



Annual Report & Consolidated Financial Statements

for the year ended 31 March 2010

HSBC Infrastructure Company Limited



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1 Highland Schools PPP Project

A 50% interest in the second Highland Schools project was acquired by the Group in July 2009. The five primary schools, three secondary schools, combined primary and secondary school and special needs school which comprise this project were all designed in consultation with the community to include a range of facilities that are available to the public

2 Newcastle City Libraries

A 50% stake in this award-winning PFI project was purchased by the Group in March 2010. The project is a £30m, 25-year operational concession to finance, construct and maintain the new city centre library in Newcastle and an additional satellite library in High Heaton

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Information on HSBC Infrastructure Company Limited

HSBC Infrastructure Company Limited (“HICL” or the “Company” or, together with its 100% owned holding company subsidiaries, the “Group”) was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects. It was successfully launched in March 2006 and raised £250m with which it purchased an initial portfolio (the “Initial Portfolio”) of interests in 15 PFI/PPP projects. Of these, 10 were operational and the remaining 5 were under construction when acquired. They have all since become operational.

In May 2008 and December 2009 the Company raised further equity capital by way of C share issues which have now converted into ordinary shares. It now has a portfolio of 32 interests in infrastructure projects in the UK and the Netherlands, and a junior loan interest in Kemble Water, the Thames Water acquisition vehicle.

Since launch, the Company has paid the following dividends:

- first period to 31 March 2007 a total of 6.1p
- second year to 31 March 2008 a total of 6.25p
- third year to 31 March 2009 a total of 6.4p
- fourth year to 31 March 2010 a total of 6.55p (second interim to be paid end of June 2010)

The Company is targeting a progressive distribution policy and growth of annual distributions to 7.0p per share by March 2013. The long-term target Internal Rate of Return (“IRR”) is 7 to 8% (based on the March 2006 launch issue price of 100p).

At launch in March 2006, there were 250,000,000 Ordinary Shares issued. With the conversion of the C Shares in 2008 and 2009, together with shares issued as a result of the block listing announcements made by the Company and scrip dividend issues, the total Ordinary Shares in issue at 31 March 2010 were 454,301,314.

The Investment Adviser to the Company is HSBC Specialist Fund Management Limited, which is authorised and regulated by the Financial Services Authority, and is a subsidiary of HSBC Specialist Investments Limited, HSBC’s infrastructure and real estate investment arm. The HSBC equity infrastructure team now comprises 28 professional staff of which 9 are dedicated to advising the Group.

Company Summary

Investment Adviser and Operator	HSBC Specialist Fund Management Ltd which is a wholly owned subsidiary of HSBC Specialist Investments Ltd, the HSBC Group’s infrastructure and real estate investment division.
Company Secretary and Administrator	Dexion Capital (Guernsey) Ltd.
Shareholders’ funds	£486.6m on an IFRS basis (£502.9m on an investment basis) as at 31 March 2010.
Market capitalisation	£535m as at 31 March 2010.
Investment Adviser and Operator Fees	1.1% per annum of the Adjusted Gross Asset Value ¹ of the investments. 1.0% of the value of new acquisitions ² . £0.1m p.a. investment advisory fee. No performance fee.
ISA, PEP and SIPP status	The ordinary shares are eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market and they are permissible assets for SIPPs.
Investment policy	The Company’s investment policy is set out on page 8 and can also be found on the Company’s website.
Website	www.hicl.hsbc.com

Notes:

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

Highlights

for the year ended 31 March 2010 (on an Investment basis unless noted otherwise¹)

Good portfolio performance and operational cash generation

Profit before tax of £25.0m (2009: £22.0m loss)

Second interim distribution of 3.35p for the year to 31 March 2010 declared, with a scrip dividend alternative, giving total distributions of 6.55p for the year, an increase of 2.3%

Five new investments, three incremental stakes acquired and a project variation, with a combined investment of £68.0m

Steady pipeline of further investment opportunities under consideration

Successful raising of £128.1m (before expenses) through a C share capital raising of £80.0m in December 2009 and utilising the block listing to place 43.1m shares in the year

Net asset value ("NAV") per share at 31 March 2010 of 107.1p (31 March 2009: 111.1p) on a consolidated IFRS basis and 110.7p (31 March 2009: 110.5p) on an Investment basis

NAV per share post distribution of 107.4p at 31 March 2010 compared to 107.2p at 31 March 2009

Directors' Valuation of the portfolio² at 31 March 2010 of £509.6m, up from £445.7m at 31 March 2009, a 14.3% increase

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

2. The Directors' Valuation of £509.6m at 31 March 2010 reconciles to the value of £501.3m in the Investment basis financial statements by deducting £8.3m of future loan stock commitments.

