Board and its Committees reflected a suitable mix of skills and experience, and that the Board, as a whole, and its Committees were functioning effectively.

Given the growth in size of the Group's investment portfolio over the last 2 years, the Board decided that it would be in shareholders' best interests to recruit additional directors to strengthen the Board further by adding appropriate skills and experience, and to facilitate succession planning. In the autumn of 2012 it engaged Trust Associates to conduct a search for suitable candidates.

This process involved:

- Agreeing a set of search criteria in relation to skills, knowledge, and residency that were appropriate for both strengthening the Board and succession planning;
- Creating a long-list of potential candidates (with some names supplied by the Investment Adviser);
- The Nomination Committee reviewing and agreeing which candidates should be approached;
- Trust Associates contacting preferred candidates and conducting screening interviews;
- The Nomination Committee shortlisting candidates for further interview, with one or more of the Directors being present;
- Each candidate being given the opportunity to meet the Investment Adviser;
- After deliberation, and sometimes a second interview, the final candidates being chosen by the Nomination Committee for appointment by the Board.

This process took four months to complete. In April 2013, the Company announced the appointment of two new Directors, Susie Farnon and Ian Russell, whose summary biographic details are on pages 41 and 42.

As part of a programme of training, and for good governance, all of the Directors of the Board, including the two new Directors, have undertaken formal anti-money laundering and anti-bribery training during the last 12 months.

The Board evaluates its performance and considers the tenure and independence of each Director on an annual basis. The annual evaluation for the year ended 31 March 2013 has been completed by the Chairman and took the form of one to one interviews with each Director holding office in the year. For the evaluation of the Chairman, the Senior Independent Director discussed the results of a questionnaire with the Chairman following consultation with the other Directors.

The Board believes that the composition of the Board and its Committees reflected a suitable mix of skills and experience, and that the Board, as a whole, and its Committees functioned effectively during the last 12 months.

COMMITTEES OF THE BOARD

The committees of the Board are the Audit Committee, the Remuneration Committee, the Nomination Committee, and a Management Engagement Committee. Terms of reference for each Committee have been approved by the Board.

The Chairman and members of each committee as at 31 March 2013 are as follows:

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

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

Audit Committee

The Audit Committee has been in operation throughout the year. The Audit Committee, chaired by Mr J Hallam, operates within clearly defined terms of reference and comprises all the Directors except for Mr G Picken. It met four times in the year to 31 March 2013.

DELEGATION OF RESPONSIBILITIES

The Board has delegated the following areas of responsibility.

The day-to-day administration of the Company has been delegated to Dexion Capital (Guernsey) Ltd in its capacity as Company Secretary and Administrator.

The Investment Adviser has two roles, Adviser to the Company and Operator of the Group's limited partnership which owns the Group's underlying investments.

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

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

The main duties of the Audit Committee are:

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

The external auditors and the third party valuation expert are invited to attend the Audit Committee meetings at which the annual and interim accounts are considered and at which they have the opportunity to meet with the Committee without representatives of the Investment Adviser being present.

After discussion with both the Investment Adviser and the external auditor, the Audit Committee determined that the key risk of misstatement of the Group's financial statements related to the valuation of investments and finance receivables at fair value through profit and loss, in the context of the judgements necessary to evaluate current market values.

As outlined in Note 4 to the financial statements, the total carrying value of financial assets at fair value at 31 March 2013 was £3.1 billion. Market quotations are not available for these financial assets such that their valuation is undertaken using a discounted cash flow methodology. This requires a series of material judgements to be made as further explained in Note 3 to the financial statements.

The valuation process and methodology were discussed with the Investment Adviser during the year and with the auditor at the time at which the Audit Committee reviewed and agreed the auditors' Group audit plan, when the auditor reviewed the half year interim financial statements in November 2012 and also at the conclusion of the audit of the financial statements. The Investment Adviser carries out a valuation semi-annually and provides a detailed valuation report to the Company.

The Audit Committee reviewed the Investment Adviser's report, in conjunction with a report and opinion on the valuation from a third party valuation expert. The Investment Adviser confirmed to the Audit Committee that the valuation methodology had been applied consistently during the year and that neither the auditor's nor the third party valuation expert's work had identified any errors or inconsistencies that were material in the context of the financial statements as a whole.

In particular the Audit Committee considered in detail the reduction of 0.2% in the discount rate applied in the valuation. The Investment Adviser explained this was as a consequence of increased competition in the secondary market for social and transportation infrastructure assets, which had been seen during bidding and general market activity. This was also corroborated by the third party valuation expert.

The auditor explained the results of their review of the valuations, including their challenge of management's underlying cash flow projections, the economic assumptions and discount rates. On the basis of their audit work there were no adjustments proposed that were material in the context of the financial statements as a whole.

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

Appointment of the External Auditors

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

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

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. In order to safeguard auditor independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by the external auditors do not conflict with their statutory audit responsibilities.

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

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to the level of non-audit fees. Total fees paid amounted to £0.7m for the year ended 31 March 2013 of which £0.3m related to audit and audit related services to the Group, £0.2m related to audit of the Group's project subsidiaries and other audit related services, and £0.2m was in respect of taxation advisory and non-audit services.

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

To fulfil its responsibility regarding the independence of the external auditors, the audit committee considered:

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

To assess the effectiveness of the external auditors, the committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- reports highlighting the major issues that arose during the course of the audit; and
- feedback from the Investment Adviser evaluating the performance of the audit team.

The audit committee is satisfied with KPMG's effectiveness and independence as auditor having considered the degree of diligence and professional scepticism demonstrated by them. As such, the committee has not considered it necessary this year to conduct a tender process for the appointment of its auditors. Having carried out the review described above and having satisfied itself that the external auditors remain independent and effective, the audit committee has recommended to the Board that KPMG be reappointed as auditor for the year ending 31 March 2014.

Nomination Committee

The main terms of reference of the Committee are:

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

The Nomination Committee has met twice in the year to 31 March 2013 (with a subsequent meeting in April in relation to recruitment) and, as highlighted above, recommended the recruitment of two additional directors to the Board in order to enhance the current composition of the Board and facilitate succession planning.

Remuneration Committee

The terms of reference of the Committee are to determine and agree the Board policy for the remuneration of the directors of the Company, including the approval of any ad-hoc payments in respect of additional corporate work required (e.g. for the work involved with the New Ordinary Shares issue).

Remuneration Policy

The Remuneration Committee has received independent professional advice in respect of their roles, responsibilities and fees.

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

- No service contracts with the Company;
- No long-term incentive schemes;
- No options or similar performance incentives.

The Directors' remuneration shall:

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

The Remuneration Committee met twice during the period to 31 March 2013 to consider the remuneration of the new directors as well as for all the directors for the year to 31 March 2014.

The Committee has recommended that the fees are increased for the coming year in line with the Trust Associates previous recommendation and the Board has approved this increase in annual fees payable as set out in the Directors' Report. The Board has decided to seek shareholder approval on these fees at the AGM in July 2013.

Management Engagement Committee

The terms of reference of this committee are to review the relationships between the Company and its main service providers, including their performance, compliance with their contracts, and levels of fees paid. Recommendations from the Committee's review are given to the Board for consideration and action.

The Management Engagement Committee met once in the year to 31 March 2013, and reviewed the performance of the key service providers to the Group and the Company. No material weaknesses were identified, some recommendations were conveyed to certain providers, and the recommendation to the Board was that the current arrangements are appropriate and provide good quality services and advice to the Company and the Group.

All Terms of Reference for Committees are available from the Company Secretary upon request. In addition, the Board has decided that they should be added to the Company's website and this process is underway.

INTERNAL CONTROLS

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

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

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

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

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

The Board recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss, and relies on the operating controls established by both the Company Administrator and the Investment Adviser.

As noted on page 4, the Board has decided for good governance to engage a third-party assurance provider to conduct a review of the Company's valuation process, as performed by the Investment Adviser, as this involves a number of procedures and judgements, which might benefit from exceptional scrutiny.

The Board intends to consider on a periodic basis whether further third party assurance is appropriate but only in a specific context.

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

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

RELATIONS WITH SHAREHOLDERS – AIC CODE PRINCIPLE 19

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Investment Adviser produces a quarterly factsheet which is available on the Company's website. Senior members of the Investment Adviser make themselves available at all reasonable times to meet with principal shareholders and key sector analysts.

Feedback from these meetings is provided to the Board on a regular basis. The Board is also kept fully informed of all relevant market commentary on the Company by the Investment Adviser, the Company's Broker, and the Company's Financial PR agency.

By way of assisting shareholders to understand the portfolio of investments, we have previously held site visits and case studies are available from the Company's website www.hicl.com

In addition, the Chairman has held one on one meetings with shareholders in London and Edinburgh during the course of the year, facilitated by the Company's Broker. It is the Board's intention to continue to meet with Shareholders periodically so that open two-way communication on the development of the Company is maintained.

The Company reports formally to Shareholders twice a year and normally holds an Annual General Meeting in Guernsey in July. Shareholders receive written communications from the Company either with documents enclosed or to notify them of new information available to view on the Company's website.

Results of Extraordinary and Annual General Meetings are announced by the Company promptly after the relevant meeting. Additionally, the Interim Management Statements and the current information provided to eligible Shareholders on an ongoing basis through the Company's website assist in keeping Shareholders informed. The Secretary and Registrar monitor the voting of the Shareholders and proxy voting is taken into consideration when votes are cast at the Annual General Meeting.

Shareholders may contact any of the Directors via the Company Secretary, whose contact details are found on page 108 of the report and accounts.

CORPORATE SOCIAL RESPONSIBILITY

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

As part of good practice and to mitigate risk, the Board has in place a set of Environmental, Social and Governance policies appropriate for a company investing in infrastructure assets, which conform to current good practice in relation to corporate responsibility.

The Company's Environmental, Social and Governance ("ESG") policies cover:

- how the Company interacts with stakeholders, including shareholders;
- what ESG considerations need to be made before a new investment is acquired; and
- how the current portfolio is managed by the Investment Adviser to promote and achieve good ESG practices.

The Investment Adviser is registered with the United Nations as agreeing to adopt and implement its Principles for Responsible Investment ("PRI") which are widely recognised and highly regarded around the world. The UN PRI can be summarised as follows:

- To incorporate ESG issues into investment analysis and decision-making;
- To be active owners and incorporate ESG issues into ownership policies and practices;
- To seek appropriate disclosures on ESG issues by the entities in which the investments are made;
- To promote acceptance and implementation of PRI within the investment industry;
- To report on activities and progress towards implementing the PRI.

During the course of the last 12 months the Investment Adviser has been progressively incorporating the UN PRI within its business. As part of this process, it has also been using the Group's role as a shareholder in each project (and its rights to appoint a director on each project company board), to seek each project company to report against the Group's ESG policies. This is taking time to fully implement due to the number of stakeholders involved, but the Investment Adviser's team is making continued progress in this respect.

ANNUAL REVIEW

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

GOVERNANCE

The Board remains committed to the highest standards of corporate governance and keeps the Company's practices under review with respect to current best practice. Further details of how the Company complies with the various corporate governance standards are set out in the Corporate Governance report.

The Board wishes to be at the forefront of disclosure and reporting of the Company's performance and strategic intentions. The Board believe this is achieved by the detailed information provided as follows:

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

The Company's website (www.hicl.com) has further information on each investment and copies of all publications, together with all prospectuses and circulars since launch.

Disclosure of key sensitivities and risks has been developed by the Board working with the Investment Adviser and through dialogue with shareholders, the level and type of disclosure has been developed and refined in order to assist in a full and fair analysis of the Company and its investments.

MANAGING THE PORTFOLIO

Day-to-day management of the Group's portfolio is undertaken by the Investment Adviser in its capacity as Operator of the Partnership. The policies and procedures within each area of ESG are set out below as well as examples of where active implementation has occurred in projects in which the Group has an investment. These are not exhaustive but represent the types and variety of initiatives being undertaken throughout the Group. Where successful, certain initiatives have been implemented more widely across the Group's investments (e.g. utility smart meter installation).

Environmental

All of the Group's investments are in project companies who provide services to their clients and who subcontract the provision of these services to specialist facilities management companies.

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

The Investment Adviser's asset managers continue to take a proactive approach to work with both clients and key stakeholders to introduce new environmental initiatives in each project company where appropriate.

Examples of initiatives in the year:

- At the Fife Schools PFI project, upgraded lighting and control measures have been installed leading to a saving of a significant proportion of electricity as lighting is only activated in the affected areas when required.
- In a similar variation, West Middlesex Hospital has invested to upgrade its energy management systems. Taking advice from a third-party consultant, it has undertaken various initiatives such as installing LED lighting to reduce power consumption as well as variable speed drive motors in the air-conditioning system. The project has also renegotiated its waste collection service contract such that it now has a recycling component paid for by the service provider out of savings.
- At the Metropolitan Police Training Centre in Gravesend, an 11% reduction in energy consumption was achieved in 2012 through the installation of a voltage optimiser and occupancy sensors, as well as additional metering and the implementation of enhanced boiler management. The installation of photovoltaic panels also generated over 85,000 kwh of renewable electricity, thereby reducing the power requirements from the national grid.

Social and Ethical

The approach to social and ethical practices is similar to that for environmental in that each key contractor's policies are reviewed and their ongoing compliance to their stated policies reviewed on a regular basis. In addition, the Investment Adviser's team will ensure that the project companies in which the Group has investments are run appropriately in relation to the Group's social and ethical policies.

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

Examples of initiatives during the year:

- At Haverstock School in Camden, London, there has been extensive use of the communal facilities (e.g. assembly hall, sports hall) by the general public. The profit from these activities, above an agreed threshold, is shared with the local authority client.
- In Scotland, the Highland Schools project has allocated £5,000 per annum for various community initiatives. This year a specially adapted tricycle and several Nintendo Wii's were purchased specifically for disabled children in the community or those with learning and mobility issues. These are not just 'toys', but an integral part of special learning programmes.

- At the Ministry of Defence building in Northwood, the project company and its FM service provider have been working closely with the client to build closer relationships with the local community in contrast to the perceptions that might exist with any high security facility. Initiatives include a programme to link with the local tradesmen/businesses such that the project can 'give' something to the local community through local procurement where feasible.
- 2012 was the year of the London Olympics and Paralympics and to commemorate the fact that Stoke Mandeville Hospital in Buckinghamshire is the home of the Paralympic movement, the project company and facilities management company jointly funded improved landscaping of the main entrance roundabout featuring a sculpture based on the Olympic rings as its centrepiece. This was very visible when the four torch routes (from Cardiff, Edinburgh, Belfast and London) converged on Stoke Mandeville on 28 August 2012, and the four flames were combined to create the London 2012 Paralympic Flame.

Governance

For all the investments in the portfolio, the Group is entitled to appoint at least one director to the board of the project company and these positions have all been filled by a person recommended by the Group. Board meetings are not quorate without the Group's nominated director being present and this is part of the Investment Adviser's active management of the underlying investments. All directors' fees paid by the projects are for the benefit of the Group, and not the Investment Adviser.

All the project companies have detailed governance structures including those matters which are reserved for shareholders to determine, those items which directors determine and the routine day-to-day matters that are delegated to the project's general manager and his or her team.

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

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

With the enactment of the UK Bribery Act 2010, the Investment Adviser has developed appropriate policies and made sure that these are adopted by all project companies within which the Group has invested. This has been taken further by requesting that co-shareholder directors of the Group's overseas project companies also acknowledge their responsibilities, even though they are not legally bound by legislation.

MAKING NEW INVESTMENTS

The Investment Adviser has a detailed set of procedures and approval processes in relation to the making of new investments. These include appropriate ESG checks as part of the due diligence processes.

Environmental

As part of the detailed due diligence carried out by the Investment Adviser and the advisers, the history of the investment in relation to the Company's environmental policies will be assessed. Key contractors and service providers are analysed to check they have appropriate policies in place and that there have been no breaches.

Where it is not possible to get comfortable with either a key contractor's environmental record or the project's environmental performance to date, the investment will not be made. There were no circumstances in the year where this was the case.

Social and Ethical

The approach to social and ethical practices is similar to that for environmental in that each key contractor's policies will be reviewed as part of the due diligence process. The trading history of the investment will also be reviewed to ensure compliance with the Group's social and ethical policies.

