HICL Infrastructure

HICL Infrastructure PLC Interim Report 2021

Delivering Real Value.

Birmingham Hospital, UK

Contents

Front cover image: Kicking Horse Canyon, Canada

Interim Highlights

155.4p

NAV per share[1]

Up 3.1p from 152.3p at 31 March 2021

9.8%

Annualised Shareholder Return

Calculated using interim dividends paid plus the uplift in NAV per share in the period (7.8% at 30 September 2020)

1.04x

Dividend cash cover[2]

0.83x at 30 September 2020

8.25p

Dividend guidance[3] for 2022

Reaffirmed dividend guidance[3] 8.25p for 2023

MARKET SEGMENT

September 2021

March 2021

	Sep 2021	Mar 2021
▲ PPP projects	69%	71%
▲ Demand-based assets	20%	19%
▲ Regulated assets	11%	10%

GEOGRAPHIC LOCATION

September 2021

March 2021

	Sep 2021	Mar 2021
▲ UK	74%	74%
▲ EU	18%	18%
▲ North America	8%	8%

Top Ten Investments

Differentiated Investment Proposition

LOW SINGLE ASSET CONCENTRATION RISK

45%

Ten largest assets as a proportion of the portfolio as at 30 September 2021

STRONG INFLATION CORRELATION

0.8

Correlation of portfolio returns to inflation[4] as at 30 September 2021

GOOD CASH FLOW LONGEVITY

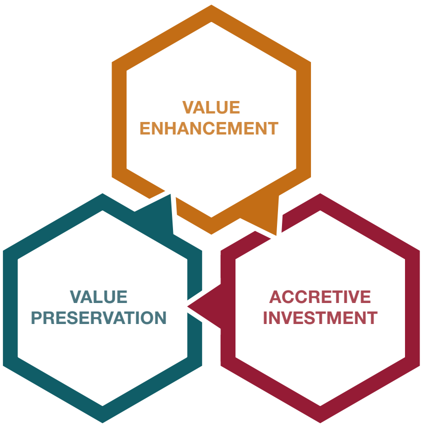
28.8 years

Weighted average asset life as at 30 September 2021

HICL Infrastructure PLC ("HICL" or the "Company") prepares its financial statements in accordance with UK-adopted International Financial Reporting Standards ("IFRS"). However, the Company also reports on a non-GAAP Investment Basis which the Directors believe aids users to assess the Company's underlying performance. The Investment Basis is an Alternative Performance Measure ("APM") and is described on page 28. Total return and net assets are the same under the Investment Basis and IFRS and a reconciliation between the two is shown on pages 32 and 33. Pages 2 to 33 are prepared on an Investment Basis. The Interim Report also includes the Directors' Valuation, which is another APM, and is described on page 31. The valuation under this APM is the Investment Basis plus future investment commitments.

[1] Net Asset Value
[2] On an Investment Basis, includes profit on disposal of £1.7m versus the original acquisition cost. Excluding this, dividend cash cover is 1.02x
[3] Expressed in pence per Ordinary Share for the financial year ending 31 March. This is a target only and not a profit forecast. There can be no assurance that this target will be met
[4] If outturn inflation was 1% p.a. higher than the valuation assumption in each and every future period, the expected return from the portfolio (before Corporate Group expenses) would increase by 0.8%

HICL's investment proposition is to deliver sustainable income from a diversified core infrastructure portfolio



Active management
- Generate base case cash flows
- Deliver well-maintained infrastructure for end users

Outperformance
- Improve financial performance
- Enhance communities' experience of infrastructure

Resilience
- Build a sustainable portfolio of investments
- Benefits from a strong, long-term social purpose

"HICL's vision is to enrich lives through infrastructure: by delivering **strong social foundations**; **connecting communities**; and supporting **sustainable modern economies**."

Ian Russell CBE, Chairman

Strong Social Foundations

59% of portfolio[1]

Assets that constitute the foundation of our societies, such as:

Health

Education

Fire, Law & order

Accommodation

Connecting Communities

30% of portfolio[1]

Assets that link people to the economy and each other, such as:

Availability or toll roads

Rail and rolling stock

Fibre networks

Towers

Grey icons are examples of possible future holdings

Sustainable Modern Economies

11% of portfolio[1]

Assets supporting the energy transition and continued resource security, such as:

Water

OFTOs

District energy

Electricity distribution

Grey icons are examples of possible future holdings

[1] By value as at 30 September 2021

Croydon Schools, UK

01 Overview

1.1 Chairman's Statement

Ian Russell, CBE
Chairman

HICL's vision is to enrich lives through infrastructure: delivering strong social foundations; connecting communities; and supporting sustainable modern economies.

Through this vision, the Company endeavours to deliver sustainable income from a diversified core infrastructure portfolio. As a responsible owner of key public assets, HICL's ability to deliver this investment proposition over the long term is interwoven with the delivery of positive stakeholder outcomes for the broader community.

In this capacity as a custodian of essential public infrastructure, HICL is well positioned to deliver the 'social' dimension of the ESG framework. Through its portfolio of more than 100 individual investments, HICL serves a population of over 20 million people in six countries, including nearly 15 million via the provision of access to healthcare facilities, courts, fire and police stations.

The Company continues to progress its ambitious sustainability strategy across each of the pillars of Environmental, Social and Governance, as set out in its 2021 Sustainability Report, for the benefit of both shareholders and other stakeholders. Sustainability highlights in the period are outlined in Section 2.2 – Sustainability Update.

Financial performance
I am pleased to announce a strong result for the Company for the six months to 30 September 2021, with an increase in Net Asset Value ("NAV") of 3.1p per share to 155.4p (March 2021: 152.3p per share). Total Shareholder Return ("TSR"), which is calculated as NAV growth plus dividends, on an annualised basis was 9.8% (September 2020: 7.8%) and the underlying Annualised Return from the portfolio, which is calculated as portfolio return divided by the rebased valuation, was 7.3% (7.5% in September 2020), in excess of the Company's weighted average discount rate in the period (6.8% at March 2021). This TSR outperformance was driven by value enhancement initiatives across the portfolio; continued evidence of recovery from Covid-19; strong asset pricing in the Company's core geographies; and higher than assumed inflation.

(See Section 2.3 – Valuation of the Portfolio for additional detail on the factors influencing the Directors' Valuation and the discount rate.)

Dividend guidance
The long-term and predictable nature of the Company's cash flows provides good visibility for future dividends, and transparency on these targets is important to HICL's shareholders. The Board is pleased to re-affirm that HICL remains on track to deliver its target dividend of 8.25p per share for the financial year ending 31 March 2022, which is expected to be fully cash covered.

The Board also reiterates the dividend guidance of 8.25p per share for the year ending 31 March 2023. This dividend remains the highest cash dividend available from HICL's listed core infrastructure peer group. The dividend trajectory will continue to be calibrated against the Company's express intention to rebuild dividend cash cover and enhance the long-term earnings profile of the Company.

> "HICL remains on track to deliver its target dividend of 8.25p per share"

Corporate governance
Having served on the Board for eight years, it is appropriate that I step down next year in line with the guidance on director independence in the UK Corporate Governance Code.

Following a comprehensive search process, led by Frank Nelson, HICL's Senior Independent Director, in conjunction with a leading independent search consultancy, the Board has confirmed that current non-executive Director Mike Bane has been selected to be my successor as Chair, effective from 31 July 2022. Further detail on the process will be included in the 2022 Annual Report.

On behalf of the Board, I congratulate Mike on his forthcoming appointment and wish him every success in the role.

Business model in action

The pillars of HICL's business model (see page 3) are interconnected and operate in concert to support value creation for the Company's shareholders, underpinning this period's strong financial performance.

As HICL's portfolio now emerges from the Covid-19 pandemic, the Investment Manager's value preservation activities have focused on supporting two key areas: our public sector clients, particularly in the healthcare sector, as they transition to more normal and resilient operating environments, including the implementation of related variations; and the subset of the Company's demand-based assets with longer forecast paths to recovery.

The active management of High Speed 1 ("HS1", 4% of portfolio value at 30 September 2021) through a challenging six months has been a key focus. In the period, the easing of restrictions for cross-border travel and the steady increase in international services provides confidence in the recovery assumed in the valuation and the underlying strategic value of the asset (see Section 2.1 – Investment Manager's Report for additional commentary on HS1).

Preparing for the transition from LIBOR to SONIA on 31 December 2021 has also been an important value preservation initiative, driven by InfraRed's portfolio management team. In a successful pilot scheme sponsored by InfraRed, one of HICL's investments, the Sheffield Building Schools for the Future (BSF) project, became the first PPP project in the UK to transition its financing agreements proactively, subject to client consent. The Investment Manager continues to work closely with the Infrastructure and Projects Authority in its role to support the public sector on the transition and limit disruption. HICL's leadership in this industry-wide challenge protects the Company's interests and those of its stakeholders, including public sector and financing partners.

Value enhancement in the period has been delivered through portfolio and asset management initiatives including project variations, lifecycle works reprofiling and refinancing. The Company also made a disposal in the period, and after the period-end announced the completion of two acquisitions. These transactions are all expected to be accretive to portfolio metrics.

InfraRed continues to progress the Company's acquisition strategy, with primary focus on the enhancement of HICL's investment proposition for shareholders. Key to this is systematic adherence to the Company's core infrastructure framework, across the themes and sectors in which the Company seeks acquisitions. Within this, a pipeline of attractive investment opportunities consistent with the tenets of HICL's vision continues to be developed: social foundations (e.g. health, education), connecting communities (e.g. transportation and communications) and sustainable modern economies (e.g. energy transition, water).

With increasing competition for the attractive investment characteristics of infrastructure assets, investment discipline remains imperative, as does the full utilisation of InfraRed's multi-national, multi-fund origination platform, which continues to be leveraged to identify and execute attractive opportunities for HICL across its core markets.

HICL's value enhancement and accretive investment activity are key drivers of NAV growth. Since IPO in 2006, the Company has delivered over 40p of NAV outperformance. This is delivered through the efforts of InfraRed's dedicated asset management, portfolio management and origination teams, in line with the pillars of HICL's business model.

"The strategic backdrop for infrastructure investment remains positive"

Outlook

The strategic backdrop for infrastructure investment remains positive. Powerful megatrends continue to drive infrastructure delivery, in particular in support of the transition to a lower carbon economy and the pursuit of greater and faster connectivity. Governments across HICL's core markets also continue to progress ambitious infrastructure delivery programmes to both stimulate economies post-pandemic and address the systemic ageing of existing infrastructure. Inevitably, the transition from headlines to delivery will take time and require significant private sector input; the Company continues to champion the role of private sector investment in enabling this process towards asset delivery for the benefit of local communities.

The outlook for inflation is expected to remain elevated in HICL's core markets, and in this context, the inherent inflation correlation built into HICL's cash flows at 0.8x is a key attraction for investors.

Overall, looking ahead, the Board continues to be encouraged by the signs of continued economic recovery from the Covid-19 pandemic, the resilience of the portfolio and the strength of HICL's visible pipeline.

Ian Russell
Chairman
23 November 2021

1.2
The Investment Portfolio – Top 10 Assets

Affinity Water

Affinity Water Limited is the largest water-only supplier in the UK by revenue and population served covering an area of 4,515 sq. km.

Sector: Electricity, Gas & Water
Location: England, UK
% of portfolio: 8% (March 2021: 8%)
HICL holding: 33.2%
Concession length: N/A
Status: Operational

A63 Motorway

The A63 Motorway project in South West France includes the upgrade of an existing 105 km road linking the towns of Salles (Gironde) and Saint-Geours-de-Maremne.

Sector: Transport
Location: France
% of portfolio: 7% (March 2021: 7%)
HICL holding: 21.0%
Concession length: 40 years
Status: Operational

Northwest Parkway

The Northwest Parkway is a 14 km, four-lane toll road that forms part of the ring road around the city of Denver, Colorado, USA.

Sector: Transport
Location: USA
% of portfolio: 6% (March 2021: 5%)
HICL holding: 33.3%
Concession length: 99 years
Status: Operational

Southmead Hospital

Southmead Hospital PFI project is an 800-bed acute hospital concession on a single site at Southmead in North Bristol.