Results on an Investment basis

for the year to	31 March 2010	31 March 2009
Profit before tax (Revenue)	£17.8m	£20.4m
Profit/(Loss) before tax (Capital)	£7.2m	£(42.4)m
Profit/(Loss) before tax	£25.0m	£(22.0)m
Earnings/(Loss) per share	6.5p	(6.8)p
Second interim dividend per share	3.35p	3.275p
Total dividend per share in year	6.55p	6.4p

Net Asset Values

	Investment basis	Consolidated IFRS basis
Net Asset Value (NAV) per share at listing	98.4p	98.4p
Net Asset Value (NAV) per share at 31 March 2010	110.7p	107.1p
Second interim dividend per share (declared 20 May 2010)	3.35p	3.35p
NAV per share at 31 March 2010 after deducting the second interim dividend	107.4p	103.8p
NAV per share at 31 March 2009 after deducting the second interim dividend	107.2p	107.8p

Results on a Consolidated IFRS basis

for the year to	31 March 2010	31 March 2009
Profit before tax (Revenue)	£25.3m	£18.0m
(Loss) before tax (Capital)	£(17.6)m	£(30.4)m
Profit/(Loss) before tax	£7.7m	£(12.4)m
Earnings/(Loss) per share	1.6p	(4.3)p
Second interim dividend per share	3.35p	3.275p
Total dividend per share in year	6.55p	6.4p

Chairman's Statement

Introduction

On behalf of the Board, I am pleased to report that the Company has maintained steady progress during the year to 31 March 2010. The Group's portfolio continues to perform as we expected. We have sourced 5 new investments, 3 incremental stakes and a project variation in the year, with a total investment of £68.0m. The Company has raised a total of £126.3m net of expenses through the issue and placing of new shares, of which £80.0m was raised through the successful C share capital raising in December 2009 which was 50% oversubscribed.

Our share price has continued to trade at a premium to the last published net asset value per share, which the Board takes as an expression of confidence in our investment strategy, yield prospects and balance sheet stability.

Performance of the portfolio

The Group's portfolio now consists of 33 investments, 32 PFI/PPP projects and an investment in the junior loan in Kemble Water. Apart from the Bradford BSF Schools Phase II project, which remains in construction, all the projects are fully operational.

As in previous periods, there are no operational matters of materiality upon which to report. The Investment Adviser remains active in adding value across the portfolio.

Construction on the Bradford BSF Schools project is currently behind programme, due to the need to carry out certain remedial works. Given the contractual arrangements and protections, any delay to the hand-over of the completed buildings is unlikely to have a financial impact on the Group's investment. The Investment Adviser's asset management team has been active in understanding the issues and seeking suitable remedies from the contractors.

Financial results

On a consolidated IFRS basis, the profit before tax was £7.7m (2009: £12.4m loss). The profit before tax has benefited from contributions made from the recognition of new subsidiaries arising from the incremental acquisitions. There have also been positive fair value movements year on year.

As in previous periods, the Company has prepared pro-forma accounts on an Investment basis (treating all 33 holdings as investments). Profit before tax on an Investment basis was £25.0m (2009: £22.0m loss) and earnings per share on an Investment basis were 6.5p (2009: 6.8p loss per share). This return to profits reflects mainly upward fair value movements compared to downward movements in the prior year.

Cash received from the portfolio by way of distributions, capital repayments and fees was £39.2m. After Group costs, net cash of £27.6m adequately covers the distributions paid in the year. Cash generation was ahead of forecast for the first half of the year, but was lower in the second half. Net receipts were in line with plan for the full year.

Total fees accruing to HSBC Specialist Fund Management Limited (the Investment Adviser) amounted to £6.0m in the year, relating to their 1.1% pa management fee (1.5% pa assets in construction) and the 1.0% fee on the acquisitions made, and £0.1m advisory fees. In addition, the Group contracted with other parts of the HSBC Group on an arm's length basis for the provision of bank accounts, foreign exchange hedges and insurance broking.