All acquisitions made during the year were subject to these reviews and checks and no material matters were identified.

Governance

With regard to new equity investments, the Investment Adviser normally seeks, as a minimum requirement, board representation on the underlying investment company, with appropriate voting rights and reserved matters to ensure it will be possible to manage the investment and achieve the projected returns. It is unlikely that a new investment will be made where this level of control and influence is not achievable. In the year to 31 March 2013, all investment opportunities came with appropriate Board representation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HICL INFRASTRUCTURE COMPANY LIMITED

We have audited the Group financial statements of HICL Infrastructure Company Limited (the "Company", and together with its subsidiaries, the "Group") for the year ended 31 March 2013 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

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 Statement of Directors' Responsibilities set out on page 46, 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 (APB'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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. 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 March 2013 and of the Group's profit for the year then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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. We have nothing to report in respect of this review.

Steven D. Stormonth
For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
20 New Street
St Peter Port
Guernsey
GY1 4AN

21 May 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2013

| | | Year ended 31 March 2013 | | | Year ended 31 March 2012 | | |
|--|------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|-------------------|
| | Note | Revenue £million | Capital £million | Total £million | Revenue £million | Capital £million | Total £million |
| Services revenue | 5 | 190.4 | – | 190.4 | 149.9 | – | 149.9 |
| Gains on finance receivables | 17 | 94.5 | 54.5 | 149.0 | 70.6 | 107.2 | 177.8 |
| Gains on investments | 6 | 48.1 | 20.0 | 68.1 | 29.3 | 20.8 | 50.1 |
| Total income | | 333.0 | 74.5 | 407.5 | 249.8 | 128.0 | 377.8 |
| Services costs | 7 | (169.2) | – | (169.2) | (130.0) | – | (130.0) |
| Administrative expenses | 8 | (20.0) | – | (20.0) | (17.4) | – | (17.4) |
| Profit before net finance costs and tax | | 143.8 | 74.5 | 218.3 | 102.4 | 128.0 | 230.4 |
| Finance costs | 9 | (101.5) | (62.4) | (163.9) | (82.4) | (69.5) | (151.9) |
| Finance income | 9 | 1.0 | – | 1.0 | 0.9 | 4.8 | 5.7 |
| Profit before tax | | 43.3 | 12.1 | 55.4 | 20.9 | 63.3 | 84.2 |
| Income tax credit/(expense) | 10a | 10.7 | 1.4 | 12.1 | 10.0 | (9.4) | 0.6 |
| Profit for the year | | 54.0 | 13.5 | 67.5 | 30.9 | 53.9 | 84.8 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | 50.2 | 15.0 | 65.2 | 29.5 | 53.3 | 82.8 |
| Non-controlling interests | | 3.8 | (1.5) | 2.3 | 1.4 | 0.6 | 2.0 |
| | | 54.0 | 13.5 | 67.5 | 30.9 | 53.9 | 84.8 |

Earnings per share – basic and diluted (pence)

11

7.3

13.1

Supplementary information has been provided analysing the income statement between those items of a revenue nature and those of a capital nature, in order to better reflect the Consolidated Group's activities as an investment company. See Note 2 (a) to the consolidated financial statements for the definition of revenue and capital items.

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

CONSOLIDATED BALANCE SHEET

as at 31 March 2013

| | Note | 31 March 2013 £million | 31 March 2012 £million |
|--|------|---------------------------|---------------------------|
| Non-current assets | | | |
| Investments at fair value through profit or loss | 15 | 670.5 | 524.3 |
| Finance receivables at fair value through profit or loss | 17 | 2,435.0 | 1,739.4 |
| Intangible assets | 14 | 420.7 | 375.2 |
| Deferred tax assets | 10c | 153.4 | 109.7 |
| Total non-current assets | | 3,679.6 | 2,748.6 |
| Current assets | | | |
| Trade and other receivables | 18 | 26.6 | 29.2 |
| Other financial assets | | 0.8 | – |
| Finance receivables at fair value through profit or loss | 17 | 40.2 | 31.2 |
| Cash and cash equivalents | 19 | 326.6 | 373.7 |
| Total current assets | | 394.2 | 434.1 |
| Total assets | | 4,073.8 | 3,182.7 |
| Current liabilities | | | |
| Trade and other payables | 20 | (61.3) | (48.1) |
| Other current financial liabilities | | (0.5) | – |
| Current tax liabilities | | (1.6) | (1.4) |
| Loans and borrowings | 21 | (79.5) | (191.4) |
| Total current liabilities | | (142.9) | (240.9) |
| Non-current liabilities | | | |
| Loans and borrowings | 21 | (1,871.4) | (1,409.9) |
| Other financial liabilities (fair value of derivatives) | 22 | (452.2) | (259.9) |
| Deferred tax liabilities | 10c | (287.6) | (238.7) |
| Total non-current liabilities | | (2,611.2) | (1,908.5) |
| Total liabilities | | (2,754.1) | (2,149.4) |
| Net assets | | 1,319.7 | 1,033.3 |
| Equity | | | |
| Ordinary Share capital | 23 | 0.1 | – |
| C Share capital | 23 | – | – |
| Share premium | 23 | 992.4 | 717.7 |
| Retained reserves | | 318.8 | 307.2 |
| Total equity attributable to equity holders of the parent | | 1,311.3 | 1,024.9 |
| Non-controlling interests | | 8.4 | 8.4 |
| Total equity | | 1,319.7 | 1,033.3 |
| Net assets per Ordinary Share (pence) | 13 | 117.9 | 117.0 |
| Net assets per C Share (pence) | | – | 98.7 |

The accompanying Notes are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 21 May 2013, and signed on its behalf by:



J Hallam
Director



G Picken
Director

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 March 2013

Year ended 31 March 2013

| | Attributable to equity holders of the parent | | | Non-controlling interests | Total equity |
|---|--|--------------------------------------|---|---------------------------|----------------|
| | Share capital and share premium <i>£million</i> | Retained reserves <i>£million</i> | Total shareholders' equity <i>£million</i> | | |
| Shareholders' equity at beginning of year | 717.7 | 307.2 | 1,024.9 | 8.4 | 1,033.3 |
| Profit for the year | – | 65.2 | 65.2 | 2.3 | 67.5 |
| Distributions paid to Company shareholders | – | (53.6) | (53.6) | – | (53.6) |
| Distributions paid to non-controlling interests | – | – | – | (2.3) | (2.3) |
| Ordinary Shares issued | 278.2 | – | 278.2 | – | 278.2 |
| Costs of Ordinary Share issue | (3.4) | – | (3.4) | – | (3.4) |
| Shareholders' equity at end of year | 992.5 | 318.8 | 1,311.3 | 8.4 | 1,319.7 |

Year ended 31 March 2012

| | Attributable to equity holders of the parent | | | Non-controlling interests | Total equity |
|---|--|--------------------------------------|---|---------------------------|----------------|
| | Share capital and share premium <i>£million</i> | Retained reserves <i>£million</i> | Total shareholders' equity <i>£million</i> | | |
| Shareholders' equity at beginning of year | 390.7 | 266.3 | 657.0 | 9.9 | 666.9 |
| Profit for the year | – | 82.8 | 82.8 | 2.0 | 84.8 |
| Distributions paid to Company shareholders | – | (41.9) | (41.9) | – | (41.9) |
| Distributions paid to non-controlling interests | – | – | – | (3.5) | (3.5) |
| C Shares issued | 250.0 | – | 250.0 | – | 250.0 |
| Costs of C Share issue | (3.2) | – | (3.2) | – | (3.2) |
| Ordinary Shares issued | 80.9 | – | 80.9 | – | 80.9 |
| Costs of Ordinary Share issue | (0.7) | – | (0.7) | – | (0.7) |
| Shareholders' equity at end of year | 717.7 | 307.2 | 1,024.9 | 8.4 | 1,033.3 |

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2013

| | Year ended 31 March 2013 £million | Year ended 31 March 2012 £million |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before tax | 55.4 | 84.2 |
| Adjustments for: | | |
| Gains on investments | (68.1) | (50.1) |
| Gains on finance receivables | (149.0) | (177.8) |
| Interest payable and similar charges | 94.0 | 82.4 |
| Changes in fair value of derivatives | 69.9 | 64.7 |
| Operator acquisition investment fees | 1.7 | 2.4 |
| Interest income | (1.0) | (0.9) |
| Amortisation of intangible assets | 17.6 | 13.5 |
| Operating cash flow before changes in working capital | 20.5 | 18.4 |
| Changes in working capital: | | |
| (Increase)/Decrease in receivables | 0.6 | 3.1 |
| (Decrease)/Increase in payables | (1.5) | 0.5 |
| Cash flow from operations | 19.6 | 22.0 |
| Interest received on bank deposits and finance receivables | 1.0 | 0.9 |
| Cash received from finance receivables | 134.3 | 99.9 |
| Interest paid | (81.4) | (85.1) |
| Corporation tax paid | (0.6) | (0.2) |
| Interest received on investments | 38.9 | 18.7 |
| Dividends received | 12.9 | 9.7 |
| Fees and other operating income | 6.4 | 1.3 |
| Loanstock and equity repayments received | 1.6 | 31.0 |
| Net cash from operating activities | 132.7 | 98.2 |
| Cash flows from investing activities | | |
| Proceeds from disposal of investments | 5.3 | – |
| Purchases of investments | (188.1) | (216.9) |
| Acquisition of subsidiaries net of cash acquired (<i>Note 16a</i>) | (54.6) | (15.9) |
| Net cash used in investing activities | (237.4) | (232.8) |
| Cash flows from financing activities | | |
| Proceeds from issue of share capital | 270.1 | 320.9 |
| Proceeds from issue of loans and borrowings | 64.5 | 183.2 |
| Repayment of loans and borrowings | (224.9) | (74.7) |
| Distributions paid to Company shareholders | (48.1) | (36.8) |
| Distributions paid to non-controlling interests | (2.4) | (3.4) |
| Net cash from financing activities | 59.2 | 389.2 |
| Net increase in cash and cash equivalents | (45.5) | 254.6 |
| Cash and cash equivalents at beginning of year | 373.7 | 114.9 |
| Exchange gains on cash | (1.6) | 4.2 |
| Cash and cash equivalents at end of year | 326.6 | 373.7 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2013

1. REPORTING ENTITY

HICL Infrastructure Company Limited (the “Company”) is a company domiciled in Guernsey, Channel Islands, whose shares are publicly traded on the London Stock Exchange. The consolidated financial statements of the Company as at and for the year ended 31 March 2013 comprise the Company and its subsidiaries (together referred to as the “Consolidated Group”). The Consolidated Group invests in infrastructure projects in the UK, Canada and Europe.

Of the Consolidated Group’s portfolio of 79 investments at 31 March 2013, 54 have been accounted for as investments (the “Entity Investments”) in accordance with the accounting policies set out in parts (b) and (d) of Note 2. The 25 remaining investments are deemed to be subsidiaries of the Company (the “Operating Subsidiaries”), and are therefore treated as business combinations as described in parts (b) and (c) of Note 2. Certain items of the accounting policies apply only to the Operating Subsidiaries. Where applicable, this is noted in the relevant accounting policy note.

2. KEY ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 May 2013.

The consolidated financial statements which give a true and fair view have been prepared in compliance with the Companies (Guernsey) Law, 2008 and in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) using the historical cost basis, except that the following assets and liabilities are stated at their fair values: derivative financial instruments and financial instruments classified at fair value through profit or loss. The accounting policies have been applied consistently. The consolidated financial statements are presented in sterling, which is the Company’s functional currency.

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

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Adviser’s Report on pages 12 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Results on pages 22 to 26. In addition, Notes 1 to 4 and 21 to 22 of the financial statements include the Group’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that year or in the period of the revision and future periods if the revision affects both current and future periods. Note 3 shows critical accounting judgements, estimates and assumptions.

Supplementary information has been provided analysing the income statement between those items of a revenue nature and those of a capital nature, in order to better reflect the Consolidated Group’s activities as an investment company. Those items of income and expenditure which relate to the interest and dividend yield of investments and annual operating and interest expenditure are shown as “revenue”. Those items of income and expenditure which arise from changes in the fair value of investments, foreign exchange movements, finance receivables and derivative financial instruments are recognised as “capital”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

2. KEY ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

New standards effective for the current year

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2012 and have been adopted with no material impact on the Group's financial statements:

- IFRS 7 'Financial Instruments – Disclosures'. The amendment introduces new requirements about transfers of financial assets including disclosure for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.
- IAS 12 'Income Taxes'. The amendment introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 'Investment Property'.
- IFRS 1 'First Time Adoption of IFRS'. This change adds an exemption that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation.

Standards not yet applied

In October 2012 revised IFRS standards were issued (Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27) to address the consolidation of investments held by investment companies. These revised accounting standards are expected to require the Group in the future to prepare IFRS financial statements which do not consolidate subsidiaries in a similar manner to the Group's current pro-forma Investment basis tables. The Group expects that these revised standards will apply to the Group and anticipate adoption of these standards in respect of the year ending March 2014 following their official adoption by the EU.

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

- IFRS 7 'Financial Instruments: Disclosures';
- IFRS 1 'First-time Adoption of IFRS';
- IAS 1 'Presentation of Financial Statements';
- Annual Improvements IFRS 2009-2011 cycle;
- IFRS 9 'Financial Instruments';
- IFRS 13 'Fair Value Measurement';
- IAS 27 'Separate Financial Statements'; and
- IAS 28 'Investments in Associates'.

(b) Basis of consolidation

The consolidated financial statements of the Consolidated Group include the financial statements of the Company and its subsidiaries up to 31 March 2013. Subsidiaries are those entities controlled by the Company. 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 as defined in IAS 27 'Consolidated and Separate Financial Statements'. The financial statements of subsidiaries are included in the consolidated financial statements on a line by line basis from the date that control commences until the date control ceases. Nineteen of the twenty-five Operating Subsidiaries have a different statutory financial reporting date to the Company, being either 31 December or 31 January. Their results for the year to 31 March are included by reference to management accounts.

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

Joint ventures are those entities over which the Company has joint control as defined by IAS 31 'Interests in Joint Ventures'. By virtue of the Company's status as an investment fund and the exemption provided by IAS 31.1, investments in such entities are designated upon initial recognition to be accounted for at fair value through profit or loss.

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

2. KEY ACCOUNTING POLICIES *(continued)*

(c) **Acquisition of subsidiaries**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Consolidated Group. 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. In assessing control, the Consolidated Group takes into consideration potential voting rights that are currently exercisable.

The Consolidated Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the profit and loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Consolidated Group incurs in conjunction with a business combination are expensed as incurred.

(d) **Financial instruments**

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

(i) **Non-derivative financial instruments**

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

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

Investments in equity and debt securities

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

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

Finance receivables

Finance receivables are recognised initially at fair value. Subsequent to initial recognition, finance receivables are measured at fair value using the discounted cash flows methodology, with changes recognised in the income statement as gains/(loss) on finance receivables as a capital item.

Finance receivables are designated at fair value through profit or loss because it eliminates or significantly reduces the accounting mismatch that would result from fair value movements in interest rate swaps.

Loans and borrowings

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

Other

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

2. KEY ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

(ii) Derivative financial instruments

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

(iii) Fair values

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

(iv) Effective interest

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

(e) Intangible assets

Intangible assets are recognised as part of a business combination if they are reliably measurable and separable from the acquired entity or give rise to other contractual/legal rights. Only one category of intangible asset has been recognised as part of a business combination to date, being the fair value of service concessions in Operating Subsidiaries as at the date of acquisition. These assets are being amortised over the life of the concessions concerned on a straight-line basis.

The accounting policies for intangible assets arising under IFRIC 12 are disclosed in part (k) of this Note.

(f) Impairment

(i) Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement.

(ii) Non-financial assets

The carrying amounts of the Consolidated Group's non-financial assets are reviewed at each reporting date to determine whether there is any evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would have been determined, net of applicable depreciation, if no impairment loss had been recognised.