Sector: Health
Location: UK
% of portfolio: 5% (March 2021: 5%)
HICL holding: 62.5%
Concession length: 35 years
Status: Operational

High Speed 1

HS1 is the rail link between London St Pancras station and the Channel Tunnel. It is currently the UK's only high-speed rail line in operation.

Sector: Transport
Location: UK
% of portfolio: 4% (March 2021: 4%)
HICL holding: 21.8%
Concession length: 30 years
Status: Operational

Royal School of Military Engineering

The PPP project covers 32 new and 21 existing buildings, and five training areas on behalf of the UK Ministry of Defence.

Sector: Accommodation

Location: UK

% of portfolio: 4% (March 2021: 4%)

HICL holding: 100%

Concession length: 30 years

Status: Operational

Pinderfields and Pontefract Hospitals

Pinderfields and Pontefract Hospitals PFI project is a two hospital concession for Mid Yorkshire Hospitals NHS Trust, delivering a combined total of 774 beds.

Sector: Health

Location: UK

% of portfolio: 4% (March 2021: 4%)

HICL holding: 100%

Concession length: 35 years

Status: Operational

Home Office

The PPP concession commissioned by the UK Home Office to replace its existing headquarters with purpose-built serviced offices in Westminster, London.

Sector: Accommodation

Location: UK

% of portfolio: 3% (March 2021: 3%)

HICL holding: 100%

Concession length: 29 years

Status: Operational

Queen Alexandra Hospital

The PFI project comprises a new seven-storey building, as well as pathology and rehabilitation blocks and a two-storey car park.

Sector: Health

Location: UK

% of portfolio: 2% (March 2021: 3%)

HICL holding: 100%

Concession length: 35 years

Status: Operational

Blankenburg Tunnel

The availability PPP project involves the construction of a 4.2 km tunnel under the Nieuwe Maas river near Rotterdam, linking the A15 and A20 motorways.

Sector: Transport

Location: The Netherlands

% of portfolio: 2% (March 2021: 2%)

HICL holding: 70%

Concession length: 24 years

Status: In construction

Newcastle Libraries, UK

02
Strategic Report

2.1
Investment Manager's Report

Harry Seekings
Head of Infrastructure, InfraRed
Harry leads InfraRed's infrastructure investment business, including HICL

Edward Hunt
Director, Infrastructure, InfraRed
Edward leads the InfraRed team that manages HICL

Helen Price
Director, Infrastructure, InfraRed
Helen is responsible for managing the financial activities carried out by InfraRed for HICL

The Investment Manager

InfraRed Capital Partners Limited ("InfraRed") acts as the Investment Manager to HICL and Operator of the Group's investment portfolio. InfraRed has day-to-day responsibility for the Company and manages key stakeholders. Activities include:

- Development and execution of HICL's strategy;
- Stewardship of the assets in the portfolio, through proactive asset and portfolio management and the resolution of critical issues;
- Investment origination, due diligence and execution; and
- Capital raising, investor relations and preparation of key external communications.

InfraRed is a specialist infrastructure investment manager[1]:

USD10bn+
Equity under management

25+
Years of investment experience

8
Funds raised

150+
Staff across five countries

20+
Nationalities

220+
Infrastructure assets under management

18
Countries where InfraRed manages assets

SLC Management
Majority-owned by Sun Life/SLC since 2020

Investment Manager's relationship with the Company

HICL Infrastructure – AIF subject to the full scope of the AIFMD (UK Investment Trust Company)

InfraRed Capital Partners – International investment manager focused on infrastructure

HICL's Shareholders
(predominantly UK)

Independent Non-Executive Board and Committees
Governance Oversight Strategy

Portfolio Companies
Non-recourse holding structure

Investor Relations
Communications

Alternative Investment Fund Manager (AIFM)
Fund Management Strategy Reporting

Acquisitions and Disposals
Asset Management
Risk and Portfolio Management

Shared responsibility across the Board and InfraRed
To deliver a robust and proactive approach to governance to deliver sustainable income, to mitigate risks and to create a positive impact within the Company's portfolio

[1] In August 2021 InfraRed announced the sale of its European Real Estate Investment Management business to ARA Dunedin. The transaction is expected to complete by the end of 2021. Disclosed figures are representative of the infrastructure business only

Operational Highlights

The underlying performance of the portfolio has been pleasing in the year to date, delivering an annualised portfolio return of 7.3% (7.5% at 30 September 2020), ahead of the expected return of 6.8% for the period (as at 31 March 2021).

PPP projects

The Company's PPP portfolio comprised 69% of the Directors' Valuation at 30 September 2021 (31 March 2021: 71%) and continues to perform robustly owing to its long-term, availability-based contracted revenues.

InfraRed's active asset and portfolio management activities remained focused on effective partnership with the public sector, through the unique challenges resulting from the Covid-19 pandemic. Across the healthcare portfolio in particular this involved the transition to more normal and resilient operating environments, including the implementation of related contract variations. This cooperation with the public sector extended to other important matters during the period, including the effective navigation of the transition from LIBOR to SONIA across the portfolio as well as handback strategy and planning (see 'Key Risks Update' below). This progress underscores InfraRed's stance that the achievement of successful outcomes for both public and private sector, alike, is tied to the principles and spirit of collaboration inherent in the PPP model.

Proactive monitoring of asset condition across the portfolio remains a key activity of InfraRed's specialist asset management team. In addition to the effective management of lifecycle spending over the concession life, an important element of this is the identification and remediation of construction-related defects across a subset of assets, which can arise many years after construction completion. This includes taking appropriate action, including through legal channels if necessary, to ensure that subcontractors stand behind their obligations and remedy defects promptly and responsibly. Pursuing this approach as required during the period has successfully driven the delivery of remediation works and the further de-risking of equity cash flow assumptions where impacted by these historic construction quality issues. As disclosed and valued in the Annual Report 2021, the Company committed to invest £28m in a UK healthcare project to deliver the remediation of certain fire safety construction defects in the absence of the construction contractor, Carillion. The first tranche of investment was made in September 2021 and the remediation works are expected to complete in the first quarter of 2023.

A key component of the Company's strategy to deliver value to shareholders is optimising portfolio composition. In September 2021, the Company disposed of its 50% interest in the Health & Safety Executive Headquarters PPP for £11m. These proceeds were recycled post period end into incremental investments in the Bradford Schools Phase I and Phase II PPP projects. This portfolio rotation was accretive to return and yield whilst delivering an improved risk profile and a longer asset life for the portfolio.

In August 2021, the PPP contract for the Defence Sixth Form College project (0.3% of the portfolio by value at 31 March 2021) was voluntarily terminated by the public sector client due to planned changes to the UK's defence training programme. The Company expects to receive compensation in line with the equity valuation of the investment at 31 March 2021.

Demand-based assets

Investments where asset revenues are linked to end-user demand accounted for 20% of the portfolio by value as at 30 September 2021 (31 March 2021: 19%) and have experienced the greatest impact from the Covid-19 pandemic. The recovery to date has varied across the three largest demand-based assets (discussed below), however, all three assets performed in line with the forecasts assumed at 31 March 2021.

Underlying demand on the A63 Motorway in France (7% of portfolio value) remained resilient due to its position as a key transit corridor. Performance during the period was in line with the 31 March 2021 valuation forecast despite being partially impacted by lockdowns and travel restrictions in France throughout early 2021. In September and October 2021, traffic exceeded pre-Covid levels, underscoring the road's strategic positioning as part of the TEN-T trans-European network.

The Northwest Parkway in Colorado, USA (6% of portfolio value) also performed in line with InfraRed's previous forecast. The asset has continued to recover, linked to the ongoing vaccination roll-out and increasing consumer confidence in the US, and resumed shareholder distributions during the period. InfraRed's forecast assumes recovery of revenue to 100% of pre-Covid levels by June 2023, unchanged from the 31 March 2021 valuation.

HS1 (4% of portfolio value) provides the UK's strategic rail link into Europe and is therefore impacted by cross-border travel and quarantine restrictions. The gradual easing of these conditions in the period enabled passenger demand for international rail travel (32% of pre-Covid track access revenue) to start to recover. In the four-week period to 10 October 2021, international train services were operating at 35% of pre-Covid levels, and Eurostar's advertised services indicate that bookings are expected to continue to increase above this level over the coming months. InfraRed's forecast assumes recovery of international services to 100% of pre-Covid levels by March 2025, consistent with the 31 March 2021 valuation.

Domestic services (68% of pre-Covid track access revenue) continue to be supported by the contractual underpin provided by the Department for Transport, which guarantees 96% of pre-Covid revenues. The Investment Manager notes the replacement of London & South Eastern Railway Limited as the operator of domestic services on HS1 by the UK Government, which is not expected to have an impact on current or forecast future train path bookings.

2.1
Investment Manager's Report (continued)

The Investment Manager remains focused on supporting HS1's continuing recovery, in coordination with the HS1 management team which delivered important liquidity enhancement initiatives in the period. Relationships with the project's lenders remain positive and collaborative.

Based on the performance of the three largest demand-based assets during the period and the current economic outlook, the valuation approach used at 31 March 2021 has been retained with minor adjustments linked to the latest available performance data and macroeconomic assumptions. The Investment Manager is comfortable that the forecasts for these assets appropriately balance downside risks (see 'Key Risks Update' below) with the potential for future outperformance.

Shortly after the period end, the Company completed its acquisition of a 33% interest in Road Management Group ("RMG Roads"), which comprises two UK shadow toll roads: A417/A419 Swindon-Gloucester and the A1(M) Alconbury-Peterborough. Both roads performed resiliently through the Covid-19 pandemic owing to their strategic positioning. Following the acquisition, the proportion of the portfolio with demand correlated to GDP is 19%.

Regulated assets

Regulated assets, comprising HICL's investment in Affinity Water and four Offshore Transmission assets ("OFTOs") accounted for 11% of the portfolio by value, as at 30 September 2021 (31 March 2021: 10%).

Operational performance at Affinity Water (8% of portfolio value), a regulated water-only company serving a population of over three million in the south of England, was in line with expectations during the period. The business continues to focus on meeting the challenging performance commitments established by Ofwat as part of the PR19 Final Determination. Although the company did not meet its leakage target for the financial year to 31 March 2021, it is committed to reducing leakage by 20% by March 2025. Addressing the primary operational impacts of Covid-19 (increased water consumption and low pressure) is another key priority, which continues to be managed in coordination with Ofwat. Affinity's ambition here is supported by the company's forward-looking approach to sustainability, which also focuses on reducing resource abstraction, climate change, innovation, and social initiatives.

Working closely with the Affinity Water board, InfraRed will continue to support the management team in driving the performance of the company through this Asset Management Period. The strategic long-term value of the company continues to be underpinned by the significant investment required in the network, which is expected to result in a 38% increase in Regulatory Capital Value over the course of the current Asset Management Plan period. Furthermore, the highly sought-after characteristics of this investment, notably a perpetual asset life and high inflation correlation, support HICL's portfolio composition and the long-term delivery of real returns.

HICL's four OFTO investments continue to perform strongly, recording combined availability over the six months to 30 September 2021 of 100%. These assets will be an important contributor to the UK's transition to Net Zero and the Investment Manager continues to look favourably on the sector for further investment opportunities.

Financial Highlights

NAV per share increased by 3.1p to 155.4p at 30 September 2021 (31 March 2021: 152.3p). The Company's annualised total shareholder return, based on growth in NAV per share plus dividends paid, was 9.8% for the period (30 September 2020: 7.8%). Over the 15 years since its IPO, HICL has delivered a return of 8.9% per annum on the same basis.

Cash generation in the period was in line with forecast. The Investment Manager remains confident that the cash generation from the portfolio will remain in line with its full year forecast and expects the target dividend of 8.25p per share for the financial year to 31 March 2022[1] to be fully cash covered.

Further information on the investment valuation and financial performance can be found in Section 2.3 – Valuation of the Portfolio and Section 2.6 – Financial Review, respectively.