The total expense ratio for the Group on an Investment basis was 1.45% (being the Group's operational expenses excluding acquisition costs, divided by the Group's net assets on an Investment basis). This compares with 1.74% for the year to 31 March 2009.

More details of the financial results are set out below.

Distributions

The Board declared on 20 May 2010 a second interim distribution of 3.35p per share for the year to 31 March 2010 (2009: 3.275p). This brings the total distributions declared to 6.55p for the year to 31 March 2010 representing a 2.3% growth on the prior year. The Board continues to target a 7.0p annual distribution per share by March 2013.

A circular is being sent to shareholders to explain the scrip dividend alternative. Shareholders need to decide by 17 June on whether to take up the scrip dividend offer in part or in full. The payment of a scrip dividend may be beneficial to a number of shareholders, particularly to certain UK residents. The distribution (or scrip dividend) will be paid to those shareholders on the register as at 28 May, and will be settled at the end of June.

At the Annual General Meeting ("AGM") in August 2009, shareholders gave the Board the power to offer a scrip dividend alternative and this power runs until the next AGM in 2010. Based on the take-up and current feedback from shareholders, it is the Board's current intention to seek a renewal of this power at the forthcoming AGM in July.

Valuation

As in previous periods, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 31 March 2010. For the PFI/PPP investments, this valuation is based on a discounted cashflow analysis of the future expected equity and loan note cashflows accruing to the Group from each investment. This valuation uses key assumptions which are derived from a review of recent comparable market transactions in order arrive at a fair market value.

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

“The Board is pleased to report another encouraging set of results, coupled with dividend growth. The Company has performed as expected in the last 12 months and we are well positioned to add further investments to the Group”

The Directors have approved the valuation of the portfolio of 33 investments to be £509.6m as at 31 March 2010. On the Bradford BSF Schools Phase II project and the Helicopter Training project there are combined outstanding equity commitments of £8.3m.

The valuation of £509.6m compares with £445.7m at 31 March 2009 and £464.5m as at 30 September 2009. An analysis of the growth in the valuation is detailed in the Investment Adviser's Report.

The resulting NAV per share on an IFRS basis at 31 March 2010 is 107.1p (31 March 2009: 111.1p).

On an Investment basis the NAV per share is 110.7p at 31 March 2010 (31 March 2009: 110.5p). The Investment basis NAV per share after the second interim distribution at 31 March 2010 was 107.4p; an increase of 0.2p over the comparable figure at 31 March 2009 being due to a solid performance from the portfolio, increased short term inflation forecasts, partly offset by an increase of 0.5% in the discount rate used to value operational PFI/PPP projects, as described in more detail in the Investment Adviser's Report.

Portfolio acquisitions and pipeline

The Group has made the following acquisitions in the year to 31 March 2010:

- In June, the Group acquired a 30% interest in Renfrewshire schools for £6.8m
- In July, the Group acquired a 50% interest in the Highland Schools PPP project for £16.8m
- In September, the Group made a 34% investment in the Bradford BSF Schools Phase II project with a total funding requirement from the Group of £7.4m
- In November, the Group acquired additional stakes in three existing PFI police projects for a total consideration of £8.0m
- In December, the Group acquired a 50% interest in the Romford Hospital PFI project for £23.9m
- In March, the Group acquired a 50% interest in the Newcastle Libraries PFI project for £3.0m.

In addition, the Group announced in December an investment of £2.1m to fund a project variation at the Helicopter Training project.

Total investments (including equity commitments) made by the Group in the year to 31 March 2010 were £68.0m.

The Group continues to look selectively for further acquisitions consistent with its publicly stated policy for new investments. Its current focus is on the following sectors:

- PFI/PPP/P3 projects in the UK, mainland Europe, North America, and Australia (both operational and in their construction phases)
- Operational renewable energy projects such as wind farms, solar parks or hydro-electric schemes, where there are suitable contractual structures in place which enable the Group to secure long term income streams, comparable in nature to those in PFI/PPP/P3 projects.

Of possible interest are:

- Regulated utilities, albeit most investment opportunities in this sector are too large for the Group
- Debt funding of infrastructure projects, where attractively priced and appropriately structured.

There is a steady flow of investment opportunities to consider but we remain selective. The Group does not need to make acquisitions to meet the yield trajectory imputed from our target distribution.