(g) Share capital and share premium

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

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2. KEY ACCOUNTING POLICIES *(continued)*

(i) **Non-controlling interests**

The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interest in excess of its carrying value are allocated against the interest of the parent, except to the extent that the non-controlling shareholder has both a binding obligation and the ability to make an additional investment to cover the losses.

(j) **Revenue**

(i) **Services revenue**

Services revenue (in accordance with IFRIC 12), which relates solely to the Operating Subsidiaries, is comprised of the following components:

- revenues from the provision of facilities management services to Private Finance Initiative or Public Private Partnerships (“PFI/PPP/P3”) projects calculated as the fair value of services provided (see Note k(i));
- the fair value of the consideration receivable on construction and upgrade services;
- availability fees and usage fees on PFI/PPP/P3 projects where the principal asset is accounted for as an intangible asset (see Note k(ii)); and
- third party revenues on PFI/PPP/P3 projects calculated as the fair value of services provided.

(ii) **Gains on finance receivables**

Gains on finance receivables relate solely to the Operating Subsidiaries.

Revenue

Gains on finance receivables included in the “revenue” category includes interest, dividends and other operating income relating to finance receivables designated at fair value through profit or loss.

Interest income arising on finance receivables at fair value through profit or loss is recognised in the income statement as it accrues, using the effective interest rate of the instrument concerned.

Dividends are recognised when the Consolidated Group's rights to receive payment have been established. That part of the dividend which has already been recognised in the fair value of finance receivable is deducted from the carrying amount of the relevant finance receivable.

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

Capital

Gains on finance receivables included in the capital category arise from the movement in the fair value of the finance receivables excluding the movements shown as revenue above.

(iii) **Gains on investments**

Gains on investments relates solely to the Entity Investments.

Revenue

Gains on investments included in the “revenue” category includes interest, dividends and other operating income relating to the Entity Investments.

Interest income arising on Entity Investments is recognised in the income statement as it accrues, using the effective interest rate of the instrument concerned as calculated at the acquisition or origination date.

Dividends are recognised when the Consolidated Group's rights to receive payment have been established. That part of the dividend which has already been recognised in the fair value of investments is deducted from the carrying amount of the relevant investment.

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

Capital

Gains on investments included in the “capital” category arise from the movement in the fair value of the Entity Investments excluding the movements shown as revenue above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

2. KEY ACCOUNTING POLICIES *(continued)*

(k) Service concessions

In accordance with IFRIC 12 and the various provisions of IFRS, the Consolidated Group has determined the appropriate treatment of the principal assets of, and income streams from, PPP and similar contracts within the Operating Subsidiaries. Results of all service concessions which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions:

(i) Service concessions treated as financial assets

Service concessions are determined to give rise to finance receivables where the Consolidated Group, as operator, has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the construction phase, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, 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.

During the operational stage, cash received in respect of the service concessions is allocated to services revenue (see part j(i) of this Note) based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method (see part j(ii) of this Note).

The finance receivables are designated as at fair value through profit or loss in accordance with part (d) of this Note. The fair values of the finance receivables are determined in a similar manner to that described in part (d)(i), with changes recognised in the income statement.

(ii) Service concessions treated as intangible assets

Service concessions are determined to give rise to intangible assets to the extent the Consolidated Group, as operator, has a contractual right to charge users of the public services. The intangible asset represents the construction cost of assets which give rise to the contractual right to charge. The intangible asset 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 these service concessions is recognised when the services are delivered.

(l) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(m) Income tax

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

Income tax on the profit for the year of the Operating Subsidiaries comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. For the UK Operating Subsidiaries deferred tax is measured at UK tax rates.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. KEY ACCOUNTING POLICIES *(continued)*

(n) Foreign exchange gains and losses

Transactions entered into by group entities in a currency other than their functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement as capital amounts.

(o) Segmental reporting

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

The financial information used by the CODM to allocate resources and manage the group presents the business as a single segment comprising a homogeneous portfolio and is prepared on an Investment basis. The Investment basis deconsolidates the subsidiary investments. A reconciliation of the consolidated financial statements to pro-forma statements on an Investment basis is shown within the Financial Results of the annual report.

(p) Expenses

All expenses and the profit share of the General Partner are accounted for on an accruals basis (refer to Note 24). The Consolidated Group's investment management and administration fees, finance costs (including interest on long-term borrowings) and all other expenses are charged through the consolidated income statement.

(q) Dividends

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

(r) Provisions

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

(s) Statement of compliance

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

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

(i) Investments at fair value through profit or loss

The Consolidated Group has a greater than 50% shareholding in certain entities (see Note 15), where in the opinion of the Directors it is unable to govern the financial and operating policies of the entities by virtue of agreements with the other shareholder(s). These entities are consequently not treated as subsidiaries, and instead they are accounted for as financial assets at fair value through profit or loss, as set out in Note 2(b).

By virtue of the Company's status as an investment fund and the exemption provided by IAS 28.1 and IAS 31.1, investments in associates and joint ventures are designated upon initial recognition to be accounted for at fair value through profit or loss.

Fair values for those investments for which a market quote is not available are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to relevant long term government bond yields, specific risks and the evidence of recent transactions. The Directors have satisfied themselves that the PFI/PPP/P3 investments share the same investment characteristics and as such constitute a single asset class for IFRS 7 disclosure purposes.

The carrying amount of the PFI/PPP/P3 investments would be an estimated £15.8 million higher or £15.2 million lower (2012: £13.1 million higher or £12.7 million lower) if the discount rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The weighted average discount rate for the PFI/PPP/P3 portfolio as at 31 March 2013 was 8.4% (2012: 8.6%).

The carrying amount of the PFI/PPP/P3 investments would be an estimated £10.2 million higher or £9.5 million lower (2012: £9.0 million higher or £8.3 million lower) if the inflation rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The UK inflation rate assumed from 31 March 2013 is 2.75% (2012: 2.75%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS *(continued)*

(i) Investments at fair value through profit or loss *(continued)*

The carrying amount of the PFI/PPP/P3 investments would be an estimated £4.5 million higher or £4.2 million lower (2012: £3.6 million higher or £3.6 million lower) if the deposit rates used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The UK deposit rates assumed for all future periods from 31 March 2013 were 1% to March 2017 and 3.50% thereafter (2012: 1% to March 2015 and 3.75% thereafter).

(ii) Finance receivables at fair value through profit or loss

Fair values are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to relevant long term government bond yields, specific risks and the evidence of recent transactions.

The carrying amount of finance receivables would be an estimated £62.6 million higher or £60.2 million lower (2012: £42.9 million higher or £41.3 million lower) if the discount rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The discount rates at 31 March 2013 were between 3.0% and 7.1% (2012: between 4.2% and 7.5%).

(iii) 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 the price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service agreement. Each subsidiary has been assessed to determine whether it falls within the scope of IFRIC 12. Following this review it has been determined that all twenty-five subsidiaries controlled at the year-end fall within this scope. Service concessions are determined to be finance receivables 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.

(iv) Intangible assets

Intangible assets represent fair value of service concessions for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. Fair values are determined using the income approach which discounts the expected cash flows attributable to the services portion of the service concessions acquired at an appropriate rate to arrive at fair values. In determining the appropriate discount rate, regard is had to relevant long term government bond yields and the specific risks of each project.

4. FINANCIAL INSTRUMENTS

Financial risk management

Financial risk is managed by the group on an investment basis; for the purposes of this Note, the group comprises the Company, its two wholly-owned Luxembourg subsidiaries (HICL Infrastructure 1 SARL and HICL Infrastructure 2 SARL), the English Limited Partnership (Infrastructure Investments Limited Partnership ("IILP")) and Infrastructure Investments Holdings Limited, and is referred to as the "Investment Group". The objective of the Investment Group's financial risk management is to manage and control the risk exposures of its investment portfolio. The Board of Directors has overall responsibility for overseeing the management of financial risks, however the review and management of financial risks are delegated to the Investment Adviser and the Operator of the group which has documented procedures designed to identify, monitor and manage the financial risks to which the Investment Group is exposed. This Note presents information about the group's exposure to financial risks, its objectives, policies and processes for managing risk and the group's management of its financial resources.

The Investment Group owns a portfolio of investments predominantly in the subordinated loanstock and ordinary equity of project finance companies. These companies are structured at the outset to minimise financial risks where possible, and the Investment Adviser and Operator primarily focus their risk management on the direct financial risks of acquiring and holding the portfolio but continue to monitor the indirect financial risks of the underlying projects through representation, where appropriate, on the Boards of the project companies and the receipt of regular financial and operational performance reports.

4. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk

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

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

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

The finance costs in the income statement would be an estimated £25.9 million higher or £26.2 million lower (2012: £18.5 million higher or £18.5 million lower) if the interest rates used in the fair value calculation of the interest rate swaps were to differ by 25 basis points.

Inflation risk

The group's project companies are generally structured so that contractual income and costs are either wholly or partially linked to specific inflation where possible to minimise the risks of mismatch between income and costs due to movements in inflation indexes. The Investment Group's overall cashflows vary with inflation, although they are not totally correlated as not all flows are indexed. The effects of these inflation changes do not always immediately flow through to the Investment Group's cashflows, particularly where a project's loanstock debt carries a fixed coupon and the inflation changes flow through by way of changes to dividends in future periods. The sensitivity of the portfolio valuation is shown in Note 3(i).

The finance costs in the income statement would be an estimated £24.5 million higher or £24.5 million lower (2012: £14.9 million higher or £14.9 million lower) if the RPI rates used in the fair value calculation of the inflation swaps were to differ by 25 basis points.

Market risk

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

Currency risk

The projects in which the group invests all conduct their business and pay interest, dividends and principal in sterling other than its investments in Dutch High Speed Rail, Cork School of Music and Irish Grouped Schools projects (comprising 8% of the portfolio by value), which conduct their business and pay their interest, dividends and principal in Euros and its investments in North West Anthony Henday P3 and Kicking Horse Canyon P3 projects (comprising 2% of the portfolio by value), which conduct their business and pay interest, dividends and principal in Canadian dollars. The group monitors its foreign exchange exposures using its near term and long term cash flow forecasts. Its policy is to use foreign exchange hedging to provide protection to the level of sterling distributions that the Investment Group aims to pay over the medium term, where considered appropriate. This may involve the use of forward exchange and other currency hedging contracts, as well as the use of Euro, Canadian and other currency denominated borrowings. The Investment Group at 31 March 2013 hedged its currency exposure through Euros and Canadian dollar forward contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

4. FINANCIAL INSTRUMENTS *(continued)*

Credit risk

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

The group's key direct counterparties are the project companies in which it makes investments. The Investment Group's near term cash flow forecasts are used to monitor the timing of cash receipts from project counterparties. Underlying to the cash flow forecast are project company cash flow models, which are regularly updated by project companies and provided to the Operator, for the purposes of demonstrating the projects' ability to pay interest and dividends based on a set of detailed assumptions. Many of the Investment Group's investment and subsidiary entities generally receive revenue from government departments, and public sector or local authority clients. Therefore a significant portion of the group's investments' revenue is with counterparties of good financial standing.

The group is also reliant on the project's subcontractors continuing to perform their service delivery obligations such that revenues to projects are not disrupted. The Investment Adviser has a subcontractor counterparty monitoring procedure in place. The credit standing of subcontractors is reviewed, and the risk of default estimated for each significant counterparty position. Monitoring is ongoing, and period end positions are reported to the Board on a quarterly basis. The Investment Group's largest credit risk exposure to a project at 31 March 2013 was to the Home Office project (8% of portfolio by value) and the largest subcontractor counterparty risk exposure was to subsidiaries of the Carillion group which provided facilities management services in respect of 15% of the portfolio by value.

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

As at 31 March 2013, the ageing of trade receivables past due but not impaired were as follows:

| | 31 March 2013 £million | 31 March 2012 £million |
|-------------------|---------------------------|---------------------------|
| 3 to 6 months due | 0.5 | 0.4 |
| Over 6 months due | 0.5 | 0.6 |
| | 1.0 | 1.0 |

At 31 March 2013 there were no loans and other receivables considered impaired (2012: £Nil) for the Consolidated Group.

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

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as these fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient financial resources and liquidity to meet its liabilities when due. The group ensures it maintains adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Investment Group's investments are predominantly funded by share capital and medium term debt funding.

The Investment Group's investments are generally in private companies in which there is no listed market and therefore such investment would take time to realise and there is no assurance that the valuations placed on the investments would be achieved from any such sale process.

The Investment Group's investments have borrowings which rank senior to the Investment Group's own investments into the companies. This senior debt is structured such that, under normal operating conditions, it will be repaid within the expected life of the projects. Debt raised by the investment companies from third parties is without recourse to the Investment Group.

The Investment Group's investments may include obligations to make future investment amounts. These obligations will typically be supported by standby letters of credit, issued by the Investment Group's bankers in favour of the senior lenders to the investment companies. Such subscription obligations are met from the Investment Group's cash resources when they fall due. Such obligations totalled £12.7 million (2012: £Nil) at the year end.

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

4. FINANCIAL INSTRUMENTS (continued)

| | Less than 1 year £million | Between 1 and 2 years £million | Between 2 and 5 years £million | More than 5 years £million |
|--|---------------------------------|--------------------------------------|--------------------------------------|----------------------------------|
| 31 March 2013 | | | | |
| Bank borrowings | 53.4 | 28.8 | 89.9 | 804.0 |
| Trade and other payables | 61.3 | – | – | – |
| Interest on bank borrowings | 50.0 | 48.8 | 146.4 | 485.6 |
| Other loans and borrowings | 28.1 | 30.7 | 104.5 | 915.5 |
| Interest on other loans and borrowings | 23.7 | 22.6 | 67.9 | 278.2 |
| Other financial liabilities | 62.6 | 61.8 | 137.8 | 190.0 |
| Total | 279.1 | 192.7 | 546.5 | 2,673.3 |
| 31 March 2012 | | | | |
| Bank borrowings | 165.3 | 21.4 | 70.0 | 649.2 |
| Trade and other payables | 48.1 | – | – | – |
| Interest on bank borrowings | 42.3 | 40.9 | 119.6 | 386.1 |
| Other loans and borrowings | 19.8 | 18.6 | 72.4 | 752.5 |
| Interest on other loans and borrowings | 19.4 | 19.2 | 60.3 | 234.0 |
| Other financial liabilities | 31.9 | 30.6 | 59.3 | 163.9 |
| Total | 326.8 | 130.7 | 381.6 | 2,185.7 |

Capital management

The Investment Group has a £100 million revolving acquisition facility of which £59.3 million was undrawn at year end. Further equity raisings are considered when debt drawings are at an appropriate level. The proceeds from the share issues are used to repay debt and to fund future investment commitments. In March 2013 the Company raised £167.3 million (before costs) in an equity capital raising, the net proceeds of which were on deposit at year end prior to repayment of the drawings under the Investment Group's £100 million revolving facility in April 2013.

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

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

| | 31 March 2013 £million | 31 March 2012 £million |
|-----------------------------------|---------------------------|---------------------------|
| Outstanding drawings | | |
| Bank borrowings | 27.9 | 141.3 |
| Letter of credit facility | 12.8 | – |
| | 40.7 | 141.3 |
| Adjusted Gross Asset Value | | |
| Portfolio valuation | 1,213.1 | 902.0 |
| Cash and cash equivalents | 172.9 | 267.9 |
| | 1,386.0 | 1,169.9 |
| Borrowing concentration | 2.9% | 12.1% |

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

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

- make market purchases of up to 14.99% per annum of its issued Ordinary Shares; and
- make tender offers for the Ordinary Shares.

There were no changes in the Investment Group's approach to capital management during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

4. FINANCIAL INSTRUMENTS *(continued)*

Fair value estimation

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

Non-derivative financial instruments

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

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

Derivative financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Consolidated Group is the current bid price. Note 2 discloses the methods used in determining fair values on a specific asset/liability basis. Where applicable, further information about the assumptions used in determining fair value is disclosed in the Notes specific to that asset or liability.