Sustainability

The Investment Manager believes that long-term success for all HICL's stakeholders, including investors, can only be achieved by taking responsibility for the environmental, social and governance impacts of its investment activities. This is essential to InfraRed's corporate vision and the Investment Manager is committed to embracing sustainability best practice. This means recognising and delivering on its stewardship responsibilities, on behalf of HICL, across the Company's portfolio of essential infrastructure.

In July 2021, InfraRed took an important step in acting on climate change by joining the Net Zero Asset Manager initiative. By becoming a signatory, InfraRed has committed to achieve net zero emissions for its entire investment portfolio (including HICL) by 2050, or sooner. A case study on this initiative can be found in the Sustainability Update on page 19, alongside HICL's key sustainability highlights for the half year.

Key Risks Update

HICL's risk appetite statement, approach to risk management and governance structure are set out in Section 3.5 – Risk and Risk Management of the Annual Report 2021, which can be accessed on the Company's website at www.hicl.com.

The principal risks for the Company for the remaining six months of its financial year are unchanged from those reported on in the Annual Report 2021. There have been no material changes to the impact and likelihood of the Company's principal risks in the period, for which updates on in-period developments are provided below:

[1] This is a target only and not a profit forecast. There can be no assurance that this target will be met

Covid-19

Across HICL's core geographies there has been substantive progress in the management of Covid-19, principally through widespread and effective vaccination programmes. The immediate risk posed by the pandemic has decreased in the period however the Company remains vigilant to the prospect of further disruption. The Directors' Valuation includes an assessment on the recovery profiles of specific assets (such as the traffic forecasts for demand-based assets) and risk remains around the assumptions adopted.

Counterparty risk

Global supply chain pressures have received widespread media coverage. To date, these challenges have been successfully managed by HICL's network of service delivery partners and asset performance has not been materially impacted across the portfolio. The Investment Manager continues to engage closely with its public and private sector partners on this issue as it develops.

Political and regulatory risk

In the UK, the public sector has continued its assessment of readiness for the return of PPP assets at their concession expiry ("handback"). In support of this, the Infrastructure and Projects Authority ("IPA") has conducted a number of project-specific 'health checks'. One HICL asset was included in this exercise with no material issues arising. More broadly InfraRed is committed to proactive and constructive engagement with the IPA and key government departments in the development of transparent and equitable handback protocols. HICL has c. 3% of its portfolio scheduled to be handed back by March 2030.

Successful operation of the PPP model is built on effective partnership and collaboration. We note the UK public healthcare system continues to endure both operational and financial pressure, exacerbated over the course of the past two years in the context of the pandemic. This pressure can translate into behaviour by specific healthcare clients, and their advisers, that could prove adverse to the interests of the PFI, including with respect to service delivery. There continues to be risk that such behaviour erodes shareholder value on specific UK health assets.

In July 2021, HICL announced the first successful transition of a UK PFI ahead of the planned cessation of LIBOR on 31 December 2021, delivered in partnership with the IPA. InfraRed is focused on the delivery of a smooth transition from LIBOR to SONIA over the coming months, in coordination with key public and private sector stakeholders.

Macro-economic risk

The Investment Manager notes the inflationary pressures across HICL's core geographies. Importantly, HICL's equity cash flows are positively correlated to inflation at 0.8x. This means that if long-term inflation were to be 1% higher than the Company's assumptions for all future periods, the Company's returns would increase by 0.8%. This inflation protection is a key attraction of the Company's investment proposition and the result of careful portfolio composition.

This Interim Report provides an update which should be viewed in the context of the Company's risk management framework and principal risks as disclosed in the Annual Report 2021.

Outlook

Market conditions remain supportive for infrastructure investment. Competition for assets continues to be elevated with demand significantly outweighing the supply of high-quality core infrastructure investment opportunities. Notwithstanding this competitive market dynamic, the Investment Manager views favourably the opportunity for accretive investment across the breadth of the core infrastructure landscape.

Continued adherence to the Company's structured core infrastructure risk and reward framework ensures pricing discipline is prioritised and maintained. This approach is complemented by InfraRed's differentiated origination capability, derived from its cross-fund, international investment platform and provides HICL access to less competitive situations, including partnership-driven opportunities and incremental investments. The Investment Manager is working to finalise up to three strategic partnerships to secure preferential access to deal flow, particularly greenfield PPP opportunities. Additionally HICL's existing portfolio continues to provide significant opportunity for accretive incremental investments across each of HICL's asset segments. In respect of demand-based assets with a correlation to GDP, the Investment Manager and the Board may consider exceeding the 20% threshold for appropriate incremental investment opportunities on a case-by-case basis. Incremental acquisitions provide off-market access to high quality assets that InfraRed knows well and therefore represent an attractive risk reward proposition for the Company.

HICL's vision to deliver social foundations, connect communities and support sustainable modern economies guides the Company's acquisition focus. This ensures the appropriate emphasis on both traditional infrastructure sectors and those being driven by the modern economy. The thematic approach also strongly aligns with InfraRed's core competencies; InfraRed's broader investment activity extends beyond HICL's current focus and provides the footprint, expertise and track record to access and successfully execute across the breadth of the core infrastructure market for the benefit of HICL. Further detail on the Company's pipeline is set out in the graphic on the following page.

2.1
Investment Manager's Report (continued)

Healthy pipeline covering the breadth of HICL's acquisition focus:

- Attractive pipeline of core infrastructure assets across UK, Europe and North America
- c. £115m across three transactions at exclusivity or preferred bidder stage
- Three strategic partnerships with industry partners at advanced stage

Strong Social Foundations

- Focus on incremental acquisitions across the operational PPP portfolio (UK, Europe)
- Visible greenfield PPP pipeline across Europe, Canada, Australia and New Zealand

Connecting Communities

- Communications infrastructure in mature geographies: wholesale FTTH assets in France, Nordics, Iberia; towers in UK and Europe
- Incremental acquisitions on demand-based transport assets on a case-by-case basis

Sustainable Modern Economies

- New and incremental acquisitions across the regulated space, including water, electricity transmission/ distribution and OFTOs
- Select district heating/ utilities opportunities which demonstrate core infrastructure characteristics

Kicking Horse Canyon, Canada

2.2
Sustainability Update

HICL's approach to sustainability

As a long-term investor in core infrastructure, HICL has a role in society that extends beyond its shareholders.

The Company is a trusted steward of essential assets and has a responsibility towards the communities that the assets serve and, in many cases, to which the assets will be returned at the end of the defined contractual term. The Board and Investment Manager recognise that operating in a sustainable manner lies at the very heart of the Company's business model, and is fundamental to the successful delivery of its investment proposition.

Over 20 million people around the world with access to HICL's infrastructure, including over:

14.8m	4.5m	3.6m
with access to healthcare facilities, courts, fire and police stations	unique users of HICL's transport assets[1]	people provided with clean drinking water

InfraRed is dedicated to its stewardship responsibilities on behalf of HICL, demonstrated by:

A+ rated since 2015	Official supporter
PRI Principles for Responsible Investment	TCFD
Signatory of	**Since January 2019**
NET ZERO ASSET MANAGERS INITIATIVE	CERTIFIED CARBON NEUTRAL company CarbonNeutral.com

Full details of HICL and InfraRed's respective sustainability strategies can be found in the latest HICL Sustainability Report[2] and the latest InfraRed Sustainability Report[3].

HICL's sustainability objectives

In order to ensure that HICL remains at the forefront of sustainability best practice, the HICL 2021 Sustainability Report sets out a number of key objectives for the financial year ending 31 March 2022. The graphic below sets out the progress that has been made against each objective over the period.

1 InfraRed to align investment process with UN Guiding Principles on Human Rights	▲ Ongoing as part of broader refresh of investment process ▲ Updated exclusions list to be published on InfraRed website
2 Direct engagement with project companies and follow-up sessions with InfraRed	▲ ESG workshop held involving all HICL project companies ▲ Broader industry engagement through InfraRed participation at the Global Investor Summit[4]
3 Expand environmental metrics and measure progress against targets set in 2021 Annual Report	▲ New metrics developed; see case study on page 19 ▲ On track to meet the ESG targets set out in Annual Report 2021
4 InfraRed to implement a plan to achieve net zero greenhouse gas emissions	▲ InfraRed is now a signatory of the Net Zero Asset Managers Initiative – see case study on page 19
5 Launch detailed data collection exercise required for closer alignment with the SFDR[5]	▲ Significant increase in asset-level data collection for SFDR and Net Zero Initiative – see case study on page 19
6 Asset-level climate change mitigation plans in place with regular reporting on progress	▲ Ongoing across the portfolio; a number of project companies have updated risk registers and commenced board reporting

[1] Annual estimate based on pre-Covid usage
[2] https://www.hicl.com/wp-content/uploads/2021/06/HICL-Sustainability-Report-2021.pdf
[3] https://www.ircp.com/sites/default/files/2021-05/InfraRed%20Sustainability%20Report.pdf
[4] https://www.gov.uk/government/topical-events/global-investment-summit-gis-2021/about
[5] EU Sustainable Finance Disclosure Regulations

Case Study: InfraRed's commitment to Net Zero

As a responsible Investment Manager, InfraRed believes that making a proactive and positive contribution to climate action is in the best interests of HICL's shareholders, clients and wider stakeholders.

In July 2021, InfraRed joined the Net Zero Asset Manager initiative, a group of 220 international asset managers representing over $57 trillion of assets under management, who are committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. As part of these commitments, InfraRed will:

- Achieve net zero emissions for HICL's entire portfolio by 2050 or sooner;
- Develop interim emissions reductions targets, to be achieved by 2030, for certain sectors;
- Create and implement strategies to reduce emissions in line with these targets; and
- Ensure that new investments are assessed against InfraRed's net zero commitments.

Case Study: Asset-level data collection

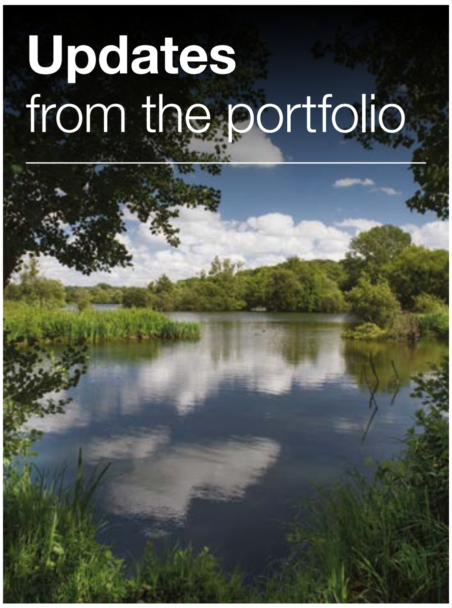
Since 2014, InfraRed has been ensuring that HICL's partners adhere to the highest standards of corporate conduct through its annual ESG survey.

The survey plays an increasingly important role in HICL's overall sustainability strategy; as well as ensuring that the Group's portfolio companies and subcontractors have appropriate policies in place, it also provides the underlying data for HICL's sustainability metrics and targets.

During the period, 12 new questions have been developed. These will be incorporated in the 2021 survey, and in turn will contribute to the continued evolution of HICL's sustainability strategy by:

- Enabling HICL and InfraRed to more closely align with the requirements of the SFDR, specifically by providing the necessary data to report against all mandatory Principal Adverse Impact Indicators[1];
- Capturing Scope 1, Scope 2 and relevant Scope 3[2] greenhouse gas emissions for every HICL project, which is a core requirement of InfraRed's Net Zero commitment;
- Allowing HICL to produce additional metrics relating to biodiversity; and
- Providing the necessary information to report against climate change risk adoption at the portfolio company level.

Updates from the portfolio



HICL's day-to-day focus on sustainability is epitomised through the impact that its investments have on the communities within which they are situated.