The Investment Adviser is currently assessing a number of investment opportunities. Clearly, there is no certainty that any of these investments will come to fruition.

Corporate Governance and Social Responsibility

On 20 May 2010, we announced that Henri Grisius will retire from the Board on 1 June 2010. Henri had been a director since the launch of the Company in 2006 and has made a valuable contribution to the Company's development. With my fellow directors, I wish Henri well in his retirement and thank him for his help and dedication to the Company.

“With the economy likely to remain subdued for some time, the directors believe the Company offers shareholders an attractive yield with a robust net asset value”

We also announced on 20 May that Chris Russell has agreed to join the Company as a Director on 1 June 2010. Chris is a Guernsey resident who has spent his career in the investment management industry in the UK, USA and Asia.

After discussions last year with several shareholders, the Board has been working with the Investment Adviser to develop appropriate Environmental, Social and Governance Policies for the Company and the Group.

As an Investment Company, we have no employees and the underlying investments in PFI/PPP projects are structured with most of the commercial obligations sub-contracted. We have therefore developed a series of policies and procedures which are appropriate to these circumstances. These are set out in our section on Corporate Responsibility. The Board intends to use feedback from shareholders to further develop these policies and procedures, as appropriate.

Risks and uncertainties

In our Interim Report last November, I advised that the Investment Adviser had assessed the impact to the Group of the UK Finance Bill 2009, specifically the new legislation affecting the tax deductibility of inter-group loan interest in UK subsidiaries of foreign companies. Further analysis has taken place but there has been no change to our assessment that the impact is unlikely to be material.

We also reported that it was not possible to accurately assess what impact the European Directive on Alternative Investment Fund Managers would have on the Group and the Company. This remains the case. The Company joined the Association of Investment Companies, (“AIC”) in the year and is satisfied that through the efforts of the AIC and other relevant UK bodies, an acceptable outcome on the provisions of this directive will be achieved.

Each of the PFI projects within the portfolio has long term funding in place and there is no refinancing risk within any of the PFI projects within the portfolio. These projects do have exposures to banks in the form of interest rate swaps and deposit accounts. As previously reported, the portfolio has limited exposure to monoline insurers. Any further downgrade of a monoline will have no impact on the valuation of the Group's investments.

The projects in the portfolio rely on contracting partners to provide services. There is a good spread of service partners with no material performance or credit issues to report. The Investment

Adviser monitors project performance, and if issues arise takes action to minimise any impact on the performance of the projects affected.

Outlook

The outlook for our business has not changed materially from when I last commented. The economic recovery in the UK and Europe has been slow to emerge. Global financial markets remain uncertain. Public finances are the focus of attention in many countries. In the UK, where all but one of our PFI/PPP assets are concentrated, a new coalition government has been formed and we expect action to address the budget deficit.

Looking ahead, we are satisfied that our investment portfolio is of sufficient quality to perform resiliently. Cash flows are generally predictable and, whilst the valuation of the portfolio is in part correlated with the rates that apply to long dated gilts, we do not anticipate significant fluctuations as a consequence.

Our goal is to grow prudently by the selective acquisition of assets which deliver the quantity and quality of income consistent with the targets we have set for future distributions and mindful at all times of our appetite for risk. At present, our business is effectively debt free and so we have adequate capacity through established funding lines to invest further. This we will do as suitable opportunities arise.

The primary market for new PFI projects in the UK may experience a slowdown over the short term as the new government determines its spending priorities. There should not, however, be a major impact on the secondary market from which we make our investments. More generally though, private sector skills and finance will continue to be required by governments to maintain and develop their countries' social and economic infrastructures.

Against this background, and in the knowledge that we are investing in tangible, long duration assets, we look to the future with confidence and believe we will secure further investments in the coming months.