Classification of financial instruments

| | 31 March 2013 | 31 March 2012 |
|---|-----------------|-----------------|
| | <i>£million</i> | <i>£million</i> |
| Financial assets | | |
| Designated at fair value through profit or loss | | |
| Investment in Entity Investments | 670.5 | 524.3 |
| Operating Subsidiaries' financial assets | 2,475.2 | 1,770.6 |
| Financial assets at fair value | 3,145.7 | 2,294.9 |
| Loans and receivables | | |
| Other financial assets | 0.8 | – |
| Trade and other receivables | 26.6 | 29.2 |
| Cash and cash equivalents | 326.6 | 373.7 |
| Financial assets at amortised cost | 354.0 | 402.9 |
| Financial liabilities | | |
| Designated at fair value through profit or loss | | |
| Other financial liabilities (fair value of derivatives) | (452.2) | (259.9) |
| Financial liabilities at fair value | (452.2) | (259.9) |
| At amortised cost | | |
| Trade and other payables | (61.3) | (48.1) |
| Loans and borrowings | (1,950.9) | (1,601.3) |
| Financial liabilities at amortised cost | (2,012.2) | (1,649.4) |

The Directors believe that the carrying values of all financial instruments, except the fixed rate and RPI-linked borrowings, are not materially different to their fair values. See Note 21 for the comparison between fair values and the carrying values of the fixed rate and RPI-linked borrowings.

Secured loans and borrowings totalling £1,925.2 million (2012: £1,576.6 million) are secured by fixed and/or floating charges over the Consolidated Group's financial assets. The terms of these charges are generally of a form that are usual and customary to project finance borrowing and lending activities.

4. FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The fair value hierarchy is defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | As at 31 March 2013 | | | Total £million |
|--|---------------------|---------------------|---------------------|-------------------|
| | Level 1 £million | Level 2 £million | Level 3 £million | |
| Investments at fair value through profit or loss (Note 15) | – | – | 670.5 | 670.5 |
| Finance receivables at fair value through profit or loss (Note 17) | – | – | 2,475.2 | 2,475.2 |
| | – | – | 3,145.7 | 3,145.7 |
| Other financial liabilities (fair value of derivatives) (Note 22) | – | (452.2) | – | (452.2) |
| | – | (452.2) | – | (452.2) |
| | As at 31 March 2012 | | | Total £million |
| | Level 1 £million | Level 2 £million | Level 3 £million | |
| Investments at fair value through profit or loss (Note 15) | – | – | 524.3 | 524.3 |
| Finance receivables at fair value through profit or loss (Note 17) | – | – | 1,770.6 | 1,770.6 |
| | – | – | 2,294.9 | 2,294.9 |
| Other financial liabilities (fair value of derivatives) (Note 22) | – | (259.9) | – | (259.9) |
| | – | (259.9) | – | (259.9) |

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

Reconciliations of Level 3 assets from beginning balances to the ending balances, disclosing separately changes during the year are disclosed in Notes 15 and 17 respectively. Sensitivity analysis disclosing the effect of different economic assumptions on the fair value of the Level 3 assets are disclosed in Note 3.

5. SERVICES REVENUE

| | For year ended 31 March 2013 £million | For year ended 31 March 2012 £million |
|----------------------|---|---|
| Service revenue | 173.0 | 140.7 |
| Construction revenue | 16.7 | 8.5 |
| Other revenue | 0.7 | 0.7 |
| | 190.4 | 149.9 |

Revenue from 4 customers which each represent more than 10% of the Consolidated Group's total revenues provide approximately £100.6 million of revenue (2012: 62.9 million from 3 customers each representing more than 10% of the Consolidated Group's total revenues). The Consolidated Group has treated each Government entity and/or department as a separate customer.

All services revenue is derived from customers domiciled in the United Kingdom.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

6. GAINS ON INVESTMENTS

| | For the year ended 31 March 2013 | | | For the year ended 31 March 2012 | | |
|----------------------------------|-------------------------------------|----------------------------|--------------------------|-------------------------------------|----------------------------|--------------------------|
| | Revenue <i>£million</i> | Capital <i>£million</i> | Total <i>£million</i> | Revenue <i>£million</i> | Capital <i>£million</i> | Total <i>£million</i> |
| Interest from investments | 31.7 | – | 31.7 | 21.2 | – | 21.2 |
| Dividend income from investments | 9.9 | – | 9.9 | 6.7 | – | 6.7 |
| Fees and other operating income | 6.5 | – | 6.5 | 1.4 | – | 1.4 |
| Gains on investments (Note 15) | – | 20.0 | 20.0 | – | 20.8 | 20.8 |
| | 48.1 | 20.0 | 68.1 | 29.3 | 20.8 | 50.1 |

Included within the gain on valuation is an unrealised exchange gain of £2.1 million on the Consolidated Group's Euro and Canadian borrowings (2012: £0.2 million). The following exchange rates were used at the year end:

| | 31 March 2013 | 31 March 2012 |
|----------|---------------|---------------|
| Euro | 0.84 | 0.83 |
| Canadian | 0.65 | 0.63 |

7. SERVICES COSTS

| | For year ended 31 March 2013 <i>£million</i> | For year ended 31 March 2012 <i>£million</i> |
|---|--|--|
| Service and construction costs | 143.9 | 110.6 |
| Amortisation of intangibles (see Note 14) | 17.6 | 13.5 |
| Other costs | 7.7 | 5.9 |
| | 169.2 | 130.0 |

8. ADMINISTRATIVE EXPENSES

| | For year ended 31 March 2013 <i>£million</i> | For year ended 31 March 2012 <i>£million</i> |
|--|--|--|
| Fees payable to the Consolidated Group's auditors for the audit of the Consolidated Group accounts | 0.2 | 0.1 |
| Fees payable to the Consolidated Group's auditors and its associates for other services: | | |
| Audit of financial statements of Operating Subsidiaries of the Company | 0.2 | 0.2 |
| Audit-related assurance services | 0.1 | 0.1 |
| Taxation compliance services | 0.1 | – |
| Other Tax advisory services | 0.1 | – |
| Management fees | 3.6 | 2.6 |
| Operator fees (Note 24) | 11.2 | 8.6 |
| Investment fees (Note 24) | 1.8 | 2.5 |
| Directors' fees (Note 24) | 0.2 | 0.2 |
| Professional fees | 1.4 | 0.9 |
| Project bid costs | 0.2 | 0.7 |
| Other costs | 0.9 | 1.5 |
| | 20.0 | 17.4 |

In addition to the above an amount of £0.3 million (2012: £0.3 million) was paid to associates of the Consolidated Group's auditors in respect of audit and tax services provided to Entity Investments (and therefore not included within consolidated administrative expenses) and an amount of £47 thousand was paid to the auditor for audit assurance work on the capital raising in March 2013 – this amount is not included in Administrative expenses above as it is included as a Cost of Ordinary Share issue included in the Share premium account.

The Consolidated Group had no employees during the year.

9. NET FINANCE COSTS

| | For the year ended 31 March 2013 | | | For the year ended 31 March 2012 | | |
|--|-------------------------------------|---------------------|-------------------|-------------------------------------|---------------------|-------------------|
| | Revenue £million | Capital £million | Total £million | Revenue £million | Capital £million | Total £million |
| Interest expense: | | | | | | |
| Interest on bank loans and overdrafts | (58.4) | – | (58.4) | (40.4) | – | (40.4) |
| Interest and indexation on other loans | (42.0) | – | (42.0) | (39.1) | – | (39.1) |
| Other finance costs | (1.1) | 5.7 | 4.6 | (2.9) | (4.7) | (7.6) |
| Change in fair value of interest and inflation rate swaps | – | (68.1) | (68.1) | – | (64.8) | (64.8) |
| Total finance costs | (101.5) | (62.4) | (163.9) | (82.4) | (69.5) | (151.9) |
| Interest income: | | | | | | |
| Interest on bank deposits | 1.0 | – | 1.0 | 0.9 | – | 0.9 |
| Other finance income | – | – | – | – | 4.8 | 4.8 |
| Change in fair value of interest and inflation rate swaps | – | – | – | – | – | – |
| Total finance income | 1.0 | – | 1.0 | 0.9 | 4.8 | 5.7 |
| Net finance (costs)/income | (100.5) | (62.4) | (162.9) | (81.5) | (64.7) | (146.2) |

10. INCOME TAX

Under the current system of taxation in Guernsey, the Company itself is exempt from paying taxes on income, profits or capital gains. Therefore, income from investments is not subject to any further tax in Guernsey, although these investments will bear tax in the individual jurisdictions in which they operate.

The Company's Operating Subsidiaries are UK based and as a consequence are bound by UK tax legislation. Operating Subsidiaries in the UK have provided for UK corporation tax at the rate of 24% for current tax liabilities (2012: 26%) and 23% for deferred tax assets and liabilities (2012: 24%).

Changes in overseas tax rates

The Finance Act 2012 was enacted on 17 July 2012 to amend the UK corporation tax rate to 23% with effect from 1 April 2013. In addition, the UK Government announced in the 2013 Budget Statement further reductions of the rate to 21% and 20% by 1 April 2014 and 1 April 2015 respectively.

Other than the change to 23% from 1 April 2013, the effects of the announced changes are not reflected in the financial statements for the year ended 31 March 2013 as they have not yet been enacted however the impact would be a reduction in deferred tax assets and liabilities.

10A. INCOME TAX EXPENSE

| | For year ended 31 March 2013 £million | For year ended 31 March 2012 £million |
|---|---|---|
| Foreign current tax: | | |
| Foreign corporation tax on profits for the year | (1.3) | (0.3) |
| Total current tax credit/(expense) | (1.3) | (0.3) |
| Deferred tax: | | |
| Origination and reversal of temporary differences (Note 10d) | 13.4 | 0.9 |
| Total income tax credit in the consolidated income statement | 12.1 | 0.6 |

The income tax credit in the year of £12.1 million (2012: £0.6 million) is primarily due to movements in deferred tax. The main components of the deferred tax movement recognised in the profit or loss arises from a reduction in the UK corporation tax rate to 23% which has led to a re-measurement of the Consolidated Group's deferred tax asset and liability and adverse movements in the fair value of derivatives. The effect of the reduction in the UK corporation tax rate has resulted in a reduction in the deferred tax asset and liability and a corresponding tax credit. Further analysis of deferred tax movements recognised in the consolidated income statement is detailed in Note 10d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

10B. RECONCILIATION OF EFFECTIVE TAX RATE

| | For year ended 31 March 2013 <i>£million</i> | For year ended 31 March 2012 <i>£million</i> |
|---|--|--|
| Profit before taxation | 55.4 | 84.2 |
| Expected tax on profit at 0% (2012: 0%) | – | – |
| Different tax rates applied in overseas jurisdictions | 12.8 | 1.7 |
| Tax losses (utilised)/recognised | (0.7) | (1.1) |
| Total income tax credit for the year | 12.1 | 0.6 |

10C. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | As at 31 March 2013 | | | As at 31 March 2012 | | |
|---|----------------------------|---------------------------------|-------------------------|----------------------------|---------------------------------|-------------------------|
| | <i>Assets £million</i> | <i>Liabilities £million</i> | <i>Net £million</i> | <i>Assets £million</i> | <i>Liabilities £million</i> | <i>Net £million</i> |
| Finance receivables at fair value through profit or loss | 0.9 | (131.9) | (131.0) | 0.9 | (85.7) | (84.8) |
| Intangible assets | – | (98.0) | (98.0) | – | (91.0) | (91.0) |
| Subordinated debt | 16.5 | (1.3) | 15.2 | 15.0 | (1.3) | 13.7 |
| Other financial liabilities (fair value of derivatives) | 120.6 | (12.3) | 108.3 | 77.7 | (12.3) | 65.4 |
| Tax losses | 15.4 | – | 15.4 | 16.1 | – | 16.1 |
| Carrying value of finance receivable on acquisition where there is no available tax deduction | – | (44.1) | (44.1) | – | (48.4) | (48.4) |
| Net assets/(liabilities) | 153.4 | (287.6) | (134.2) | 109.7 | (238.7) | (129.0) |

10D. DEFERRED TAX MOVEMENTS

| | For the year ended 31 March 2013 | | | |
|---|---|--|--|---|
| | <i>Opening balance £million</i> | <i>Acquired in business combination £million</i> | <i>Recognised in profit or loss £million</i> | <i>Closing balance £million</i> |
| Finance receivables at fair value through profit or loss | (84.8) | (37.6) | (8.6) | (131.0) |
| Intangible assets | (91.0) | (14.5) | 7.5 | (98.0) |
| Subordinated debt | 13.7 | 2.6 | (1.1) | 15.2 |
| Other financial liabilities (fair value of derivatives) | 65.4 | 30.9 | 12.0 | 108.3 |
| Tax losses | 16.1 | – | (0.7) | 15.4 |
| Carrying value of finance receivable on acquisition where there is no available tax deduction | (48.4) | – | 4.3 | (44.1) |
| Other | – | – | – | – |
| | (129.0) | (18.6) | 13.4 | (134.2) |

10D. DEFERRED TAX MOVEMENTS *(continued)*

| | Opening balance <i>£million</i> | For the year ended 31 March 2012 Acquired in business combination <i>£million</i> | Recognised in profit or loss <i>£million</i> | Closing balance <i>£million</i> |
|--|---------------------------------------|---|---|---------------------------------------|
| Finance receivables at fair value through profit or loss | (21.9) | (39.6) | (23.3) | (84.8) |
| Intangible assets | (43.2) | (56.7) | 8.9 | (91.0) |
| Subordinated debt | 7.6 | 6.0 | 0.1 | 13.7 |
| Other financial liabilities (fair value of derivatives) | 8.3 | 44.5 | 12.6 | 65.4 |
| Tax losses | 4.6 | 12.6 | (1.1) | 16.1 |
| Carrying value of finance receivable on acquisition where there is no available tax deduction | (26.1) | (26.1) | 3.8 | (48.4) |
| Other | 0.1 | – | (0.1) | – |
| | (70.6) | (59.3) | 0.9 | (129.0) |

11. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of Ordinary Shares in issue during the year.

| | 2013 | 2012 |
|--|---------------|---------------|
| Profit attributable to equity holders of the Company | £65.2 million | £82.8 million |
| Weighted average number of Ordinary Shares in issue | 898.3 million | 633.4 million |
| Basic and diluted earnings per Ordinary Share | 7.3 pence | 13.1 pence |

Further details of shares issued in the year are set out in Note 23.

12. DIVIDENDS

| | For year ended 31 March 2013 <i>£million</i> | For year ended 31 March 2012 <i>£million</i> |
|---|--|--|
| Amounts recognised as distributions to equity holders during the year: | | |
| Second interim dividend for the year ended 31 March 2012 of 3.5p (2011: 3.425p) per share | 23.3 | 20.4 |
| Interim dividend for the year ended 31 March 2013 of 3.425p (2012: 3.35p) per share | 30.3 | 21.5 |
| | 53.6 | 41.9 |
| Second interim dividend for the year ended 31 March 2013 of 3.575p (2012: 3.5p) per share | 34.9 | 23.3 |

The second interim dividend was approved by the Board on 21 February 2013 and was paid on 22 April 2013 to shareholders on the register as at 1 March 2013. The second interim dividend was paid to shareholders as a cash payment or alternatively as a scrip dividend. The dividend has not been included as a liability at 31 March 2013.

The 2012 second interim dividend and the first 2013 interim dividend are included in the statement of changes in shareholder equity.

| | For year ended 31 March 2013 | For year ended 31 March 2012 |
|---|---------------------------------|---------------------------------|
| Interim dividend for the period ended September | 3.425p | 3.35p |
| Interim dividend for the period ended March | 3.575p | 3.50p |
| | 7.0p | 6.85p |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

13. NET ASSETS PER ORDINARY SHARE

| | 2013 <i>£million</i> | 2012 <i>£million</i> |
|---|-------------------------|-------------------------|
| Shareholders' equity at 31 March | 1,311.3 | 778.1 |
| Less: second interim dividend | (34.9)* | (23.3)† |
| | 1,276.4 | 754.8 |
| Number of shares at 31 March | 1,116.3 | 665.4 |
| Net assets per share after deducting second interim dividend | 114.3p | 113.5p |
| Add second interim dividend | 3.575p | 3.5p |
| Net assets per Ordinary Share at 31 March | 117.9p | 117.0p |

* 3.575p declared on 21 February 2013 and paid on 22 April 2013

† 3.5p declared on 12 April 2012 and paid on 29 June 2012

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

The Net assets per share at 31 March 2013 applicable to the 140 million Ordinary Shares issued on 27 March 2013 is 114.3p on an IFRS basis.