Over the period, a number of HICL's portfolio companies have made important contributions, including:

- **HS1** being announced as an official partner of the World Climate Summit, recognised as one of the most important official side events of COP26, and is an opportunity for the company to build on its commitment to provide the greenest and most sustainable option for transport in the UK and into Europe.
- **Affinity Water** set out a route map to becoming carbon net zero by 2030 and launched a new initiative to support customers who may be struggling financially in collaboration with UK Power Networks. The company also launched a sign language service and won two Ofwat innovation awards.
- **A63** produced a book to showcase initiatives that have been supported by the community fund set up at the start of the project. The book is a collaborative effort with contributions from many local stakeholders who have been involved in these initiatives.
- **Oldham Schools** launched a "Community Fridge" initiative to support vulnerable parents and children by providing free food during school holidays. The scheme was supported financially by contributions from HICL's portfolio company.

[1] Under the draft Regulatory Technical Standards of the SFDR, relevant firms will have to provide extensive disclosures on various ESG indicators (known as Principal Adverse Impact Indicators) in a standardised template format
[2] Scope 3 boundaries to be defined as part of InfraRed's Net Zero Asset Manager initiative

2.3
Valuation of the Portfolio

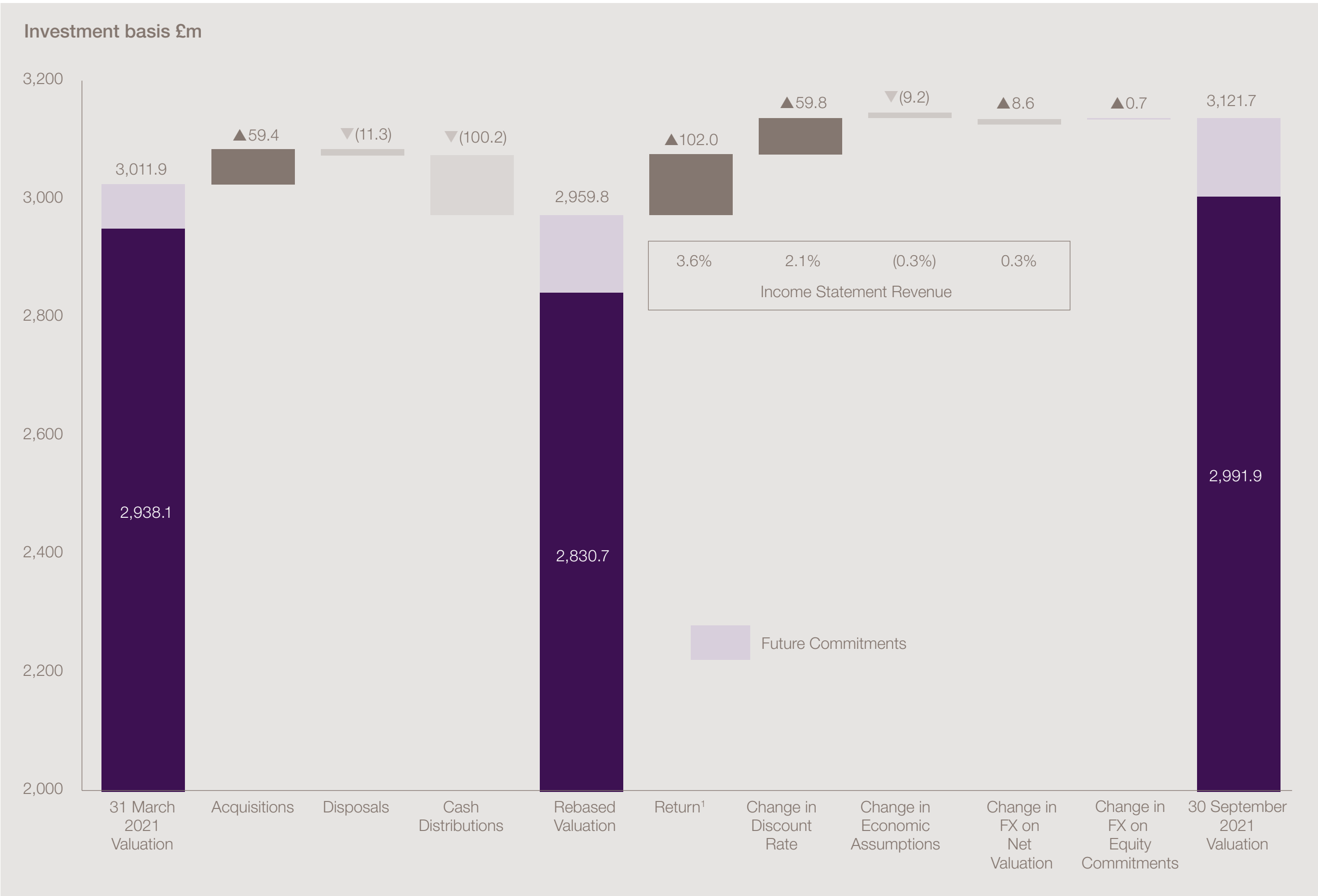
Valuation and Discount Rates

InfraRed, in its capacity as Investment Manager, is responsible for preparing the fair market valuation of HICL's investment portfolio for the Directors' approval each reporting period. This investment valuation is called the Directors' Valuation. The Directors' Valuation, which is an APM, comprises the valuation of the investment portfolio as well as the future investments committed to by the Company at the reporting period end. Further detail on the Company's APMs, including a reconciliation to the IFRS financial statements, is shown on pages 31 to 33. The valuation methodology, including the use of a third-party expert, is unchanged from previous reporting periods and additional information on the valuation process can be found on page 53 of the Annual Report 2021.

The Company's investments are predominantly non-market traded investments that have cash flows which are either contractual and/or have a reasonable degree of predictability. Because of these factors they are valued using a discounted cash flow analysis of the forecast equity cash flows from each portfolio company. The one exception to this is the listed senior debt in the A13 Road project, which is valued at the bond's quoted market price. There is a secondary market for infrastructure investments and, where appropriate and publicly available, data points are considered. The Directors' Valuation is a sum-of-the-parts valuation, and no further adjustment is made to reflect the size, scarcity, and diversification of the overall portfolio.

At 30 September 2021 the Directors' Valuation of the portfolio was £3,121.7m (31 March 2021: £3,011.9m). The Directors' Valuation includes £129.8m (31 March 2021: £73.8m) of future investment commitments in respect of a UK healthcare project, RMG Roads which completed in November 2021, the Blankenburg Connection (Netherlands) and the Paris-Sud University (France).

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



The valuation blocks above have been split into investments at fair value and future commitments. The percentage movements in the portfolio in the period shown in the chart above have been calculated on the rebased valuation of £2,830.7m to reflect the returns on the capital employed in the period.

[1] Return comprises the unwinding of the discount rate and net portfolio outperformance

Return from the Portfolio

The return from the portfolio was £102.0m (2020: £105.6m) or 3.6% (2020: 3.7%) in the six-month period. The return of £102.0m includes the unwind of the discount rate in the period and the impact of several value enhancement initiatives. These include cash flow optimisation, lifecycle cost savings and, where appropriate, a reduction in certain asset-specific risk premiums where the Investment Manager perceives a risk is reducing in nature and/or mitigated. In addition, a positive impact was recognised due to higher-than-expected inflation in the period. These items more than offset costs that were incurred on certain healthcare projects for the renegotiation of management service agreements and rectification of building defects.

Discount rates

The weighted average discount rate at 30 September 2021 declined by 0.2% to 6.6% (31 March 2021: 6.8%). This reflected the reduction in reference discount rates in all jurisdictions, transactional activity as well as decreases in long-term government bond yields.

In the period, long-term government bond yields in the UK, North America and the Eurozone have remained flat while discount rates have reduced, resulting in lower risk premiums. The Investment Manager's view is that discount rates used to value projects do not rigidly follow bond yields, although naturally there is some correlation over the longer term. The portfolio average risk premium at 5.3% is 0.2% lower than March 2021 but remains higher than the average risk premium since IPO of 4.9%. In the six months to 30 September 2021, the Investment Manager has observed a strong appetite for infrastructure investments and increased asset pricing in several auction processes in a variety of jurisdictions which has caused a downward pressure on the respective UK, Eurozone and North American discount rates.

An analysis of the weighted average discount rates for the investments in the portfolio analysed by territory, and showing movement in the period, is shown below:

	30 September 2021				
Country	Long-term government bond yield	Risk premium	Discount rate	31 March 2021 Discount rate	Movement
UK	1.4%	5.2%	6.6%	6.7%	(0.1%)
Eurozone	0.5%	5.9%	6.4%	6.8%	(0.4%)
North America	1.8%	5.3%	7.1%	7.4%	(0.3%)
Portfolio Weighted Average	**1.3%**	**5.3%**	**6.6%**	**6.8%**	**(0.2%)**

The risk premium for each region is derived from the market discount rate less the appropriate long-term government bond yield.

2.3
Valuation of the Portfolio (continued)

Valuation Assumptions

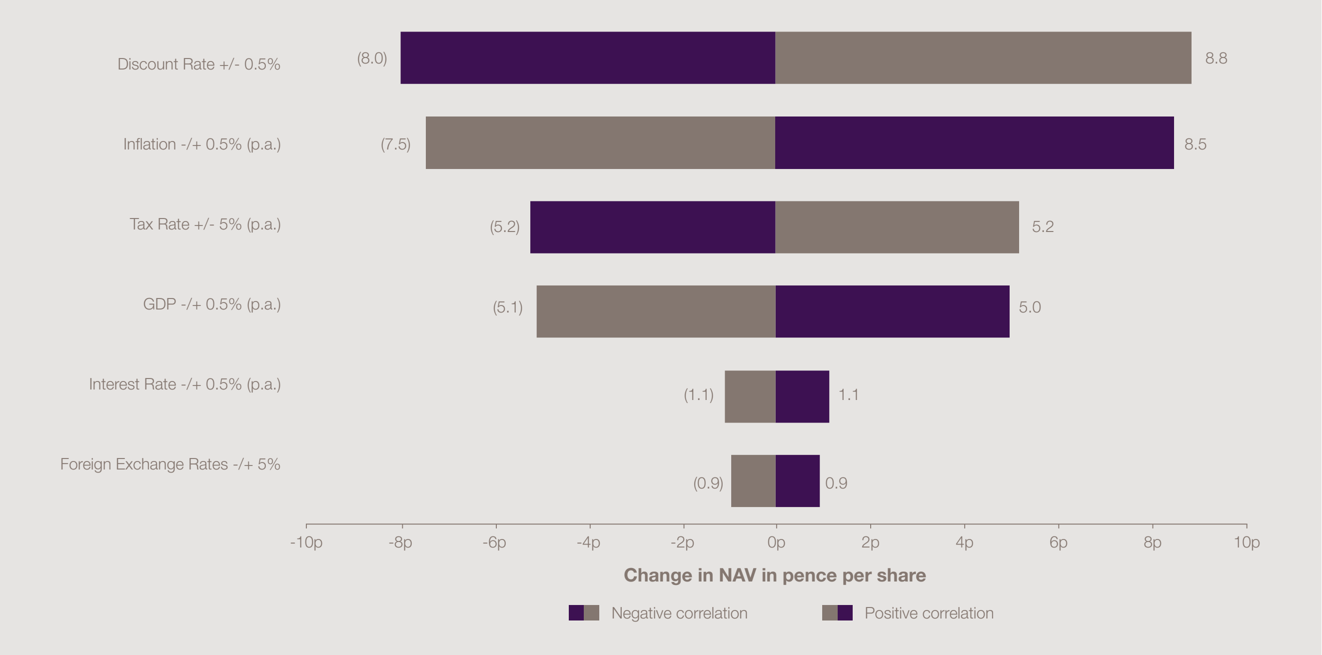
Apart from the discount rates, the other key economic assumptions used in determining the Directors' Valuation of the portfolio are as follows:

		30 September 2021	31 March 2021
Inflation Rates	UK (RPI and RPIx)[1]	2.75% p.a. to 2030, 2% thereafter	2.75% p.a. to 2030, 2.0% thereafter
	UK (CPIH)[2]	2.0% p.a.	2.0% p.a.
	Eurozone (CPI)	2.0% p.a.	2.0% p.a.
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	USA (CPI)	2.0% p.a.	2.0% p.a.
Interest Rates	UK	0.25% p.a. to March 2025, 1.0% p.a. thereafter	0.25% p.a. to March 2025, 1.25% p.a. thereafter
	Eurozone	0.0% p.a. to March 2025, 0.25% p.a. thereafter	0.0% p.a. to March 2025, 0.25% p.a. thereafter
	Canada	0.5% p.a. to March 2024, 2.0% p.a. thereafter	0.5% p.a. to March 2024, 2.25% p.a. thereafter
	USA	0.5% p.a. to March 2024, 1.75% p.a. thereafter	0.5% p.a. to March 2024, 2.25% p.a. thereafter
Foreign Exchange Rates	GBP/CAD	1.71	1.73
	GBP/EUR	1.16	1.17
	GBP/USD	1.35	1.38
Tax Rates	UK	19% to 2023, 25% thereafter	19% to 2023, 25% thereafter
	Eurozone	Ireland 12.5% France 26.5% in 2021, 25% thereafter Netherlands 25%	Ireland 12.5% France 26.5% in 2021, 25% thereafter Netherlands 25%
	USA	21% Federal & 4.6% Colorado State	21% Federal & 4.6% Colorado State
	Canada	23% and 27%	23% and 27%
GDP Growth Rates	UK	6.5% in 2021, 5.5% in 2022, 2.0% p.a. thereafter	5.0% in 2021, 5.5% in 2022, 2.0% p.a. thereafter
	Eurozone	6.0% in 2021, 4.0% in 2022, 1.8% p.a. thereafter	5.5% in 2021, 4.0% in 2022, 1.8% p.a. thereafter
	USA	6.0% in 2021, 4.0% in 2022, 2.5% p.a. thereafter	5.5% in 2020, 4.0% in 2022, 2.5% p.a. thereafter

[1] Retail Price Index ("RPI") and Retail Price Index excluding mortgage interest payments ("RPIx")
[2] Consumer Prices Index including owner occupiers' housing costs

Valuation Sensitivities

The Directors' Valuation is sensitive to each of the assumptions listed below. An explanation of the reason for the sensitivity and an analysis of how each variable in isolation (i.e. while keeping the other assumptions constant) impacts the valuation follows below[1,2,3].



Discount rate sensitivity

The weighted average discount rate that is applied to each portfolio company's forecast cash flows, for the purposes of valuing the portfolio, is the single most important judgement and variable. Due to the compounding nature of the discounted cash flow formula, the naturally small asymmetry of the discount factor, when sensitising the discount rate, is exacerbated over time.

Inflation rate sensitivity

The portfolio's PPP projects have contractual income streams from public sector clients which are rebased every year for inflation. UK projects tend to use either Retail Price Index ("RPI") or RPI excluding mortgage interest payments ("RPIx") until 2030 at which point they will transition to Consumer Price Index including owners occupiers' housing costs ("CPIH"). Revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing). Facilities management and operating sub-contracts also have similar indexation arrangements. Further detail on the portfolio sensitivity to inflation is on page 59 of the Annual Report 2021.

The portfolio's inflation correlation at 30 September 2021 was positive at 0.8 (31 March 2021: 0.8). Therefore, if outturn inflation was 1% p.a. higher or 1% p.a. lower than the valuation assumption in each and every future period, the expected return from the portfolio (before Company expenses) would change by 0.8% on average.

In the UK, RPI was recorded at 3.9% in the period from January to August 2021. HM Treasury provides a forecast using 19 different sources and estimates RPI to be 4.8% for 2021 and 3.4% for 2022 versus HICL's inflation assumption of 2.75%.

1 NAV per share based on 1,937m Ordinary Shares as at 30 September 2021
2 Sensitivities for inflation, interest rates and tax rates are passed on the 35 largest investments, extrapolated for the whole portfolio
3 Foreign exchange rate sensitivity is net of hedging at 30 September 2021

2.3
Valuation of the Portfolio (continued)

Gross Domestic Product ("GDP") growth rate sensitivity
There are five investments considered to be sensitive to GDP: the A63 Motorway (France), High Speed 1, M1-A1 Road, Northwest Parkway (USA) and RMG Roads (a commitment to invest at 30 September 2021 which completed in November 2021). At times of higher economic activity there will be greater traffic volumes using these roads and railways, generating increased revenues for the projects than compared to periods of lower economic activity.

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

At 30 September 2021, cash deposits for the portfolio were earning interest at a rate of 0.2% 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 2022 of 0.2% p.a.

Interest rates have reduced over the period in certain jurisdictions and the portfolio valuation assumptions are shown on page 22.

Corporation tax rate sensitivity
The profits of each portfolio company are subject to corporation tax in the country where the project is located. The sensitivity considers a 5% movement in tax rates in all jurisdictions. On 7 October 2021, the Irish Government announced it plans to raise corporation tax rates to 15% for companies with a turnover of more than €750m. None of HICL's Irish investments are expected to be impacted by this change.

Foreign exchange rates sensitivity
At 30 September 2021, 26% of the portfolio by value is represented by non-UK assets (31 March 2021: 26%). These assets are valued in local currency then converted into Sterling at the period end exchange rates. The sensitivity shown on page 23 is net of the Group's foreign exchange hedges at 30 September 2021. Further detail on the Company's foreign exchange policy is outlined in Section 2.6 – Financial Review.

2.4
Key Performance Indicators

The Board has identified metrics to measure clearly the Company's performance against its strategic objectives. The results for the six months ended 30 September 2021 are set out below.

KPI	Measure	Objective	Commentary	30 September 2021	30 September 2020
Dividends	Aggregate interim dividends declared per share in the period	An annual distribution of at least that achieved in the prior year	**Achieved**	4.13p	4.12p
Total Shareholder Return	NAV growth and dividends paid per share since IPO	A long-term IRR target of 7% to 8% as set out at IPO[1]	**Achieved**	8.9% p.a.	9.0% p.a.
Cash covered Dividends	Distributable cash flow/dividends paid to shareholders	Dividend payments are covered by cash received from the portfolio	**Achieved**	1.04x[2]	0.83x
Positive Inflation Correlation	Changes in the expected portfolio return for 1% p.a. inflation change for each and every future period	Maintain positive correlation with a correlation of at least 0.5x	**Achieved**	0.8%	0.8%
Competitive Cost Proposition	Annualised ongoing charges[3]/ average undiluted NAV	Efficient gross (portfolio level) to net (investor level) returns, with the intention to reduce ongoing charges where possible. Maintain within the range for FTSE 250 listed infrastructure peers	**Achieved**	1.06%	1.08%

[1] Set by reference to the issue price of 100p/share, at the time of HICL's IPO in February 2006
[2] On an Investment Basis, including profits on disposal of £1.7m. Excluding this, dividend cash cover would have been 1.02x
[3] Calculated in accordance with Association of Investment Companies guidelines. Ongoing charges excluding non-recurring items such as acquisition costs

2.5
Portfolio Analysis

as at 30 September 2021

MARKET SEGMENT

September 2021

March 2021

	Sep 2021	Mar 2021
PPP projects	69%	71%
Demand-based assets	20%	19%
Regulated assets	11%	10%

GEOGRAPHIC LOCATION

September 2021

March 2021

	Sep 2021	Mar 2021
UK	74%	74%
EU	18%	18%
North America	8%	8%

OWNERSHIP STAKE

September 2021

March 2021

	Sep 2021	Mar 2021
100% ownership	31%	31%
50% – 100% ownership	28%	29%
Less than 50% ownership	41%	40%

SECTOR

September 2021

March 2021

	Sep 2021	Mar 2021
Accommodation	10%	11%
Education	15%	16%
Electricity, Gas & Water	10%	10%
Health	29%	29%
Fire, Law & Order	5%	5%
Transport	31%	29%

INVESTMENT STATUS

September 2021

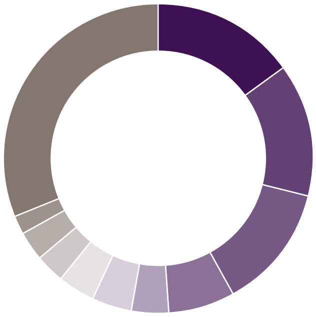
March 2021

	Sep 2021	Mar 2021
Fully operational	97%	97%
Construction	3%	3%

TEN LARGEST INVESTMENTS

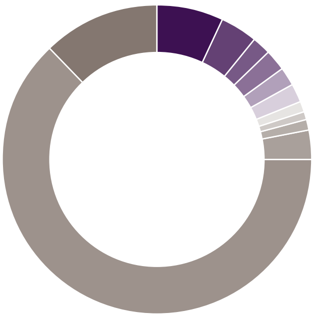
Affinity Water	8%
A63	7%
Northwest Parkway	6%
Southmead Hospital	5%
High Speed 1	4%
RSME	4%
Pinderfields & Pontefract Hospitals	4%
Home Office	3%
Queen Alexandra Hospital	2%
Blankenburg Tunnel	2%
Remaining Investments	55%

10 LARGEST FACILITIES MANAGEMENT COUNTERPARTY EXPOSURES



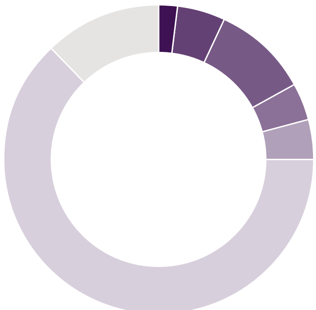
In House	15%
Bouygues	14%
Engie	13%
EGIS	7%
Network Rail	4%
Mitie	4%
Babcock	4%
Sodexo	3%
Siemens	3%
Integral	2%
Other	31%

10 LARGEST CONSTRUCTION COUNTERPARTY EXPOSURES



Colas	7%
Balfour Beatty	4%
DEME	2%
Strabag	2%
Laing O'Rourke	2%
Bouygues	2%
Bilfinger	1%
Hochtief	1%
Galliford Try	1%
Other contractors	3%
Latent defects limitation/ Warranty period expired	63%
Affinity Water and High Speed 1	12%

LATENT DEFECT WARRANTY PERIODS



Within 1 year	2%
1–2 years	5%
2–5 years	10%
5–10 years	4%
10+ years	4%
Latent defects limitation/ Warranty period expired	63%
Affinity Water and High Speed 1	12%

2.6
Financial Review

HICL prepares its financial information in accordance with UK-adopted International Financial Reporting Standards ("IFRS"). However, a non-GAAP "Investment Basis" is also adopted to aid users of its report to assess the Company's underlying operating performance and its gearing as well as providing greater transparency into HICL's balance sheet, including its capacity for investment and ability to make distributions. Total return, NAV, and EPS are the same under IFRS and the Investment Basis. The Board and the Investment Manager manage the Company on an Investment Basis. The Investment Basis is an APM and is reconciled on page 32.

The following financial information is prepared under the Investment Basis, which consolidates the results of the Company, together with HICL Infrastructure S.a.r.l. 2 and Infrastructure Investments Limited Partnership. Total return, which is defined as total comprehensive income for the year, and net assets are the same under the Investment Basis and IFRS and reconciliation is provided of the Investment Basis financial statements to the IFRS statements from page 32.

Summary Income Statement

Investment basis £m	Six months to 30 September 2021	Six months to 30 September 2020
Dividend income	44.2	23.1
Interest income	56.6	58.6
Fair value movement	47.8	30.2
Foreign exchange movement on investments	8.6	4.6
Loss on foreign exchange derivatives	(4.0)	(3.0)
Other income	4.0	8.4
Total income	**157.2**	**121.9**
Expenses and finance costs	(18.0)	(17.8)
Profit before tax	**139.2**	**104.1**
Tax	0.3	(0.1)
Total return	**139.5**	**104.0**
Earnings per share	**7.2p**	**5.5p**

Total income increased by 29% to £157.2m in the six months to 30 September 2021 (September 2020: £121.9m). The increase principally relates to the 0.2% decrease in the discount rate to 6.6% (31 March 2021: 6.8%). This is recognised in the fair value movement. There were also cash distributions from the portfolio reflected in dividend income, which increased from £23.1m at 30 September 2020 to £44.2m at 30 September 2021. Further detail on the valuation movements is given in Section 2.3 – Valuation of the Portfolio.

The hedging policy targets NAV per share volatility of no more than 2% for a 10% movement in foreign exchange rates. In the period, the impact of the £4.0m loss on foreign exchange movements on the NAV was 0.01%.

Hedging in this report compared to non-Sterling portfolio values were:

Foreign Exchange Hedging £m	Rate	Non-UK assets	FX Hedge	FX Hedge as % of non-UK assets %	1% sensitivity to movement in FX rates[1]
Euro	1.16	462	252	55%	5.4
USA	1.35	184	69	38%	2.5
Canada	1.71	60	18	30%	1.0
Total		**706**	**339**	**48%**	**8.9**

[1] Sensitivity impact is net of derivatives

Expenses and Finance Costs

Investment basis £m	Six months to 30 September 2021	Six months to 30 September 2020
Finance costs	1.8	1.8
Investment Manager fees	14.4	14.2
Directors' fees & expenses	0.3	0.2
Acquisition bid costs	0.2	0.2
Professional fees	1.3	1.4
Expenses and finance costs	**18.0**	**17.8**

Total fees accruing to the Investment Manager were £14.4m (September 2020: £14.2m) for the period. The marginal increase in the period related to the gains on the valuation portfolio since September 2020, calculated in line with the Investment Manager fee calculation as defined on page 49.

During the period £0.2m of acquisition bid costs were incurred (September 2020: £0.2m), comprising legal, technical and tax due diligence, on unsuccessful bids.

Ongoing Charges

Ongoing charges, calculated in line with the Association of Investment Companies' ("AIC") guidance, is defined as annualised ongoing charges (which excludes acquisition costs and other non-recurring items) divided by the average published undiluted net asset value of £2,980.0m in the period.

The ongoing charges percentage is 1.06% (September 2020: 1.08%). The small reduction is primarily driven by HICL's increased investment value due to the 0.2% reduction in weighted average discount rate assumption.

Overall, earnings per share increased to 7.2p (September 2020: 5.5p) at 30 September 2021.

Summary Balance Sheet and NAV

Investment basis £m	30 September 2021	31 March 2021
Investments at fair value	2,991.9	2,938.1
Net other assets	10.2	7.4
Net cash	7.6	4.7
Net assets	**3,009.7**	**2,950.2**
NAV per share (before dividend)	155.4p	152.3p
NAV per share (post dividend)	153.3p	150.3p

Investments at fair value increased by 1.8% to £2,991.9m (31 March 2021: £2,938.1m) as a result of the weighted average discount rate reduction and inflation assumptions. These items more than offset costs that were incurred on certain healthcare projects for the renegotiation of management service agreements and rectification of building defects. Further detail on the movement in Investments at fair value, which are net of commitments and therefore not in the Directors' Valuation, is given in Section 2.3 – Valuation of the Portfolio.

An analysis of the movements in Net cash is shown in the cash flow section below.

NAV per share was 155.4p (31 March 2021: 152.3p) before the 2.06p second quarterly distribution. NAV per share increased by 3.1p, reflecting earnings per share of 7.2p, net of 4.1p distributions in the six month period to 30 September 2021.

2.6 Financial Review (continued)

Summary Cash Flow

Investment basis £m	Six months to 30 September 2021	Six months to 30 September 2020
Cash from investments	100.2	82.6
Operating costs	(17.5)	(16.0)
Finance costs	(1.4)	(1.5)
Net cash inflow before capital movements	**81.3**	**65.1**
Proceeds from investments	11.3	–
Purchase of investments	(4.1)	(140.6)
Share capital raised, net of costs	–	118.8
Net cash flow from derivatives	7.0	1.2
Arrangement fees	(0.2)	(0.7)
Dividends paid	(80.0)	(78.5)
Drawdowns paid to Investment Entity subsidiaries	(12.4)	–
Movement in the period	**2.9**	**(34.7)**
Net cash at start of the period	4.7	28.7
Net cash/(debt) at end of the period	**7.6**	**(6.0)**

Net cash increased to £7.6m at 30 September 2021 (30 September 2020: £6.0m net debt). This is due to cash inflows from the portfolio increasing by 21.3% to £100.2m (September 2020: £82.6m). This was in line with expectations with the increase due to the operational PPP portfolio and the distributions from the demand assets. Proceeds from investments of £11.3m (September 2020: £nil) represents the proceeds from the disposal of Health and Safety Headquarters. The purchase of investments of £4.1m (September 2020: £140.6m) is a further investment into a UK healthcare project.

Drawdowns paid to Investment Entity subsidiaries represent cash flows transferred to purchase investments post period end.

Dividends paid in the period were £80.0m (September 2020: £78.5m) and dividend cash cover increased to 1.04[1] times (September 2020: 0.83 times). The uplift in cash cover reflects the increase in cash received from the operational PPP portfolio and the demand-based assets as economies start to recover from the impact of Covid-19, as noted above.

Group Drawings and Gearing Levels

The Group has £346m available in its Revolving Credit Facility ("RCF") with Crédit Agricole, HSBC, ING, Lloyds, NAB, RBSi, Santander and SMBC, with an expiry date of 31 May 2023. A €67.5m Letter of Credit Facility ("LCF") provided by ING and SMBC with an expiry date of 31 December 2026 is also held to fund existing and future longer-term funding obligations.

At 30 September 2021, the Group had cash drawings on its RCF of £7.1m (31 March 2021: £26.9m) and drawings of £18.8m by way of letters of credit (31 March 2021: £18.6m). The Group also had drawings by way of letter of credit on its LCF facility of £57.8m (31 March 2021: £57.2m). Consequently, the Group has the capacity to fund additional investments as and when further attractive opportunities arise as well as maintain sufficient working capital.

The Interim financial statements are prepared on a going concern basis. The Directors made an assessment of going concern, taking into account the Company's current performance and the outlook, and performed additional analysis to support the going concern assessment considering the ongoing impact of the Covid-19 pandemic on the portfolio.

[1] The calculation includes total profit on disposal of £1.7m versus the original acquisition cost. Excluding this, dividend cash cover is 1.02x

Alternative Performance Measures ("APMs")

The Directors assess the Company's performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs. The APMs that are used may not be directly comparable with those used by other companies. The Directors' Investment Basis is itself an APM.

The explanation and rationale for the Investment Basis is shown on page 28 and its reconciliation to IFRS is shown from page 32. The table below defines the Company's additional APMs and should be read in conjunction with the Annual Report 2021.

APM	Purpose	30 Sep 2021 Investment basis	Calculation	Reconciliation to IFRS
Annualised Return from the Portfolio	A measure of underlying portfolio performance within a given period	7.3%	£102.0m return divided by £2,831.3m rebased valuation compounded for a 12-month period	The calculation uses figures which are reconciled to the Investment Basis on page 20 which, in turn, is reconciled to IFRS in the Reconciliation of Investment Basis to IFRS section below
Directors' Valuation	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company	£3,121.7m	£2,991.9m investments at fair value plus £129.8m contracted commitments	The calculation uses portfolio assets shown in the reconciliation in the table entitled 'Reconciliation of Investment Basis to IFRS' below
Dividend cash cover	A measure of cash received from underlying projects in the period enabling distributions to shareholders	1.04x[1]	£83.0m Distributable cash received/£80.0m dividend for the period	The calculation uses the dividend paid in the Statement of Comprehensive income divided by the net cash inflow before capital commitments
Distributable cash	A measure of cash received from underlying projects in the period	£83.0m	Calculated as net cash inflow before capital movements shown in the Investment basis cash flow plus £1.7m profit on disposal	The calculation uses distributions received from investments plus £1.7m profit on disposal
Cash investments	Identifying new opportunities in which to invest capital is a driver of the Company's ability to deliver attractive returns	£4.1m	£4.1m Investment basis cash paid to acquire investments in the period	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of cash flow statement
Cash proceeds	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities	£11.3m	£11.3m cash received from the disposal of investments in the period	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of cash flow statement
Net cash/(debt)	A measure of the available cash to invest in the business and an indicator of the financial risk in the Company's Statement of Financial Position	£7.6m	£14.7m cash and cash equivalents, plus £nil deposits, less £7.1m loans and borrowings	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of statement of financial position

[1] The calculation includes total profit on disposal of £1.7m versus the original acquisition cost. Excluding this, dividend cash cover is 1.02x

2.6
Financial Review (continued)

Reconciliation of Investment Basis to IFRS

Reconciliation of Statement of Comprehensive Income

£m	Six months to 30 September 2021			Six months to 30 September 2020		
	Investment Basis	Consolidation adjustments	IFRS Basis	Investment Basis	Consolidation adjustments	IFRS Basis
Dividends received	44.2	(4.2)	40.0	23.1	(0.1)	23.0
Interest received	56.6	(20.4)	36.2	58.6	(6.2)	52.4
Net gain/(loss) on revaluation of investments	47.8	17.2	65.0	30.2	(0.1)	30.1
Foreign exchange movement on investments	8.6	(8.6)	–	4.6	(4.6)	–
Loss on foreign exchange derivatives	(4.0)	4.0	–	(3.0)	3.0	–
Other income	4.0	(4.0)	–	8.4	(8.4)	–
Total income	**157.2**	**(16.0)**	**141.2**	**121.9**	**(16.4)**	**105.5**
Management fee	(14.4)	14.4	–	(14.1)	14.1	–
Finance costs	(1.8)	1.8	–	(1.8)	1.8	–
Other fund expenses[2]	(1.8)	0.1	(1.7)	(1.9)	0.4	(1.5)
Total expenses	**(18.0)**	**16.3**	**(1.7)**	**(17.8)**	**16.3**	**(1.5)**
Profit before tax	**139.2**	**0.3**	**139.5**	**104.1**	**(0.1)**	**104.0**
Tax	0.3	(0.3)	–	(0.1)	0.1	–
Total return	**139.5**	**–**	**139.5**	**104.0**	**–**	**104.0**
Earnings per share	**7.2p**	**–**	**7.2p**	**5.5p**	**–**	**5.5p**

Notes:

1. Total income shown in the IFRS accounts only relates to HICL and not those portfolio companies held through investment entity subsidiaries. The consolidation adjustments represent the results recorded in HICL Infrastructure S.a.r.l 2 and Infrastructure Investments Limited Partnership (together the “Corporate Subsidiaries”).
2. Other fund expenses comprise audit, valuation and other professional fees.

Reconciliation of Statement of Financial Position

£m	Investment Basis	Consolidation adjustments	IFRS Basis	Investment Basis	Consolidation adjustments	IFRS Basis
			30 September 2021			31 March 2021
Investments at fair value	**2,991.9**	**17.4**	**3,009.3**	**2,938.1**	**12.2**	**2,950.3**
Trade and other receivables	12.8	(12.5)	0.3	0.2	–	0.2
Other financial assets	8.8	(8.8)	–	15.9	(15.9)	–
Trade and other payables	(9.1)	8.2	(0.9)	(10.3)	9.6	(0.7)
Other current financial liabilities	(2.3)	2.3	-	(0.5)	0.5	–
Cash and cash equivalents	14.7	(13.7)	1.0	31.4	(31.0)	0.4
Loans and borrowings	(7.1)	7.1	–	(24.6)	24.6	–
Net assets attributable to Ordinary Shares	**3,009.7**	**–**	**3,009.7**	**2,950.2**	**–**	**2,950.2**
NAV per share (before dividend)	155.4p	–	155.4p	152.3p	–	152.3p
NAV per share (post dividend)	153.3p	–	153.3p	150.3p	–	150.3p

Note:

The Investment Basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately under this basis.