14. INTANGIBLE ASSETS

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|---|----------------------------------|----------------------------------|
| Cost | | |
| Opening balance | 416.2 | 189.5 |
| Acquisition through business combinations | 63.1 | 226.7 |
| Balance as at 31 March | 479.3 | 416.2 |
| Amortisation | | |
| Opening balance | (41.0) | (27.5) |
| Amortisation for the year | (17.6) | (13.5) |
| Balance as at 31 March | (58.6) | (41.0) |
| Carrying amounts | | |
| At 31 March | 420.7 | 375.2 |

Intangible assets represent the fair value of customer contracts for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. See Note 3 (iv) for the methods and assumptions used in determining the fair values. Intangibles are being amortised on a straight line basis over the forecast remaining life of the concessions concerned on acquisition of the subsidiaries (range from between 10.5 and 29.5 years). Amortisation of £17.6 million (2012: £13.5 million) is included within service cost expenses in the consolidated income statement.

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 March 2013 £million | 31 March 2012 £million |
|--|---------------------------|---------------------------|
| Opening balance | 524.3 | 426.0 |
| Investments in the year | 181.1 | 236.6 |
| Disposals in the year | (4.0) | – |
| Accrued interest | (2.7) | (6.7) |
| Repayments in the year | (12.1) | (37.8) |
| Subscription obligations | – | 46.7 |
| Gains on valuation | 18.9 | 21.9 |
| Investments consolidated during the year | (35.2) | (161.6) |
| Other movements | 0.2 | (0.8) |
| Carrying amount at year end | 670.5 | 524.3 |
| This is represented by: | | |
| Less than one year | – | – |
| Greater than one year | 670.5 | 524.3 |
| Carrying amount at year end | 670.5 | 524.3 |
| Gains on valuation as above | 18.9 | 21.9 |
| Gain on disposal | 1.3 | – |
| Less: transaction costs incurred | (0.2) | (1.1) |
| Gains on investments | 20.0 | 20.8 |

The gains on investment have been included in Gains on investments presented in the consolidated income statement as capital items.

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2013. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. The Directors have also obtained an independent opinion from a third party with considerable expertise in valuing these types of investments, supporting the reasonableness of the valuation. All investments in PFI/PPP/P3 projects are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior year. Discount rates applied range from 8.0% to 10.0% (weighted average of 8.4%) (2012: 8.2% to 11.0% (weighted average of 8.6%)).

The following economic assumptions were used in the discounted cashflow valuations:

| | |
|---|---------------------------------------|
| UK inflation rates | 2.75% |
| Holland, Ireland and Canada inflation rates | 2.0% |
| UK deposit interest rates | 1% to March 2017 and 3.50% thereafter |
| UK corporation tax rate | 23% |
| Euro/Sterling exchange rate | 0.84 for all future periods |
| Can\$/Sterling exchange rate | 0.65 for all future periods |

The economic assumptions for the year ended 31 March 2012 were as follows:

| | |
|---|---------------------------------------|
| UK inflation rates | 2.75% |
| Holland, Ireland and Canada inflation rates | 2.0% |
| UK deposit interest rates | 1% to March 2015 and 3.75% thereafter |
| UK corporation tax rate | 24% |
| Euro/Sterling exchange rate | 0.83 for all future periods |
| Can\$/Sterling exchange rate | 0.63 for all future periods |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Investments are generally restricted on their ability to transfer funds to the Group under the terms of their senior funding arrangements for that investment. Significant restrictions include:

- Historic and projected debt service and loan life cover ratios exceed a given threshold;
- Required cash reserve account levels are met;
- Senior lenders have agreed the current financial model that forecasts the economic performance of the project company;
- Project company is in compliance with the terms of its senior funding arrangements; and
- Senior lenders have approved the annual budget for the company.

Details of investments recognised at fair value through profit or loss were as follows:

| Investments (project name) | Equity | 31 March 2013 | | Percentage Holding | | 31 March 2012 | |
|---|--------|------------------------|----------------|--------------------|------------------------|----------------|--|
| | | Subordinated loanstock | Mezzanine debt | Equity | Subordinated loanstock | Mezzanine debt | |
| A249 Road | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| A92 Road | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Barking & Dagenham Schools | 85.0% | 100.0% | – | 85.0% | 100.0% | – | |
| Birmingham & Solihull LIFT | 30.0% | 44.0% | – | – | – | – | |
| Birmingham Hospital | 30.0% | 30.0% | – | – | – | – | |
| Bishop Auckland Hospital | 36.0% | 37.0% | 100.0% | 36.0% | 36.0% | 100.0% | |
| Blackpool Primary Care | 75.0% | 75.0% | – | – | – | – | |
| Bradford Schools | 34.0% | 34.0% | – | 34.0% | 34.0% | – | |
| Brentwood Community Hospital | 75.0% | 75.0% | – | 75.0% | 75.0% | – | |
| Colchester Garrison | 56.0% | 56.0% | – | 42.0% | 42.0% | – | |
| Connect PFI | 28.5% | 28.5% | – | – | – | – | |
| Cork School Of Music ² | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Darlington Schools | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Defence Sixth Form College | 45.0% | 45.0% | – | 45.0% | 45.0% | – | |
| Derby Schools | 80.0% | 80.0% | – | 80.0% | 80.0% | – | |
| Doncaster Mental Health Hospital | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Doncaster Schools ⁷ | – | – | – | 50.0% | 50.0% | – | |
| Dorset Fire & Rescue ¹ | – | – | – | 67.0% | 67.0% | – | |
| Dorset Police | 80.0% | 80.0% | – | 80.0% | 80.0% | – | |
| Dutch High Speed Rail Link ³ | 43.0% | 43.0% | – | 43.0% | 43.0% | – | |
| Ealing Care Homes | 84.0% | 84.0% | – | 68.0% | 68.0% | – | |
| Ealing Schools | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Fife Schools | 50.0% | 64.0% | 100% | 40.0% | 40.0% | 100.0% | |
| Fife Schools 2 | 30.0% | 30.0% | – | – | – | – | |
| Glasgow Hospital | 25.0% | 25.0% | – | 25.0% | 25.0% | – | |
| Haverstock School | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Health & Safety Laboratory | 80.0% | 90.0% | – | 80.0% | 90.0% | – | |
| Health & Safety HQ | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Helicopter Training Facility ^{4/5} | 23.5% | 74.1% | – | 23.5% | 74.1% | – | |
| Highland Schools ¹ | – | – | – | 50.0% | 50.0% | – | |
| Irish Grouped Schools ² | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Kent Schools | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Kicking Horse Canyon P3 ⁶ | 50.0% | – | – | 50.0% | – | – | |
| M80 Motorway DBFO | 50.0% | 50.0% | – | 49.9% | 50.0% | – | |
| Manchester School | 50.0% | 50.0% | – | 50.0% | 50.0% | – | |
| Medway Police | 80.0% | 80.0% | – | 80.0% | 80.0% | – | |

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

| Investments (project name) | Percentage Holding | | | | | |
|---|--------------------|--|-------------------|--------|--|-------------------|
| | Equity | 31 March 2013 Subordinated loanstock | Mezzanine debt | Equity | 31 March 2012 Subordinated loanstock | Mezzanine debt |
| Newcastle Libraries | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| Newport Schools | 80.0% | 80.0% | – | 80.0% | 80.0% | – |
| Newton Abbot Hospital | 50.0% | 100.0% | – | 50.0% | 100.0% | – |
| North Tyneside Schools | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| North West Anthony Henday P3 ⁶ | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| Northwood MOD | 50.0% | 50.0% | – | – | – | – |
| Norwich Schools | 75.0% | 75.0% | – | 75.0% | 75.0% | – |
| Oldham Library | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| Oldham Schools | 75.0% | 75.0% | – | 75.0% | 75.0% | – |
| Oxford Churchill Oncology | 40.0% | 40.0% | – | 40.0% | 40.0% | – |
| Oxford Nuffield Hospital | 25.0% | 25.0% | – | 25.0% | 25.0% | – |
| Pinderfields & Pontefract Hospitals | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| Renfrewshire Schools | 30.0% | 30.0% | – | 30.0% | 30.0% | – |
| Romford Hospital | 66.7% | 66.7% | – | 50.0% | 50.0% | – |
| Sheffield Hospital | 75.0% | 75.0% | – | 75.0% | 75.0% | – |
| Sheffield Schools | 37.5% | 37.5% | – | 37.5% | 37.5% | – |
| South East London Police Stations | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| Staffordshire LIFT | 30.0% | 45.0% | – | – | – | – |
| Sussex Custodial Centre ¹ | – | – | – | 89.9% | 100.0% | – |
| Swindon Police | 80.0% | 80.0% | – | 80.0% | 80.0% | – |
| West Lothian Schools | 75.0% | 75.0% | – | – | – | – |
| Willesden Hospital | 50.0% | 50.0% | – | 50.0% | 50.0% | – |
| Wooldale Centre | 50.0% | 50.0% | – | 50.0% | 50.0% | – |

- 1 Incremental acquisitions of additional stakes during the year have resulted in these investments being deemed subsidiaries of the Company (see Note 16 and 28).
- 2 The company is incorporated in Ireland.
- 3 The company is incorporated in the Netherlands.
- 4 The Consolidated Group's share of the project's capital commitments is £13.5 million.
- 5 The Consolidated Group's economic interest in the Helicopter Training project includes the above investment in CAE Aircrew Training Services Plc (Op Co) and the controlling interest in CVS Leasing Limited (Asset Co) (see Note 28).
- 6 The company is incorporated in Canada.
- 7 The investment was sold in November 2012

There are no other future loanstock or capital commitments on other investments at fair value through the profit or loss.

16A. ACQUISITION OF SUBSIDIARIES

Year ended 31 March 2013

Investments which become subsidiaries through the acquisition of an additional equity interest are held as investments at fair value and therefore there is no gain or loss as a result of re-measuring to fair value the interests held prior to the acquisitions. Fair values were determined using the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values.

Intangible assets represent the fair value of customer contracts for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. Intangibles are amortised on a straight line basis over the remaining life of the concessions concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

Dorset Fire and Rescue ("DFR")

On 27 September 2012 the Group obtained control of DFR by acquiring 33.0% of the equity in the project. As a result the Group's equity interest increased from 67.0% to 100.0%. The transaction cost was de minimus.

The project involved the design, construction, financing and maintenance of the fire and police facilities at three sites in Dorset, UK, for the Dorset Fire Authority & the Police and Crime Commissioner for Dorset (formerly the Dorset Police Authority). The facilities have been operational since 2008.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 3.8 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 3.5 |
| Finance receivables at fair value through profit or loss | 61.0 |
| Deferred tax assets | 1.7 |
| Cash and cash equivalents | 1.3 |
| Other current assets | 0.7 |
| Current liabilities | (0.5) |
| Deferred tax liabilities | (3.1) |
| Other non-current liabilities | (52.3) |
| | <u>12.3</u> |

c) Goodwill

| | <i>£million</i> |
|---|-----------------|
| Total consideration transferred | 3.8 |
| Fair value of previous interest in acquiree | 8.5 |
| Less fair value of net identifiable assets | (12.3) |
| | <u>-</u> |

In the six months to 31 March 2013 the acquisition contributed no material income and losses of £0.9 million. If the acquisition had occurred on 1 April 2012, management estimates that consolidated revenue would have been £409.1 million, and consolidated profit for the year would have been £65.9 million.

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

Sussex Custodial ("Sussex")

On 12 December 2012 the Group obtained control of Sussex by acquiring 10.1% of the equity in the project. As a result the Group's equity interest increased from 89.9% to 100.0%. The transaction cost was de minimus.

The project involved the build and service of three custody centres in Sussex, UK, for the Police and Crime Commissioner for Sussex (formerly the Sussex Police Authority) whilst a fourth centre was subsequently contracted for as a variation. The first of the centres became operational in November 2002.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 0.5 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 11.4 |
| Finance receivables at fair value through profit or loss | 18.8 |
| Deferred tax assets | 1.4 |
| Cash and cash equivalents | 1.5 |
| Other current assets | 1.1 |
| Current liabilities | (1.2) |
| Deferred tax liabilities | (3.3) |
| Other non-current liabilities | (20.0) |
| | <u>9.7</u> |

c) Goodwill

| | <i>£million</i> |
|---|-----------------|
| Total consideration transferred | 0.5 |
| Fair value of previous interest in acquiree | 9.2 |
| Less fair value of net identifiable assets | (9.7) |
| | <u>-</u> |

In the three months to 31 March 2013 the acquisition contributed income of £3.1 million and profits of £0.2 million. If the acquisition had occurred on 1 April 2012, management estimates that consolidated revenue would have been £418.1 million, and consolidated profit for the year would have been £67.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

Edinburgh Schools ("Edinburgh")

On 13 December 2012 the Group obtained control of Edinburgh by acquiring 100.0% of the equity in the project. The transaction cost was £0.1 million and has been expensed in the consolidated income statement.

The project involved the design, construction, financing and maintenance of six secondary schools and two primary schools in and around Edinburgh, Scotland. The schools became operational between 2008 and 2010.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 37.0 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 19.9 |
| Finance receivables at fair value through profit or loss | 235.5 |
| Deferred tax assets | 12.9 |
| Cash and cash equivalents | 6.4 |
| Other current assets | 0.5 |
| Current liabilities | (5.7) |
| Deferred tax liabilities | (20.3) |
| Other non-current liabilities | (212.2) |
| | <u>37.0</u> |

c) Goodwill

| | <i>£million</i> |
|--|-----------------|
| Total consideration transferred | 37.0 |
| Less fair value of net identifiable assets | (37.0) |
| | <u>–</u> |

In the three months to 31 March 2013 the acquisition contributed income of £5.1 million and losses of £2.5 million. If the acquisition had occurred on 1 April 2012, management estimates that consolidated revenue would have been £424.8 million, and consolidated profit for the year would have been £71.4 million.

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

Perth & Kinross Schools ("P&K")

On 13 December 2012 the Group obtained control of P&K by acquiring 100.0% of the equity in the project. The transaction cost was £0.1 million and has been expensed in the consolidated income statement.

The project involved the design, construction, financing and operation of four secondary schools and five primary schools in central Scotland. The facilities became operational between 2009 and 2010.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 19.6 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 28.2 |
| Finance receivables at fair value through profit or loss | 194.2 |
| Deferred tax assets | 14.6 |
| Cash and cash equivalents | 8.1 |
| Other current assets | 0.3 |
| Current liabilities | (3.6) |
| Deferred tax liabilities | (20.0) |
| Other non-current liabilities | (202.2) |
| | <u>19.6</u> |

c) Goodwill

| | <i>£million</i> |
|--|-----------------|
| Total consideration transferred | 19.6 |
| Less fair value of net identifiable assets | (19.6) |
| | <u>–</u> |

In the three months to 31 March 2013 the acquisition contributed income of £4.6 million and losses of £9.3 million. If the acquisition had occurred on 1 April 2012, management estimates that consolidated revenue would have been £424.4 million, and consolidated profit for the year would have been £80.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

Highland Schools ("Highland")

On 22 March 2013 the Group obtained control of Highland by acquiring 50.0% of the equity in the project. As a result the Group's equity interest increased from 50.0% to 100.0%. The transaction cost was de minimus.

The project involved the design, build and operation of eleven rural and urban schools in Scotland comprising of five primary schools, three secondary schools, a combined primary and secondary schools and a special needs school. The building phase commenced in 2006.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 21.2 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Finance receivables at fair value through profit or loss | 170.1 |
| Deferred tax assets | 3.0 |
| Cash and cash equivalents | 10.2 |
| Other current assets | 2.1 |
| Current liabilities | (2.9) |
| Deferred tax liabilities | (6.5) |
| Other non-current liabilities | (133.6) |
| | <u>42.4</u> |

c) Goodwill

| | <i>£million</i> |
|---|-----------------|
| Total consideration transferred | 21.2 |
| Fair value of previous interest in acquiree | 21.2 |
| Less fair value of net identifiable assets | (42.4) |
| | <u>-</u> |

The acquisition occurred on 22 March 2013 and therefore contributed no material income or profits. If the acquisition had occurred on 1 April 2012, management estimates that consolidated revenue would have been £425.3 million, and consolidated profit for the year would have been £67.2 million.

In September 2012 the Group acquired an additional 10% of the equity and loanstock in two subsidiaries, Exeter Crown Court and Stoke Mandeville Hospital. As a result, the Group's equity and loanstock interest in both increased to 100%. The total consideration paid for these interests was £1.7 million and an immaterial movement in non-controlling interests resulted from this transaction.

16A.ACQUISITION OF SUBSIDIARIES (continued)

Year ended 31 March 2012

Investments which become subsidiaries through the acquisition of an additional equity interest are held as investments at fair value and therefore there is no gain or loss as a result of re-measuring to fair value the interests held prior to the acquisitions. Fair values were determined using the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values.

Intangible assets represent the fair value of customer contracts for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. Intangibles are amortised on a straight line basis over the remaining life of the concessions concerned.

South Ayrshire Schools Project ("SAS")

On 10 June 2011 the Group obtained control of SAS, by acquiring 100.0% of the equity and loanstock in the project. The transaction costs were £0.1 million and have been expensed to administrative expenses in the consolidated income statement.

The project involved the financing, design and construction and subsequent operation of three new primary schools, two new secondary schools and a new performing arts annex at an existing secondary school. All the schools became operational between January 2008 and January 2010.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 15.8 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 23.4 |
| Finance receivables at fair value through profit or loss | 83.2 |
| Deferred tax assets | 3.9 |
| Cash and cash equivalents | 2.2 |
| Other current assets | 1.4 |
| Current liabilities | (2.2) |
| Deferred tax liabilities | (5.9) |
| Other non-current liabilities | (90.2) |
| | 15.8 |

c) Goodwill

| | <i>£million</i> |
|--|-----------------|
| Total consideration transferred | 15.8 |
| Less fair value of net identifiable assets | (15.8) |
| | - |

In the nine months to 31 March 2012 the acquisition contributed income of £8.9 million and losses of £9.4 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue for the Group would have been £380.8 million, and consolidated profit for the year for the Group would have been £83.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

The Hospital Company (QAH) Limited ("QAH")

On 23 June 2011 the Group obtained control of QAH, by acquiring 10.1% of the equity in the project. As a result, the Group's equity interest increased from 89.9% to 100.0%. The transaction cost was de minimus.

This project is a concession to design and construct a new hospital and retained estates work in Portsmouth, which became operational in 2010.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 2.8 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 35.8 |
| Finance receivables at fair value through profit or loss | 345.4 |
| Deferred tax assets | 14.2 |
| Cash and cash equivalents | 17.9 |
| Other current assets | 9.6 |
| Current liabilities | (7.0) |
| Deferred tax liabilities | (25.1) |
| Other non-current liabilities | (324.3) |
| | <u>66.5</u> |

c) Goodwill

| | <i>£million</i> |
|---|-----------------|
| Total consideration transferred | 2.8 |
| Fair value of previous interest in acquiree | 63.7 |
| Less fair value of net identifiable assets | (66.5) |
| | <u>–</u> |

In the nine months to 31 March 2012 the acquisition contributed income of £62.6 million and profits of £16.6 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue for the Group would have been £398.7 million, and consolidated profit for the year for the Group would have been £86.8 million.

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

The Hospital Company (OJR) Limited ("OJR")

On 23 June 2011 the Group obtained control of OJR, by acquiring 10.1% of the equity in the project. As a result, the Group's equity interest increased from 89.9% to 100.0%. The transaction cost was de minimus.

This project is a concession to design, construct, manage, finance, operate and maintain a new wing adjacent to the former Radcliffe Infirmary. Construction was completed ahead of schedule in March 2001.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 1.2 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 70.5 |
| Finance receivables at fair value through profit or loss | 150.3 |
| Deferred tax assets | 19.4 |
| Cash and cash equivalents | 10.4 |
| Other current assets | 3.1 |
| Current liabilities | (4.6) |
| Deferred tax liabilities | (24.4) |
| Other non-current liabilities | (191.6) |
| | <u>33.1</u> |

c) Goodwill

| | <i>£million</i> |
|---|-----------------|
| Total consideration transferred | 1.2 |
| Fair value of previous interest in acquiree | 31.9 |
| Less fair value of net identifiable assets | (33.1) |
| | <u>–</u> |

In the nine months to 31 March 2012 the acquisition contributed income of £31.4 million and losses of £2.4 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue for the Group would have been £388.3 million, and consolidated profit for the year for the Group would have been £85.0 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

16A. ACQUISITION OF SUBSIDIARIES *(continued)*

Blackburn Hospital

On 10 November 2011 the Group obtained control of Blackburn Hospital, by acquiring 50.0% of the equity in the project. As a result, the Group's equity interest increased from 50.0% to 100.0%. The Group also acquired the remaining 50.0% of the loanstock. The transaction cost was de minimus.

The project involved the design, construction, financing and maintenance of new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust. The new facilities have been operational since 2003.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 13.8 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 38.2 |
| Finance receivables at fair value through profit or loss | 170.9 |
| Deferred tax assets | 12.7 |
| Cash and cash equivalents | 9.3 |
| Other current assets | 2.5 |
| Current liabilities | (3.4) |
| Deferred tax liabilities | (48.7) |
| Other non-current liabilities | (155.5) |
| | <u>26.0</u> |

c) Goodwill

| | <i>£million</i> |
|---|-----------------|
| Total consideration transferred | 13.8 |
| Fair value of previous interest in acquiree | 12.2 |
| Less fair value of net identifiable assets | (26.0) |
| | <u>-</u> |

In the six months to 31 March 2012 the acquisition contributed income of £11.4 million and profits of £2.8 million. If the acquisition had occurred on 1 April 2011, management estimates that consolidated revenue would have been £389.2 million, and consolidated profit for the year would have been £83.4 million.

16A.ACQUISITION OF SUBSIDIARIES (continued)

Portfolio acquisition

On 19 December 2011 the Group acquired a portfolio of 26 PFI/PPP projects from two infrastructure funds managed by Barclays Infrastructure Funds Management Limited. Of the 26, 5 have been treated as subsidiaries and 21 have been treated as investments in associates or joint ventures. Transaction costs of £0.2 million relating to the subsidiaries have been expensed to administrative expenses in the consolidated income statement and £0.7 million relating to the other projects have been capitalised.

All of the 26 projects are operational and, apart from two investments in The Republic of Ireland (the Cork School of Music and Irish Grouped schools project) all are based in the UK.

a) Consideration

| | <i>£million</i> |
|------|-----------------|
| Cash | 143.4 |

b) Identifiable assets acquired and liabilities assumed

| | <i>£million</i> |
|--|-----------------|
| Intangibles | 58.9 |
| Finance receivables at fair value through profit or loss | 159.1 |
| Investments at fair value through profit or loss | 108.1 |
| Deferred tax assets | 12.6 |
| Cash and cash equivalents | 13.8 |
| Other current assets | 1.4 |
| Current liabilities | (5.9) |
| Deferred tax liabilities | (18.9) |
| Other non-current liabilities | (185.7) |
| | <u>143.4</u> |

c) Goodwill

| | <i>£million</i> |
|--|-----------------|
| Total consideration transferred | 140.4 |
| Deferred consideration | 3.0 |
| Less fair value of net identifiable assets | (143.4) |
| | <u>-</u> |

The deferred consideration of £3.0 million relates to five outstanding construction and operation matters on one project. As and when these are resolved satisfactorily, portions of the consideration are released. At 31 March 2013, £0.8 million of the deferred consideration remains outstanding. Any deferred consideration not paid by June 2013 will remain with the Group.

In the three months to 31 March 2012 the acquisition contributed negative income of £0.5 million and losses of £0.4 million. If the acquisition occurred on 1 April 2011, management estimates that consolidated revenue would have been £376.2 million, and consolidated profit for the year would have been £72.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

16B. ACQUISITION OF OTHER INVESTMENTS

Year ended 31 March 2013

The Consolidated Group has acquired a greater than 50% shareholding in certain entities (see Note 15), where in the opinion of the Directors it is unable to govern the financial and operating policies of the entities by virtue of agreements with the other shareholder(s). These entities are consequently not treated as subsidiaries, and instead they are accounted for as financial assets at fair value through profit or loss, as set out in Note 2(b).

In May 2012 the Company completed an incremental acquisition in RMPA Holdings Limited (“Colchester Garrison”) for a consideration of £15.0 million taking its shareholding to 56%.

In May 2012 the Company completed an acquisition of 30% in Consort Healthcare (Birmingham) Holdings Limited (“Birmingham Hospital”) for a consideration of £34.6 million.

In May 2012 the Company completed an acquisition of 19.5% in Citylink Telecommunications Holdings Limited (“Connect PFI”) for a consideration of £39.0 million.

In July 2012 the Company completed an acquisition of 75% in Central Blackpool PCC Holding Company Limited (“Blackpool Primary Care”) through Redwood Partnership Ventures 2 Limited (“RPV2L”) for a consideration of £2.9 million. The Group has a 75% shareholding in RPV2L.

In August 2012 the Company completed an incremental acquisition in Catalyst Healthcare (Romford) Holdings Limited (“Romford Hospital”) taking its shareholding to 66.7% – the total consideration of £10.4 million also included an incremental acquisition in Pinnacle Schools (Holdings) Fife Limited (“Fife Schools”) which completed in January 2013 taking its shareholding to 50% as well as two incremental acquisitions of 10% of the equity and loanstock in two subsidiaries, Exeter Crown Court and Stoke Mandeville Hospital, taking their shareholding to 100%.

In September 2012 the Company completed an incremental acquisition in Ealing Care Alliance (Holdings) Limited (“Ealing Care Homes”) for a consideration of £1.2 million taking its shareholding to 84%.

In October 2012 the Group completed an acquisition of 30% equity and 45% loanstock of two PFI projects held through Prime LIFT Investments Limited (“Bas LIFTCo” and “Prima LIFTCo”) and an incremental acquisition of 9% equity and loanstock in Citylink Telecommunications Holdings Limited (“Connect PFI”) for an aggregate consideration of £33.8 million.

In October 2012 the Group completed an acquisition of 30% equity and loanstock in Emblem Schools (Holdings) Limited (“Fife Schools 2 PPP”) for a consideration of £3.9 million.

In November 2012 the Group sold its 50% equity and loan note interest in Doncaster Schools PFI for a consideration of £5.3 million.

In December 2012 the Company completed an acquisition of 37.5% in HDM Schools Solutions (Holdings) Limited (“West Lothian Schools”) through RPV2L and in March 2013 the Group completed an incremental acquisition of 37.5%. The aggregate consideration was £11.9 million.

In January 2013 the Group completed an acquisition of 50% equity and loanstock in Eastbury Park (Holdings) Limited (“Northwood MOD”) for a consideration of £30.6 million.

The Directors have analysed the shareholder rights of these projects and are of the opinion that they should be treated as investments in joint ventures in accordance with IAS 31 Interests in Joint Ventures.

16B. ACQUISITION OF OTHER INVESTMENTS *(continued)*

Year ended 31 March 2012

In May 2011 the Group through RPV2L completed the acquisition of equity investments in three UK PFI schools for £17.2 million. The three projects acquired by RPV2L were:

- a 100% interest in the Norwich Area Schools PFI Project;
- a 100% interest in the Oldham Secondary Schools PFI Project; and
- a 50% interest in the Sheffield Schools PFI Project.

In May 2011 the Group completed the acquisition of a 75.0% equity investment in Brentwood Community Hospital for £4.6 million through RPV2L.

In June 2011 the Group completed the acquisition of an indirect 50.0% equity investment in Pontefract and Pinderfields Hospitals and a further small equity interest in the Medium Support Helicopter Aircrew Training Facility for £28.8 million in aggregate.

In November 2011 the Group completed the acquisition of 75.0% of the equity and loan note interests in Sheffield Hospital for £5.2 million through RPV2L.

In February 2012 the Group acquired a further 33.5% of the equity and loan note interests in Dorset Fire and Rescue for £3.8 million.

17. FINANCE RECEIVABLES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|------------------------------------|----------------------------------|----------------------------------|
| Opening balance | 1,770.6 | 779.1 |
| Acquisition of subsidiaries | 680.9 | 908.8 |
| Gain on valuation | 54.5 | 107.2 |
| Repayments in the year | (31.6) | (25.3) |
| Other movements | 0.8 | 0.8 |
| Carrying amount at year end | 2,475.2 | 1,770.6 |
| This is represented by: | | |
| Less than one year | 40.2 | 31.2 |
| Greater than one year | 2,435.0 | 1,739.4 |
| Carrying amount at year end | 2,475.2 | 1,770.6 |

The Operating Subsidiaries' concession contracts with public sector bodies are considered as financial assets. Gain in fair values of financial assets of £54.5 million for the year ended 31 March 2013 (2012: £107.2 million gain), are separately disclosed in the consolidated income statement as a capital amount. See Note 3 (ii) for the methods and assumptions used in determining the fair values. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in the balance sheet.

Interest income in relation to finance receivables of £94.5 million has been recognised in the consolidated income statement for the year ended 31 March 2013 as a revenue amount (2012: £70.6 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

18. TRADE AND OTHER RECEIVABLES

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|--------------------------------|----------------------------------|----------------------------------|
| Trade receivables | 13.7 | 14.8 |
| Other debtors | 1.8 | 2.1 |
| Prepayments and accrued income | 11.1 | 12.3 |
| | 26.6 | 29.2 |

19. CASH AND CASH EQUIVALENTS

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|---------------------------|----------------------------------|----------------------------------|
| Bank balances | 115.7 | 56.3 |
| Call deposits | 210.9 | 317.4 |
| Cash and cash equivalents | 326.6 | 373.7 |

The effective interest rate on call deposits was between 0.1% and 1.4% (2012: between 0.1% and 2.4%). The deposits have an intended maturity of between 1 and 361 days (2011: between 1 and 367 days) but are liquid if necessary.

20. TRADE AND OTHER PAYABLES

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|----------------|----------------------------------|----------------------------------|
| Trade payables | 24.9 | 11.8 |
| Accruals | 29.7 | 28.6 |
| Other payables | 6.7 | 7.7 |
| | 61.3 | 48.1 |

21. LOANS AND BORROWINGS

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|-----------------------------------|----------------------------------|----------------------------------|
| Non-current liabilities | | |
| Libor borrowings | 991.1 | 755.2 |
| Subordinated debt | 25.7 | 24.3 |
| RPI-linked borrowings | 605.6 | 529.0 |
| Fixed rate borrowings | 249.0 | 101.4 |
| | 1,871.4 | 1,409.9 |
| Current liabilities | | |
| Libor borrowings | 56.9 | 168.6 |
| Subordinated debt | – | 0.4 |
| RPI-linked borrowings | 22.0 | 21.4 |
| Fixed rate borrowings | 0.6 | 1.0 |
| | 79.5 | 191.4 |
| Total loans and borrowings | 1,950.9 | 1,601.3 |

21. LOANS AND BORROWINGS *(continued)*

Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

| | Weighted average effective interest rate | Average year of maturity | Carrying amount | |
|---|--|-----------------------------|------------------|------------------|
| | | | 2013 £million | 2012 £million |
| Secured libor borrowings – Operating Subsidiaries | 5.6% | 2031 | 1,021.1 | 785.3 |
| Secured libor borrowings – Investment Group | 2.7% | 2015 | 26.9 | 138.5 |
| Subordinated debt | 12.9% | 2025 | 25.7 | 24.7 |
| RPI-linked borrowings | 3.0% | 2036 | 627.6 | 550.4 |
| Fixed rate borrowings | 5.2% | 2033 | 249.6 | 102.4 |
| | | | 1,950.9 | 1,601.3 |

The interest rate for secured libor borrowings varies with changes in libor. This debt is hedged using fixed to floating interest rate swaps. The interest rate on RPI-linked borrowings varies with inflation whereas fixed rate borrowings have fixed interest coupons.