Reconciliation of Statement of Cash Flows

£m	Investment Basis	Consolidation adjustments	IFRS Basis	Investment Basis	Consolidation adjustments	IFRS Basis
			Six months to 30 September 2021			Six months to 30 September 2020
Portfolio income from investments	100.2	(18.0)	82.2	82.6	(2.9)	79.7
Operating expenses paid	(17.5)	15.9	(1.6)	(16.0)	14.6	(1.4)
Finance costs	(1.4)	1.4	–	(1.5)	1.5	–
Net cash inflow before capital movements	**81.3**	**(0.7)**	**80.6**	**65.1**	**13.2**	**78.3**
Purchase of investments	(4.1)	4.1	–	(140.6)	22.0	(118.6)
Proceeds from investments	11.3	(11.3)	–	–	–	–
Share capital raised net of costs	–	–	–	118.8	(0.1)	118.7
Net cashflow from derivatives	6.8	(6.8)	–	0.5	(0.5)	–
Drawdowns paid to Investment Entity subsidiaries	(12.4)	12.4	–	–	–	–
Dividends paid	(80.0)	–	(80.0)	(78.5)	–	(78.5)
Movement in the period	2.9	(2.3)	0.6	(34.7)	34.6	(0.1)
Net cash at start of period	4.7	(4.3)	0.4	28.7	(28.1)	0.6
Foreign exchange on cash	–	–	–	(0.4)	0.4	–
Net cash/(debt) at end of period	**7.6**	**(6.6)**	**1.0**	**(6.0)**	**6.5**	**0.5**

Note:

There is a difference between the change in cash and cash equivalents of the Investment Basis financial statements and the IFRS financial statements because there are cash balances held in the Corporate Subsidiaries. Cash held within the Corporate Subsidiaries will not be shown in the IFRS statements but will be seen in the Investment Basis statements.


Oldham Library, UK

03 Financial Statements

3.1
Directors' Statement of Responsibilities

We confirm that to the best of our knowledge:

- ▲ the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as adopted by the United Kingdom; and
- ▲ the interim management report, comprising the Chairman's Statement, Investment Manager's Report and Financial Results, includes a fair review of the information required by:
  a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Ian Russell
Chairman
23 November 2021

3.2
Independent Review Report

Conclusion

We have been engaged by HICL Infrastructure PLC (the "Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the Condensed Unaudited Income Statement, the Condensed Unaudited Balance Sheet, the Condensed Unaudited Statement of Changes in Shareholders' Equity, the Condensed Unaudited Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the latest annual financial statements of the Company were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Ian Griffiths
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
23 November 2021

3.3
Condensed Unaudited Statement of Comprehensive Income

For the six months ended 30 September 2021

	Note	For the six months ended 30 September 2021 £m	For the six months ended 30 September 2020 £m
Investment income	4	141.2	105.5
Total income		**141.2**	**105.5**
Fund expenses		(1.7)	(1.5)
Profit before tax		**139.5**	**104.0**
Profit for the period	5	**139.5**	**104.0**
Earnings per share – basic and diluted (pence)	5	**7.2**	**5.5**

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

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

3.4
Condensed Unaudited Statement of Financial Position

As at 30 September 2021

	Note	30 September 2021 Unaudited £m	31 March 2021 Audited £m
Non-current assets			
Investment in Investment Entity subsidiaries	7	3,009.3	2,950.3
Total non-current assets		**3,009.3**	**2,950.3**
Current assets			
Trade and other receivables		0.3	0.2
Cash and cash equivalents		1.0	0.4
Total current assets		**1.3**	**0.6**
Total assets		**3,010.6**	**2,950.9**
Current liabilities			
Trade and other payables		(0.9)	(0.7)
Total current liabilities		**(0.9)**	**(0.7)**
Total liabilities		**(0.9)**	**(0.7)**
Net assets		**3,009.7**	**2,950.2**
Equity			
Share capital		0.2	0.2
Share premium		1,055.3	1,055.3
Revenue reserve		1,990.9	1,996.4
Capital reserve		(36.7)	(101.7)
Total equity		**3,009.7**	**2,950.2**
Net assets per Ordinary Share (pence)		**155.4**	**152.3**

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 23 November 2021, and signed on its behalf by:

I Russell
Director

S Farnon
Director

Company registered number: 11738373

3.5
Condensed Unaudited Statement of Changes in Shareholders' Equity

For the six months ended 30 September 2021

	Note	Share capital and share premium £m	Revenue reserve[1] £m	Capital reserve[1] £m	Total shareholders' equity £m
		Six months ended 30 September 2021 Attributable to equity holders of the parent			
Shareholders' equity as at 31 March 2021		1,055.5	1,996.4	(101.7)	2,950.2
Profit for the period		**–**	**74.5**	**65.0**	**139.5**
Distributions paid to the Company's shareholders	6	–	(80.0)	–	(80.0)
Shareholders' equity at 30 September 2021		**1,055.5**	**1,990.9**	**(36.7)**	**3,009.7**

[1] Revenue and Capital reserves are described in accounting policies in Note 2 – Equity and Reserves

	Note	Share capital and share premium £m	Revenue reserve[1] £m	Capital reserve[1] £m	Total shareholders' equity £m
		Six months ended 30 September 2020 Attributable to equity holders of the parent			
Shareholders' equity as at 31 March 2020		936.9	1,999.3	(98.2)	2,838.0
Profit for the period		**–**	**73.9**	**30.1**	**104.0**
Shares issued		–	–	–	–
Premium arising on share issue		120.0	–	–	120.0
Distributions paid to the Company's shareholders	6	–	(78.5)	–	(78.5)
Costs of share issue		(1.4)	–	–	(1.4)
Shareholders' equity at 30 September 2020		**1,055.5**	**1,994.7**	**(68.1)**	**2,982.1**

[1] Revenue and Capital reserves are described in accounting policies in Note 2 – Equity and Reserves

3.6
Condensed Unaudited Cash Flow Statement

For the six months ended 30 September 2021

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Cash flows from operating activities		
Profit before tax	139.5	104.0
Adjustments for:		
Investment income	(141.2)	(105.5)
Operating cash flows before movements in working capital	(1.7)	(1.5)
Changes in working capital:		
Increase in receivables	(0.1)	(0.1)
Increase in payables	0.2	0.2
Cash flow from operations	**(1.6)**	**(1.4)**
Investment income received	82.2	79.7
Net cash flow from operating activities	**80.6**	**78.3**
Cash flow from investing activities		
Investment in subsidiary	–	(118.6)
Net cash used in investing activities	**–**	**(118.6)**
Cash flows from financing activities		
Net proceeds from issue of share capital	–	118.7
Distributions paid to shareholders	(80.0)	(78.5)
Net cash from financing activities	**(80.0)**	**40.2**
Net increase/(decrease) in cash and cash equivalents	**0.6**	**(0.1)**
Cash and cash equivalents at beginning of period	0.4	0.6
Cash and cash equivalents at end of period	**1.0**	**0.5**

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

3.7
Notes to the Condensed Unaudited Financial Statements

For the six months ended 30 September 2021

1. REPORTING ENTITY

HICL Infrastructure PLC (the "Company" or "HICL") is a public limited company incorporated, domiciled and registered in England and Wales in the United Kingdom. The interim condensed unaudited financial statements (the "interim financial statements") for the six months ended 30 September 2021 comprise the financial statements for the Company only as explained in Note 2.

The Company has two corporate subsidiaries being HICL Infrastructure S.a.r.l. 2 and Infrastructure Investments Limited Partnership (each a "Corporate Subsidiary" and together the "Corporate Subsidiaries").

The Company and its Corporate Subsidiaries invest in infrastructure projects in the United Kingdom, North America and Europe.

2. KEY ACCOUNTING POLICIES

Basis of preparation
The condensed interim financial statements included in this report have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. The interim financial statements have also been prepared in accordance with the Disclosure Guidance and Transparency Rules ("DTR") of the UK's Financial Conduct Authority ("FCA").

The interim financial statements are prepared using accounting policies in compliance with the recognition and measurement requirements of UK-adopted International Financial Reporting Standards ("IFRS"). In accordance with IFRS 10 (as amended), entities that meet the definition of an Investment Entity are required to fair value certain subsidiaries through profit and loss in accordance with IFRS 9, Financial Instruments, rather than consolidate the results. However, those subsidiaries that are not themselves investment entities and provide investment related services to the Company are consolidated. The Company does not have any such subsidiaries and consequently values all its subsidiaries at fair value through profit and loss.

The same accounting policies and methods of computation are followed in these interim financial statements, including the critical estimates and judgements as were applied in the preparation of the Company's financial statements for the year ended 31 March 2021 except as outlined below. The financial information has been prepared using the accounting standards that the Directors expect to be effective for the year ending 31 March 2022.

These interim financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006 and should be read in conjunction with the Annual Report 2021, which were reported upon by the auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006. The Annual Report 2021 is available at www.hicl.com.

Equity and Reserves
The Company is a UK approved investment trust company. Financial statements prepared under IFRS are not strictly required to apply the provisions of the Statements of Recommended Practice issued by the UK Association of Investment Companies for the financial statements of Investment Trust Companies (the "AIC SORP"). However, where relevant and appropriate, the Directors have looked to follow the recommendations of the SORP.

The Directors have chosen to rename distributable and other reserves into a Revenue reserve and a Capital reserve respectively.

The Directors have exercised their judgement in applying the AIC SORP and a summary of these judgements are as follows:

- ▲ Net gains on investments are applied wholly to the Capital reserve as they relate to the revaluation or disposal of investments;
- ▲ Dividends are applied to the Revenue reserve except under specific circumstances where a dividend arises from a return of capital or proceeds from a refinancing, when they are applied to the Capital reserve;
- ▲ Fees payable are applied to the Capital reserve where the service provided is, in substance, an intrinsic part of an intention to acquire or dispose of an investment;
- ▲ Movement in the fair value of derivative financial instruments is applied to the Capital reserve as the derivative hedging programme is specifically designed to reduce the volatility of sterling valuations of the non-sterling denominated investments;

- ▲ Management fees are applied to the Revenue reserve as they reflect ongoing asset management. Where a transaction fee element is due on the acquisition of an investment it is applied to the Capital reserve;
- ▲ Operating costs are applied wholly to the Revenue reserve as there is no clear connection between the operating expenses of the Company and the purchase and sale of an investment;
- ▲ Finance costs are applied wholly to the Revenue reserve as the existing borrowing is not directly linked to an investment;
- ▲ Foreign exchange movements are applied to the Revenue reserve where they relate to movements on non-portfolio assets.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in Section 2.1 – Investment Manager's Report. The financial position of the Company, its cash flows, and liquidity position are described from page 29 in the Financial Review.

The Directors have assessed going concern by considering areas of financial risk, the Company's access to the Revolving Credit Facility and Letter of Credit Facility (details of which are set out in Section 2.6 – Financial Review) and by reviewing cash flow forecasts with a severe stress scenario. They also considered the Company's considerable financial resources, including investments in a significant number of project assets. The majority of these project assets operate long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. As explained from page 12 in the Investment Manager's Report, these infrastructure projects include several demand-based assets that have been, and continue to be, impacted by Covid-19, and a large number of availability assets that have no exposure to economic growth. The financing for these projects is non-recourse to the Company.

Based on this analysis, the Directors have concluded that the Company has adequate resources to continue in operational existence and meet its liabilities as and when they fall due for the foreseeable future, a period of at least 12 months from the date of approving these condensed interim financial statements. Thus, they consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

3. GEOGRAPHICAL ANALYSIS

The tables below provide an analysis based on the geographical location of the Company's underlying investments.

Investment income	UK	Eurozone	North America	Total
30 September 2021	**£101.9m**	**£17.7m**	**£21.6m**	**£141.2m**
% of Total investment income	**72%**	**13%**	**15%**	**100%**
30 September 2020	£59.8m	£37.5m	£8.2m	£105.5m
% of Total investment income	57%	35%	8%	100%

Investments at fair value through profit or loss	UK	Eurozone	North America	Total
30 September 2021	**£2,226.8m**	**£538.7m**	**£243.8m**	**£3,009.3m**
% of Total investments	**74%**	**18%**	**8%**	**100%**
31 March 2021	£2,184.7m	£536.4m	£229.2m	£2,950.3m
% of Total investments	74%	18%	8%	100%

The Chief Operating Decision Maker (the "CODM") is of the opinion that the Company is engaged in a single segment of business, being investment in infrastructure and has no single major customer.