RPI-linked and fixed rate borrowings include bonds which are guaranteed by FSA (UK) Limited and Ambac Assurance UK Limited and are secured by a fixed and floating charge over the assets of the respective subsidiary companies. The index-linked borrowings are indexed annually and semi-annually using published RPI figures. The index ratio uses a base index figure ranging from 173.3 to 178.2 and a numerator index figure that is published by the Office for National Statistics.

The fair value of all borrowings is deemed to reflect their carrying value, except fixed rate and RPI-linked borrowings. An analysis of fair values and carrying values of these borrowings is detailed below:

| | 31 March 2013 | | 31 March 2012 | |
|-----------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
| | Carrying amount £million | Fair value £million | Carrying amount £million | Fair value £million |
| RPI-linked borrowings | 627.6 | 1,056.7 | 550.4 | 646.1 |
| Fixed rate borrowings | 249.6 | 274.4 | 102.4 | 112.9 |
| | 877.2 | 1,331.1 | 652.8 | 759.0 |

The fair values of fixed rate and RPI-linked borrowings are based on inputs that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The currency profile of the Consolidated Group's loans and borrowings is as follows:

| | 2013 £million | 2012 £million |
|-----------------|------------------|------------------|
| Pound Sterling | 1,944.2 | 1,494.6 |
| Euro | 6.7 | 79.1 |
| Canadian Dollar | – | 27.6 |
| | 1,950.9 | 1,601.3 |

The exchange rate used as at 31 March 2013 to convert the Euro loan was 0.84 and 0.65 for the Canadian Dollar loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

21. LOANS AND BORROWINGS *(continued)*

The Consolidated Group has the following undrawn borrowing facilities at 31 March:

| <i>Floating rate</i> | 2013 <i>£million</i> | 2012 <i>£million</i> |
|----------------------------------|--------------------------------|--------------------------------|
| Secured | | |
| – expiring within one year | 59.3 | 58.7 |
| – expiring between 1 and 2 years | – | 50.0 |
| – expiring between 2 and 5 years | – | 100.0 |
| – expiring after 5 years | 43.2 | 16.7 |
| | 102.5 | 225.4 |

The Operating Subsidiaries are required to meet certain bank covenants on its debt, the most significant of which are maintaining debt service cover ratios (annual cash flows available for debt service as a ratio of debt servicing amounts) above 1.05 and Loan Life Cover Ratio above 1.05. There were no material events of non-compliance in the Operating Subsidiaries in the year.

The Group was also required to meet certain bank covenants on its £100 million three year revolving bank facility, the most significant of which were maintaining a Forward and Historic Interest Cover Ratio above 3:1 and Gearing Ratio not greater than 0.275:1.

22. OTHER FINANCIAL LIABILITIES (FAIR VALUE OF DERIVATIVES)

| | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
|--------------------------------|---|---|
| Non-current liabilities | | |
| Interest rate swaps | 339.9 | 206.9 |
| Inflation swap | 112.3 | 53.0 |
| | 452.2 | 259.9 |

Financial liabilities have been fair valued in accordance with Note 2(d). The loss in fair value of interest and inflation rate swaps of £68.1 million for the year ended 31 March 2013 (2012: £64.8 million loss) is disclosed within finance costs in the consolidated income statement as a capital amount (see Note 9).

In order to manage exposure to movements in interest rates, project companies financed by floating rate debt swap their floating rate exposure for fixed rates using interest rate swaps. The notional amount of the outstanding interest rate swap contracts at 31 March 2013 was £1,120.8 million (2012: £794.4 million). As at 31 March 2013, the fixed interest rates on the swaps range from 4.47% to 6.48% (2012: 1.73% to 6.48%) and maturities range from 2016 to 2041 (2012: 2016 to 2038). The notional amount of the outstanding inflation rate swap contracts at 31 March 2013 was £16.5 million (2012: £11.8 million). As at 31 March 2013, the fixed inflation rates on the swaps range from 2.53% to 3.00% (2012: 2.53% to 2.96%) and maturities range from 2029 to 2041 (2012: 2029 to 2039).

23. SHARE CAPITAL AND RESERVES

| | Ordinary shares | | C Shares | |
|--|--|--|--|--|
| | 31 March 2013 <i>million</i> | 31 March 2012 <i>million</i> | 31 March 2013 <i>million</i> | 31 March 2012 <i>million</i> |
| Issued at 1 April | 665.4 | 595.1 | 250.0 | – |
| C Shares converted to Ordinary Shares | 218.1 | – | (250.0) | – |
| Issued for cash | 228.3 | 65.9 | – | 250.0 |
| Issued as a scrip dividend alternative | 4.5 | 4.4 | – | – |
| Issued at 31 March – fully paid | 1,116.3 | 665.4 | – | 250.0 |

The holders of the 1,116,360,139 Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company (2012: 665,422,215).

23. SHARE CAPITAL AND RESERVES *(continued)*

Ordinary Share capital and share premium

| | 31 March 2013 £million | 31 March 2012 £million |
|---|---------------------------|---------------------------|
| Opening balance | 470.9 | 390.7 |
| Premium arising on issue of equity shares | 525.0 | 80.9 |
| Expenses of issue of equity shares | (3.4) | (0.7) |
| Balance at 31 March | 992.5 | 470.9 |

Share capital is £111.6 thousand (2012: £66.5 thousand).

C Share capital and share premium

| | 31 March 2013 £million | 31 March 2012 £million |
|--------------------------------------|---------------------------|---------------------------|
| Opening balance | 246.8 | – |
| Converted to Ordinary Shares | (246.8) | – |
| Premium arising on issue of C Shares | – | 250.0 |
| Expenses of issue of C Shares | – | (3.2) |
| Balance at 31 March | – | 246.8 |

C Share capital is £Nil (31 March 2012: £25.0 thousand).

For the year ended 31 March 2013

250,000,000 C Shares were converted to 218,050,000 Ordinary Shares on 27 April 2012 at a conversion rate of 0.8722 Ordinary Shares for each C Share.

On 30 June 2012 1.5 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2012.

On 31 December 2012 3.0 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the year ending 31 March 2013.

In the year ending 31 March 2013 88.3 million new Ordinary Shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 119.0p and 119.5p.

On 22 March 2013, the Company announced the results of its Placing, Open Offer and Offer for Subscription of Ordinary Shares. The Company raised £167.3 million (before expenses) through the issue of 140,000,000 Ordinary Shares at a price of 119.5p per Ordinary Share, of which 61,968,542 Ordinary Shares were issued pursuant to the Open Offer, 9,558,673 Ordinary Shares were issued pursuant to the Offer for Subscription and 68,472,785 Ordinary Shares were issued by way of the Placing. The Ordinary Shares were admitted to trading on the London Stock Exchange on 27 March 2013.

For the year ended 31 March 2012

On 30 June 2011 1.9 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2011.

On 31 December 2011 2.5 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the year ending 31 March 2012.

In the year ending 31 March 2012 65.9 million new Ordinary Shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 115.0p and 117.0p.

On 28 March 2012, the Company announced the results of its Placing, Open Offer and Offer for Subscription of C Shares. The Company raised £250.0 million (before expenses) through the issue of 250,000,000 C Shares at a price of £1.00 per C Share, of which 82,685,943 C Shares were issued pursuant to the Open Offer, 10,029,500 C Shares were issued pursuant to the Offer for Subscription and 157,284,557 C Shares were issued by way of the Placing. The C Shares were admitted to trading on the London Stock Exchange on 30 March 2012.

Retained reserves

Retained reserves comprise retained earnings and the balance of the share premium account, as detailed in the consolidated statements of changes in shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

24. RELATED PARTY TRANSACTIONS

The Investment Adviser to the Company and the Operator of a limited partnership through which the group holds its investments is InfraRed Capital Partners Limited ("IRCP").

IRCP's appointment as Investment Adviser is governed by an Investment Advisory Agreement which may be terminated by either party giving one year's written notice. The appointment may also be terminated if IRCP's appointment as Operator is terminated. The Investment Adviser is entitled to a fee of £0.1 million per annum (disclosed within investment fees in Note 8) (2012: £0.1 million), payable half-yearly in arrears and which is subject to review, from time to time, by the Company.

IRCP has been appointed as the Operator of Infrastructure Investments Limited Partnership by the General Partner of the Partnership, Infrastructure Investments General Partner Limited, a sister subsidiary of IRCP. The Operator and the General Partner may each terminate the appointment of the Operator by either party giving one year's written notice. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Advisory Agreement is terminated in accordance with its terms. The General Partner's appointment does not have a fixed term, however if IRCP ceases to be the Operator, the Company has the option to buy the entire share capital of the General Partner and IRCP Group has the option to sell the entire share capital of the General Partner to the Company, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In aggregate IRCP and the General Partner are entitled to fees and/or profit share equal to: i) 1.1 per cent per annum of the adjusted gross asset value of all investments of the group that are not in either their construction or ramp-up phases up to £750 million, 1.0 per cent per annum for the incremental value in excess of £750 million up to £1,500 million and 0.9 per cent for the incremental value in excess of £1,500 million; ii) 1.5 per cent per annum of investments of the group that are in either their construction or ramp-up phases, excluding investments acquired with the acquisition of the initial portfolio (the ramp-up phase of an investment means the period following completion of a project's construction phase during which it is building up to be fully operational with full service provision); and iii) 1.0 per cent of the value of new portfolio investments, that are not sourced from entities, funds or holdings managed by the IRCP Group.

The total Operator fees charged to the Consolidated Income Statement was £11.2 million (2012: £8.6 million) of which £5.9 million remained payable at year end (2012: £4.6 million). The total charge for new portfolio investments (disclosed within investment fees in Note 8) was £1.7 million (2012: £2.4 million) of which £1.0 million remained payable at year end (2012: £1.7 million).

Transactions during the year

The following summarises the transactions between the Consolidated Group and its associates in the year:

| | Transactions | | Balance | |
|-----------------------|--|--|----------------------------------|----------------------------------|
| | Year ended 31 March 2013 <i>£million</i> | Year ended 31 March 2012 <i>£million</i> | 31 March 2013 <i>£million</i> | 31 March 2012 <i>£million</i> |
| Loanstock investments | 61.3 | 120.5 | 243.2 | 285.4 |
| Loanstock repayments | (7.9) | (5.5) | – | – |
| Equity investments | 117.4 | 100.5 | 190.2 | 189.8 |
| Equity repayments | (4.1) | (2.3) | – | – |
| Loanstock interest | 31.7 | 21.2 | – | 19.6 |
| Dividends received | 9.9 | 6.7 | – | – |
| Fees and other income | 6.6 | 1.4 | – | 0.6 |

The Directors of the Company received fees for their services. Further details are provided in the Report of the Directors on page 43.

Total fees for Directors for the year were £190,000 (2012: £161,500). Directors expenses of £7,632 (2012: £7,646) were also paid in the year. One Director also receives fees of £5,000 (2012: £5,000) for serving as director of the two Luxembourg subsidiaries.

All of the above transactions were undertaken on an arm's length basis.

25. GUARANTEES AND OTHER COMMITMENTS

As at 31 March 2013 the Consolidated Group had £12.7 million commitments for future project investments (2012: £Nil) and £26.2 million in capital commitments (2012: £11.8 million).

26. EVENTS AFTER BALANCE SHEET DATE

On 26 April 2013 the Group completed an acquisition of 50% equity and loanstock in Consort Healthcare (Tameside) Holdings Limited (“Tameside Hospital”) for a consideration of £16.0 million.

On 29 April 2013 the Group completed an acquisition of 60% equity and 60% loanstock of two PFI projects (“Medway LIFTCo” and “Waltham Forest LIFTCo”) for a consideration of £9.8 million.

On 3 May 2013 the Group completed an acquisition of 33.3% equity and loanstock in Addiewell Prison (Holdings) Limited (“Addiewell Prison”) for a consideration of £10.3 million.

The Directors have analysed the shareholder rights of these projects and are of the opinion that they should be treated as investments in joint ventures in accordance with IAS 31 Interests in Joint Ventures.

On 22 April 2013 3.9 million new Ordinary Shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2013.

On 1 May 2013, the Board appointed two new additional directors to the Board, Mr Ian Russell, CBE, and Mrs Susie Farnon.

There are no other events after the balance sheet date which are required to be disclosed.

27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS

The group holds investments in 79 service concession arrangements in the Accommodation, Education, Health, Transport and Law and Order sectors. The concessions vary on the required obligations but typically require the financing and operation of an asset during the concession period. As at 31 March 2013, all of the service concessions were fully operational.

The rights of both the concession provider and concession operator are stated within the specific project agreement. The standard rights of the provider to terminate the project include poor performance and in the event of force majeure. The operator’s rights to terminate include the failure of the provider to make payment under the agreement, a material breach of contract and relevant changes of law which would render it impossible for the service company to fulfil its requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS *(continued)*

| Project | Short description of concession arrangements | Start date | End date | Number of years | Project Capex | Key subcontractors |
|------------------------------|---|------------|----------|--|---------------|---|
| A249 | Design, construct, finance, operate and maintain the section from Lwade Bypass to Queensborough of the A249 road for the Secretary of State for Transport. | 2006 | 2036 | 30 | £79m | Carillion |
| A92 | Design, construct, finance and operate the upgraded A92 shadow toll road between Dundee and Arbroath for Transport for Scotland. | 2005 | 2035 | 30 | £54m | Bear |
| Barking & Dagenham Schools | Design, construct, finance, operate and maintain the Eastbury Comprehensive and Jo Richardson Community Schools for London Borough of Barking & Dagenham. | 2004 | 2030 | 26 | £47m | Bouygues Energies & Services |
| Barnet Hospital | Design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust. | 1999 | 2032 | 33 | £65m | Bouygues Siemens Medirest |
| Bishop Auckland Hospital | Design, construct, finance, service and maintain a redevelopment of Bishop Auckland General Hospital, County Durham for South Durham Health Care NHS Trust. | 1999 | 2059 | 60 (with break clause option by Grantor at Year 30, 40 & 50) | £66m | ISS |
| Birmingham and Solihull LIFT | Design, construct and invest in facilities of new health and social care facilities. | 2004 | 2031 | 27 | £65m | Carillion Integral |
| Birmingham Hospital | Design, construct, finance and maintain a new acute hospital and six mental health facilities for University Hospitals Birmingham NHS Foundation Trust and Solihull Mental Health NHS Foundation Trust. | 2006 | 2046 | 40 | £553m | Balfour Beatty Engineering Services |
| Blackburn Hospital | Design, construct, finance and maintain new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust. | 2003 | 2041 | 38 | £100m | Balfour Beatty Engineering Services Siemens |
| Blackpool Primary Care | Design, construct, finance and operate a primary care centre in Blackpool for Blackpool Primary care Trust | 2008 | 2040 | 31.5 | £19m | Eric Wright |
| Boldon School | Design, construct, finance, operate and maintain Boldon School for the Borough of South Tyneside. | 2005 | 2031 | 26 | £18m | Mitie |
| Bradford Schools | Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council. | 2009 | 2036 | 27 | £230m | Amey |
| Brentwood Community Hospital | Design, construct, finance and maintain a new community hospital for South West Essex Primary Care Trust. | 2006 | 2036 | 30 | £23m | Integral Initial |
| Central Middlesex Hospital | Design, construct, finance and maintain new hospital facilities, and to refurbish some existing facilities, for the Brent Emergency Care and Diagnostic Centre on the Central Middlesex Hospital site in North West London. | 2003 | 2036 | 33 | £75m | Bouygues Energies & Services |

27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS *(continued)*

| Project | Short description of concession arrangements | Start date | End date | Number of years | Project Capex | Key subcontractors |
|--|---|------------|----------|-----------------|---------------|-------------------------------|
| Colchester Garrison | Design, construct, finance and maintain a new garrison facility at Colchester, Essex for The Secretary of State for Defence. | 2004 | 2039 | 35 | £550m | Sodexo |
| Connect PFI | To upgrade London Underground Limited's existing radio and telecommunications systems and implement and operate a new system. | 1999 | 2019 | 20 | £300m | Thales |
| Conwy Schools | Design, build, operate and maintain three schools for Conwy County Borough Council in North Wales. | 2003 | 2030 | 27 | £40m | Sodexo |
| Cork School of Music | Design, construct, finance and operate a new school of music in Cork to accommodate 130 academic staff, 400 full time and 2,000 part-time students for the Minister of Education and Science (Republic of Ireland). | 2005 | 2030 | 25 | €50m | Bilfinger Berger |
| Croydon Schools | Design, construct, finance, operate and maintain a secondary school and community library in Croydon for the London Borough of Croydon. | 2004 | 2034 | 30 | £20m | Vinci |
| Darlington Schools | Darlington Schools is a four-school education PFI project consisting of an Education Village (which brought together three existing schools) and one primary school. | 2004 | 2029 | 25 | £31m | Mitie |
| Defence 6th Form College | Design, build, operate, finance and maintain a new residential sixth form college for the Secretary of State for Defence. | 2003 | 2033 | 30 | £40m | Pearson Interserve |
| Derby Schools | Design, construct, finance, operate and maintain three primary schools and two secondary schools in Derby for Derby City Council. | 2004 | 2031 | 27 | £37m | Vinci |
| Doncaster Mental Health Hospital | Design, construct, finance, operate and maintain a service accommodation for an elderly mental health unit in Doncaster for the Rotherham Doncaster and South Humber Mental NHS Foundation Trust. | 2003 | 2031 | 28 | £15m | Royal BAM |
| Dorset Fire & Rescue | Design, construct, finance, operate and maintain the fire and police facilities at three sites in Dorset for the Dorset Fire Authority & the Police and Crime Commissioner for Dorset (formerly the Dorset Police Authority). | 2007 | 2034 | 27 | £45m | Cofely |
| Dorset Police | Design, construct, finance, operate and maintain a new divisional headquarters and section stations at Bridport and East Weymouth for the Police and Crime Commissioner for Dorset (formerly the Dorset Police Authority). | 2002 | 2033 | 31 | £15m | Sodexo |
| Durham and Cleveland Police Tactical Training Centre | Construction of a state of the art firearms and tactical training centre at Urray Nook in the North of England. | 2000 | 2025 | 25 | £6m | John Laing |
| Dutch High Speed Rail | Design, construct, finance, operate and maintain power, track and signalling for the high speed railway between Schiphol Airport and Belgian border in the Netherlands. | 2001 | 2026 | 25 | £625m | Siemens Royal BAM Fluor |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS *(continued)*

| Project | Short description of concession arrangements | Start date | End date | Number of years | Project Capex | Key subcontractors |
|------------------------------------|---|------------|----------|--|---------------|-------------------------------------|
| Ealing Care Homes | Design, construct, finance, operate and maintain four care homes for the elderly in the London Borough of Ealing for the London Borough of Ealing. | 2005 | 2035 | 30 | £22m | Viridian |
| Ealing Schools | Ealing Schools is a four-school education PFI project consisting of one secondary school and three primary schools in the London Borough of Ealing. | 2002 | 2029 | 27 | £31m | Mitie |
| Edinburgh Schools | Design, construct, finance and operate six secondary schools and two primary schools for the City of Edinburgh Council. | 2007 | 2039 | 32 | £165m | Mitie |
| Exeter Crown Court | Build and service a new crown and county court building in Exeter. | 2002 | 2034 | 32 | £20m | Sodexo |
| Fife Schools | The facility involved the construction of 3 new schools and a sports hall. | 2001 | 2028 | 27 | £40m | Sodexo |
| Fife 2 Schools | Design, construct, finance and maintain nine primary schools and one special education facility in the Fife area of Scotland. | 2005 | 2032 | 27 | £63.5m | FES FM Ltd |
| Glasgow Hospital | Design, construct, finance, operate and maintain two new ambulatory care and diagnostic hospitals in Glasgow for the Greater Glasgow and Clyde Health Board. | 2006 | 2036 | 30 | £178m | Balfour Beatty Engineering Services |
| Greater Manchester Police Stations | Construction of 17 police stations on 16 around Greater Manchester. | 2002 | 2031 | 29 | £82m | John Laing |
| Haverstock School | Haverstock is a single school education PFI project consisting of a new secondary school on an existing school site on Haverstock Hill, Camden. | 2004 | 2030 | 26 | £21m | Mitie |
| Health & Safety Merseyside HQ | HSE Merseyside HQ is an accommodation PFI project. It is a four-storey office building that serves as the HSE's operational headquarters and houses 1,500 employees. | 2005 | 2035 | 30 | £62m | Honeywell Reliance |
| Health & Safety Laboratory | Building of new workshops and offices in Buxton and the disposal of old facilities at Sheffield. | 2002 | 2034 | 32 | £60m | Interserve |
| Helicopter Training Facility | Design, construction, management, operation and financing of STET simulators based training facility for RAF helicopter pilots. | 1997 | 2037 | 40 (with break clause by Grantor at Year 20) | £100m | Serco Selex |
| Highland Schools | Design, construction and operate eleven urban and rural schools. | 2007 | 2037 | 30 | £143m | Mears |
| Home Office HQ | Build, finance, operate and maintain a new headquarters building to replace the Home Office's existing London office accommodation with purpose-built serviced offices. | 2002 | 2031 | 29 | £200m | Bouygues Energies & Services |

27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS *(continued)*

| Project | Short description of concession arrangements | Start date | End date | Number of years | Project Capex | Key subcontractors |
|---|--|------------|----------|-----------------|---------------|--------------------|
| Irish Grouped Schools | Design, construct, finance, operate and maintain five secondary schools in the Republic of Ireland for the Department of Education and Skills. | 2001 | 2026 | 25 | €34m | Bilfinger Berger |
| Kicking Horse Canyon | Upgrade, operate and maintain a section of highway in British Columbia. | 2005 | 2027 | 22 | CAD\$ 127m | HMC Services |
| Kent Schools | Design, build, funding and partial operation of six schools in Kent under the UK Government's PFI programme. | 2005 | 2035 | 30 | £95m | Mitie |
| Lewisham Hospital | Design, construct, finance, operate and maintain a new wing in Lewisham Hospital for the Department of Health. | 2004 | 2036 | 32 | £58m | Carillion |
| M80 Motorway | Design, build, finance and operate a section of the M80 motorway in Scotland. | 2009 | 2039 | 30 | £275m | Bear |
| Manchester School | Design, construct, finance, operate and maintain the Wright Robinson College in Manchester for Manchester City Council. | 2005 | 2031 | 26 | £29m | Hochtief |
| Medway Police | Design, construct, finance, operate and maintain a divisional police headquarters for the Police and Crime Commissioner for Kent (formerly the Kent Police Authority). | 2004 | 2034 | 30 | £21m | Vinci |
| Metropolitan Specialist Training Centre | Construction of a firearms and public order training facility in Gravesend, Kent for the Mayor's Office for Policing and Crime (formerly the Metropolitan Police Authority). | 2001 | 2026 | 25 | £40m | John Laing |
| Newcastle Libraries | Finance, develop, construct and operate a new city centre library in Newcastle and an additional satellite library in High Heaton, both in the North East of the UK. | 2007 | 2032 | 25 | £30m | Integral |
| Newport Schools | Design, construct, finance, operate and maintain a nursery, infant and junior school for Newport City Council. | 2008 | 2033 | 25 | £15m | Vinci |
| Newton Abbot Hospital | Design, construct, finance, operate and maintain a community hospital for Devon Primary Care Trust. | 2007 | 2039 | 32 | £20m | Rydon |
| North Tyneside Schools | North Tyneside Schools is a four-school education PFI project consisting of one secondary school (Burnside) and three primary schools (Western, Marine, Coquet) in North Tyneside. | 2002 | 2033 | 31 | £30m | Mitie |
| North West Anthony Henday | Financing, building, maintaining and rehabilitating the northwest leg of the Anthony Henday Drive ring road in the City of Edmonton, Alberta. | 2008 | 2041 | 33 | CAD\$ 995m | Hochtief Vinci |
| Northwood MoD HQ Project | Design, construct and commission new-built facilities on behalf of the Ministry of Defence in Northwood, Greater London | 2006 | 2031 | 25 | £198m | Carillion |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS *(continued)*

| Project | Short description of concession arrangements | Start date | End date | Number of years | Project Capex | Key subcontractors |
|-------------------------------------|--|------------|----------|-----------------|---------------|--|
| Norwich Schools | Design, construct, finance and operate five primary schools and one secondary school; all new build with the exception of a small element of retained estate at the secondary school for the Norwich City Council. | 2006 | 2032 | 26 | £44m | Kier |
| Oldham Library | Design, construct, finance, operate and maintain the Oldham Library and Lifelong Learning Centre for Oldham Metropolitan Borough Council. | 2004 | 2029 | 25 | £15m | Kier |
| Oldham Schools | Design, construct, finance and operate two secondary schools for Oldham Metropolitan Borough Council. | 2006 | 2033 | 27 | £54m | Kier |
| Oxford Churchill Oncology | Design, construct, finance, operate and maintain a 100 bed oncology unit, including provision of medical equipment for Oxford Radcliffe Hospitals NHS Trust. | 2005 | 2038 | 33 | £124m | G4S Impregilo |
| Oxford John Radcliffe Hospital | Design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary. | 2003 | 2036 | 33 | £161m | Carillion |
| Oxford Nuffield Hospital | Design, construct, finance, operate and maintain a new orthopaedic hospital for the Secretary of State for Health. | 2002 | 2036 | 34 | £37m | G4S |
| Perth and Kinross Schools | Design, construct, financing and operation of four secondary schools and five primary schools for the Perth and Kinross Council. | 2007 | 2041 | 34 | £136m | Mitie |
| Pinderfields & Pontefract Hospitals | Design, construction, management, financing and operate a new 708 bed acute hospital in Pinderfield, West Yorks and a new diagnostic and treatment hospital in Pontefract, West Yorks for the Mid Yorkshire NHS Trust. | 2007 | 2042 | 35 | £311m | Balfour Beatty Engineering Services |
| Queen Alexandra Hospital | Design and construction of a new hospital and retained estates work in Portsmouth. | 2005 | 2040 | 35 | £255m | Carillion |
| Renfrewshire Schools | Design, construction, management, financing, operation and maintenance of six primary and four secondary schools in Renfrewshire, Scotland. | 2008 | 2038 | 30 | £100m | Amey |
| Rhondda Schools | Design, construction, management, financing and operate a primary school, secondary school, a day nursery and an adult learning centre in South Wales for Rhondda Cynon Taf Authority. | 2004 | 2028 | 24 | £22m | Vinci |
| Romford Hospital | Design, construction, management, financing, operation and maintenance of a new hospital in Romford. | 2004 | 2040 | 36 | £211m | Sodexo Bovis Lend Lease Siemens |
| Sheffield Hospital | Design, construction, financing and management of a new 168 bed wing at the Sheffield Northern General Hospital for the Sheffield Teaching Hospitals NHS Foundation Trust. | 2004 | 2036 | 32 | £26m | Dalkia |

27. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS *(continued)*

| Project | Short description of concession arrangements | Start date | End date | Number of years | Project Capex | Key subcontractors |
|-----------------------------------|--|------------|-----------|-----------------|---------------|------------------------------|
| Sheffield Schools | Design, construct, finance and operate two primary schools and two secondary schools for Sheffield City Council. | 2004 | 2030 | 26 | £52m | Kier |
| South Ayrshire Schools | Design, construct, finance and operate of three primary schools, two secondary academy schools and a new performing arts annex at an existing academy for South Ayrshire Schools. | 2006 | 2039 | 33 | £76m | Mitie |
| South East London Police Stations | Construction of 4 police stations in South East London for the Mayor's Office for Policing and Crime (formerly the Metropolitan Police Authority). | 2001 | 2026 | 25 | £80m | John Laing |
| Staffordshire LIFT | Design, construct, and invest in facilities | 2005 | 2030-2037 | 25-32 | £40m | Integral |
| Stoke Mandeville Hospital | Design, finance, construct, refurbish, operate and maintain a new hospital facility for the Buckingham Hospitals NHS Trust. | 2004 | 2034 | 30 | £40m | Sodexo |
| Sussex Custodial Centre | Build and service three custody centres in Sussex for the Police and Crime Commissioner for Sussex (formerly the Sussex Police Authority). The centres are at Worthing, Chichester and Brighton. A fourth centre at Eastbourne was subsequently contracted for as a variation. | 2001 | 2031 | 30 | £20m | Capita |
| Swindon Police | Design, construction, management, financing and operate a new divisional headquarters for the Police and Crime Commissioner for Wiltshire and Swindon (formerly the Wiltshire Police Authority). | 2005 | 2037 | 32 | £18m | Vinci |
| Tyne & Wear Fire Stations | Design, construct, manage, finance and operate seven fire station facilities and a headquarters building in Tyne and Wear for the Tyne and Wear Fire and Civil Defence Authority. | 2006 | 2031 | 25 | £23m | John Laing |
| West Lothian Schools | Design, construct, finance and operate two new schools, Armadale Academy and the Deans Community High School for West Lothian Council. | 2008 | 2040 | 32 | £60m | Dawn Construction |
| West Middlesex Hospital | Design, construct, finance, operate and maintain a new 228 bed hospital for West Middlesex University Hospital NHS Trust. | 2001 | 2036 | 35 | £60m | Bouygues Energies & Services |
| Willesden Hospital | Design, construct, manage and finance a community hospital in north London for NHS Brent. | 2002 | 2034 | 32 | £19m | Accuro |
| Wooldale Centre for Learning | Wooldale Centre for Learning is an education PFI project consisting of a Centre for Learning (CfL) comprising a secondary school with sixth form, public library, primary school and nursery on a large site in Northamptonshire. | 2004 | 2029 | 25 | £24m | Mitie |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2013

28. PRINCIPAL SUBSIDIARIES

| Name | Country | Ownership interest |
|--|----------------|--------------------|
| HICL Infrastructure 1 SARL | Luxembourg | 100.0% |
| HICL Infrastructure 2 SARL | Luxembourg | 100.0% |
| Infrastructure Investments Limited Partnership | United Kingdom | 100.0% |
| Infrastructure Investments Holdings Limited | United Kingdom | 100.0% |
| AGP (2) Limited* | United Kingdom | 100.0% |
| Alpha Schools Highland Plc** | United Kingdom | 100.0% |
| Consort Healthcare (Blackburn) Funding Plc* | United Kingdom | 100.0% |
| Operating Subsidiaries | | |
| 2003 Schools Services Limited | United Kingdom | 100.0% |
| Ashburton Services Limited | United Kingdom | 100.0% |
| Annes Gate Property Plc* | United Kingdom | 100.0% |
| Alpha Schools Highland Limited** | United Kingdom | 100.0% |
| Axiom Education (Edinburgh) Limited* | United Kingdom | 100.0% |
| Axiom Education (Perth & Kinross) Limited* | United Kingdom | 100.0% |
| Boldon School Limited | United Kingdom | 100.0% |
| ByCentral Limited* | United Kingdom | 100.0% |
| ByWest Limited* | United Kingdom | 100.0% |
| Consort Healthcare (Blackburn) Limited* | United Kingdom | 100.0% |
| CVS Leasing Limited | United Kingdom | 87.6% |
| PFF (Dorset) Limited* | United Kingdom | 100.0% |
| Education 4 Ayrshire Limited* | United Kingdom | 100.0% |
| Enterprise Civic Buildings Limited* | United Kingdom | 100.0% |
| Enterprise Education Conwy Limited* | United Kingdom | 90.0% |
| Enterprise Healthcare Limited* | United Kingdom | 100.0% |
| Metier Healthcare Limited | United Kingdom | 100.0% |
| Ravensbourne Health Services Limited* | United Kingdom | 100.0% |
| Services Support (Cleveland) Limited* | United Kingdom | 72.9% |
| Services Support (Gravesend) Limited* | United Kingdom | 72.9% |
| Services Support (Manchester) Limited* | United Kingdom | 72.9% |
| Sussex Custodial Services Limited* | United Kingdom | 100.0% |
| THC (OJR) Limited* | United Kingdom | 100.0% |
| THC (QAH) Limited* | United Kingdom | 100.0% |
| TW Accommodation Services Limited | United Kingdom | 100.0% |

* = Reporting date 31 December

** = Reporting date 31 January

All the consolidated revenues and the material net assets of the subsidiaries above are derived from the United Kingdom.

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