3.7
Notes to the Condensed Unaudited Financial Statements (continued)

For the six months ended 30 September 2021

4. INVESTMENT INCOME

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Investment income	76.2	75.4
Gains on revaluation of investment	65.0	30.1
Total	**141.2**	**105.5**

5. EARNINGS PER SHARE

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

	Six months ended 30 September 2021	Six months ended 30 September 2020
Profit for the period attributable to equity holders of the Company	£139.5m	£104.0m
Weighted average number of Ordinary Shares in issue[1]	1,936.8m	1,891.2m
Total basic and diluted earnings per Ordinary Share	**7.2 pence**	**5.5 pence**

[1] No new shares have been issued in the period and therefore the weighted average number of Ordinary Shares in issue equals the amount of shares in issue at period end

6. DIVIDENDS

	Six months ended 30 September 2021	Six months ended 30 September 2020
Total distributions paid to Company shareholders in the period:		
Fourth quarterly interim dividend for the year ended 31 March 2021 of 2.07p (2020: 2.07p) per share	40.1	38.6
First quarterly interim dividend for the year ended 31 March 2022 of 2.06p (2021: 2.06p) per share	39.9	39.9
	80.0	**78.5**

The Company has elected to distribute a percentage of the dividends paid to shareholders as an interest distribution for tax purposes.

The fourth quarterly interim dividend for the year ended 31 March 2021 of £40.1m, representing 2.07 pence per share, was paid on 30 June 2021 and had an interest streaming percentage of 98%. The first quarterly interim dividend for the year ending 31 March 2022 of £39.9m, representing 2.06 pence per share, was paid on 30 September 2021 and had an interest streaming percentage of 49%.

On 18 November 2021, the Board approved a second quarterly interim dividend for the year ending 31 March 2022 of £39.9m, representing 2.06 pence per share, payable on 31 December 2021, with an interest streaming percentage of 59%.

Quarterly interest streaming fluctuates due to a number of factors, including forecast annual effective interest received from underlying projects (which moves with acquisitions and disposals) and FX hedging gains/losses.

The Revenue reserves of the Company are £1,990.9m at 30 September 2021 (31 March 2021: £1,996.4m). This is the reserve from which dividends are distributed to shareholders. Both Revenue and Capital reserves are distributable.

7. INVESTMENT IN INVESTMENT ENTITY SUBSIDIARIES

	30 September 2021 £m	31 March 2021 £m
Opening balance	2,950.3	2,837.9
Additions in the period	–	118.4
Gain/(loss) on revaluation of investments	65.0	(3.5)
Other	(6.0)	(2.5)
Carrying amount at period end	**3,009.3**	**2,950.3**
This is represented by: Greater than one year	3,009.3	2,950.3
Carrying amount at period end	**3,009.3**	**2,950.3**

The Company recognises the investment in its single directly owned subsidiary at fair value. Fair value is determined by reference to the net asset value of the Investment Entity subsidiary.

Acquisitions and Disposals, via the Corporate Subsidiaries

The Company, via its Corporate Subsidiaries, made the following acquisition and disposal during the six months ended 30 September 2021:

In September 2021, the Company, via its Corporate Subsidiaries, made an equity injection of £4.1m into a UK healthcare project; and disposed of its full 50% stake in Health and Safety Headquarters generating proceeds of £11.3m.

In August 2021, the PPP contract for the Defence Sixth Form College project (0.3% of the portfolio by value at 31 March 2021) was voluntarily terminated by the public sector client due to planned changes to the UK's defence training programme.

8. FINANCIAL INSTRUMENTS

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).

				30 September 2021
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment in Investment Entity subsidiaries	–	–	3,009.3	**3,009.3**

				31 March 2021
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment in Investment Entity subsidiaries	–	–	2,950.3	**2,950.3**

There were no transfers between Level 1, 2 or 3 during the period. A reconciliation of the movement in Level 3 assets is disclosed in Note 7.

Level 3

Valuation methodology

See page 20 in the valuation section in the front half of this report for the valuation methodology used by the Directors. This is the same methodology as was used in the Annual Report 2021 (see page 53 in those accounts) and expected to be used in the March 2022 accounts.

Sensitivities

The fair value of the Company's investment in its Investment Entity subsidiary is sensitive to changes in the macroeconomic assumptions used as part of the portfolio valuation process. As part of its analysis, the Directors have considered the potential impact of a change in a number of the macroeconomic assumptions used in the valuation process. By considering these potential scenarios, the Directors are well positioned to assess how the Company is likely to perform if affected by variables and events that are inherently outside of the control of the Directors and the Investment Manager.

In order to give investors a meaningful sensitivity analysis, the Directors have considered how changes in macroeconomic assumptions in the underlying assets for which the Company holds an indirect interest would affect the investment that the Company has in its direct Investment Entity subsidiary, rather than the sensitivity in the Investment Entity subsidiary. Consequently, the following numbers are on the Investment Basis.

Increasing the discount rate used in the valuation of each asset by 0.5% would reduce the value of the portfolio by £154.4m (March 2021: £147.1m). Decreasing the discount rate used in the valuation of each asset by 0.5% would increase the value of the portfolio by £170.9m (March 2021: £162.1m).

Changing the inflation rate assumption may result in consequential changes to other assumptions used in the valuation of each asset. The impact of increasing the inflation rate assumption by 0.5% for all future periods would be to increase the value of the portfolio by £163.7m (March 2021: £155.1m). Decreasing the inflation rate assumption used in the valuation of each asset by 0.5% for all future periods would decrease the value of the portfolio by £144.4m (March 2021: £140.8m).

The valuations are sensitive to changes in cash deposit rates, which may impact cash deposits held by portfolio companies. Increasing the cash deposit rates used in the valuation of each asset by 0.5% would increase the value of the portfolio by £21.9m (March 2021: £21.4m). Decreasing the cash deposit rate assumption used in the valuation of each asset by 0.5% would reduce the value of the portfolio by £20.9m (March 2021: £18.2m). This calculation does not take account of any offsetting variances which may be expected to prevail if interest rates changed, including the impact of inflation discussed above.

9. RELATED PARTY TRANSACTIONS

InfraRed Capital Partners Limited ("InfraRed") is 80% owned by Sun Life Financial Inc. (together with its subsidiaries and joint ventures, "Sun Life"). InfraRed is a distinct business under SLC Management, the alternatives asset manager of Sun Life. The additional 20% may be acquired by Sun Life under a put and call framework agreed with the InfraRed owners, exercisable after four and five years respectively.

InfraRed was appointed under an Investment Management Agreement, dated 4 March 2019, as Investment Manager to, and Alternative Investment Fund Manager ("AIFM") of HICL. The Investment Management Agreement may be terminated by either party to the agreement, being HICL or InfraRed, giving three years' written notice or if InfraRed's appointment as Operator (see below) is terminated. Under the Investment Management Agreement, InfraRed is entitled to a fee of £0.1m per annum, payable half-yearly in arrears by the Company and is subject to review, from time to time.

The Investment Manager fees charged to the Company were £0.1m (30 September 2020: £0.1m), of which the full balance remained payable at 30 September 2021.

InfraRed is also the Operator of IILP, the Corporate Subsidiary through which HICL holds its investments. InfraRed has been appointed as the Operator by the General Partner of IILP, Infrastructure Investments General Partner Limited, a company within the same group as InfraRed. The Operator and the General Partner may each terminate the appointment of the Operator by either party giving three years' written notice. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Management Agreement is terminated in accordance with its terms. The General Partner's appointment does not have a fixed term; however if InfraRed ceases to be the Operator, HICL has the option to buy the entire share capital of the General Partner and the InfraRed Group has the option to sell the entire share capital of the General Partner to HICL, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In the period to 30 September 2021, in aggregate InfraRed and the General Partner were entitled to fees and/or profit share equal to: 1.1 per cent per annum of the adjusted gross asset value of all investments of HICL up to £750m, 1.0 per cent per annum for the incremental value in excess of £750m up to £1,500m, 0.9 per cent for the incremental value in excess of £1,500m, 0.8 per cent for the incremental value in excess of £2,250m and 0.65 per cent for the incremental value in excess of £3,000m.

The total Operator fees were £14.4m (30 September 2020: £14.1m), of which £7.2m (30 September 2020: £7.2m) remained payable by the Corporate Subsidiary as at 30 September 2021.

The Directors of the Company, who are considered to be key management, received fees for their services. Their fees were £0.3m for the period ended 30 September 2021 (30 September 2020: £0.2m). One Director also receives fees for serving as Director of the Luxembourg subsidiaries – the annual fees are £6k (30 September 2020: £6k).

All of the above transactions were undertaken on an arm's length basis.

10. GUARANTEES AND OTHER COMMITMENTS

As at 30 September 2021, the Company, via a Corporate Subsidiary, had £129.8m commitments for future project investments (31 March 2021: £73.8m).

11. EVENTS AFTER BALANCE SHEET DATE

In October 2021, the Company, via its Corporate Subsidiaries, acquired an additional stake in Bradford Schools Phase I and Phase II PPP Projects for a combined consideration of £16m. This takes HICL's stake to 48% and 62% respectively.

In November 2021, the Company, via its Corporate Subsidiaries, acquired a 33.3% interest in Road Management Group, a holding company that comprises two UK shadow toll roads, for consideration of up to £34.4m.

Directors & Advisers

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Ian Russell, CBE (Chairman)
Rita Akushie
Mike Bane
Frances Davies
Susie Farnon
Simon Holden
Frank Nelson
Kenneth D. Reid

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London
EC2N 4AA

Company
HICL Infrastructure PLC incorporated in England and Wales under the Companies Act 2006 with registered no. 11738373 and registered as an investment company under Section 833 of the Companies Act 2006.

Investment Manager and Operator
InfraRed Capital Partners Limited ("InfraRed") is an English limited company registered in England & Wales under number 03364976 and authorised and regulated by the Financial Conduct Authority (authorisation number 195766). InfraRed is a part of SLC Management which is the institutional alternatives and traditional asset management business of Sun Life.

Company Secretary and Administrator
Aztec Financial Services (UK) Limited

Shareholders' Funds
£3.0bn as at 30 September 2021

Market Capitalisation
£3.2bn as at 30 September 2021

Investment Manager and Operator Fees
1.1% per annum of the Adjusted Gross Asset Value[1] of the portfolio up to £750m

1.0% from £750m up to £1.5bn

0.9% from £1.5bn up to £2.25bn

0.8% from £2.25bn to £3.0bn

0.65% above £3.0bn

plus £0.1m per annum investment management fee

No fee on new acquisitions

No performance fee

Fees relating to shareholder matters from underlying project companies are paid to the Group (and not to the Investment Manager).

ISA, NISA, PEP and SIPP Status
The shares are eligible for inclusion in NISAs, ISAs and PEPs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs.

NMPI Status
HICL conducts its affairs as an investment trust. On this basis, the Ordinary Shares should qualify as an "excluded security" and therefore be excluded from the FCA's restrictions in COBS 4.12 of the FCA Handbook that apply to non-mainstream pooled investment products.

AIFMD Status
HICL is a UK domiciled and tax-resident public limited company, which will operate its affairs as a UK Investment Trust Company, and an Alternative Investment Fund under the AIFM Directive. HICL has appointed InfraRed Capital Partners Limited as its investment manager and AIFM under the Investment Management Agreement.

FATCA
HICL has registered for FATCA and has GIIN number E6TB47.99999.SL.826

Investment Policy
HICL's Investment Policy is set out in Section 3.8 – Strategic Report Disclosures of the Company's Annual Report 2021 and can be found in full on the website at www.hicl.com

ISIN and SEDOL
ISIN: GB00BJLP1Y77

SEDOL: BJLP1Y7

Website
www.hicl.com

[1] Adjusted Gross Asset Value means fair market value, without deductions for borrowed money or other liabilities or accruals, and including outstanding subscription obligations

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HICL Infrastructure

Delivering Real Value.

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