Graham Picken
Chairman
24 May 2010

Group Investment Portfolio

as at May 2010

Accommodation	Education	Education	Health	Law & Order
Colchester Garrison	Bradford Schools	Helicopter Training	Barnet Hospital	D & C Firearms Training
Health & Safety HQ	Conwy Schools	Highlands Schools	Bishop Auckland Hospital	Exeter Crown Court
Home Office	Darlington Schools	North Tyneside Schools	Blackburn Hospital	GMPA Police Stations
Newcastle Libraries	Defence 6th Form College	Pinnacle Schools, Fife	Central Middlesex Hospital	MPA Firearms Training
	Ealing Schools	Renfrewshire Schools	Oxford John Radcliffe	MPA SEL Police Stations
Transport				
Dutch High Speed Rail	Haverstock School	Wooldale Centre	Romford Hospital	Sussex Custodial
	Health & Safety Laboratories		Stoke Mandeville Hospital	
Utilities				
Kemble Water Junior Loan			West Middlesex Hospital	

Key:

Portfolio at 31 March 2009

Additional stakes

Acquired since 31 March 2009

Further investment

Investment Policy

Investment objective

The Company seeks to provide investors with long-term distributions, at levels that are sustainable, and to preserve the capital value of its investment portfolio over the long-term with potential for capital growth. The Company targets a progressive distribution policy and growth of its annual distributions to 7p per Ordinary Share by March 2013. The Company is targeting an IRR of 7 to 8 per cent. on the original issue price of its Ordinary Shares in March 2006, to be achieved over the long-term via active management, including the acquisition by the Group (being the Company and its wholly-owned subsidiaries) of further investments to complement the Current Portfolio and by the prudent use of gearing.

Investment criteria

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

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

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

- Project Companies which have not yet completed the construction phases of their concessions but where prospective yield characteristics and associated risks are deemed appropriate to the investment objectives of the Company. This may include investment in companies which are in the process of bidding for concessions, to the extent that such companies form part of a more mature portfolio of investments which the Group considers it appropriate to acquire; and/or
- Project Companies with "demand" based concessions where the Investment Adviser considers that demand and stability of revenues are not yet established, and/or Project Companies which do not have public sector sponsored/awarded or government-backed concessions

and to a lesser extent (but counting towards the same aggregate 35 per cent., and again at the time the relevant investment is made) in:

- other funds that make infrastructure investments; and/or
- financial instruments and securities issued by companies that make infrastructure investments, or whose activities are similar or comparable to infrastructure investments.

Geographic focus

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

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

Single investment limit and diversity of clients and suppliers

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

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

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

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

Other investment restrictions

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

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

The Listing Rules may be amended or replaced over time. To the extent that the above investment restrictions are no longer imposed under the Listing Rules those investment restrictions shall not apply to the Company.

Gearing

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

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

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

Amendments

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

Investment Adviser's Report

Introduction

The Group recorded a solid performance with the portfolio providing a good cash yield in the year. The cashflows from the portfolio have enabled the Company to meet its distribution target for the year.

Acquisitions in the year have increased the Group's portfolio to 33 infrastructure investments. These comprise 32 PFI/PPP projects and a junior loan in Kemble Water, part of the Thames Water group. All the PFI/PPP projects are operational and yielding except Bradford Schools which is under construction, with completion due in 2011.

The generally challenging economic environment in the UK has not significantly impacted the portfolio. The robustness of the portfolio's performance is supported by the underlying long term contractual availability based revenues from public sector clients, with no requirement for refinancing of a PFI/PPP project to meet its business plan.

Operationally there are no significant matters to report on the portfolio. The asset management team continues to work on a number of initiatives to enhance value and to integrate the new acquisitions into the portfolio.

The secondary market activity picked up in the year as the recession motivated contractors and financial institutions to dispose of PFI/PPP assets to enable them to generate profits on sale and de-leverage or recycle capital. This is a trend we see continuing in these uncertain economic times which we expect will provide opportunities for the Group to make further acquisitions in accordance with the Investment Policy.

Strategy

The Group remains focused on maintaining and creating value from active asset management of the portfolio and securing new investments to enhance the portfolio.

Successful service delivery is key to maximising value from the portfolio. Working in partnership with our clients, and fostering good working relationships are an integral part of our strategy. Strong relationships developed by our asset management team, we believe, will assist us to increase revenues through client variations and resolve issues successfully.

The strategy for new investments is as documented in the November 2009 C share prospectus and the Chairman's statement – we are concentrating on PFI/PPP concessions, both in operations and in construction, and other infrastructure assets with comparable risk and return profiles. Acquisitions will be selective with due consideration given to counter-party exposure and project performance.

The geographic focus for new opportunities remains the UK, Europe, Canada and Australia – countries that have a developed PFI/PPP market.

Market

The number of assets being put up for sale has increased compared to the prior year. Both individual assets and portfolios were marketed by contractors and financial institutions. This increase in the supply of opportunities, the limited number of potential buyers and an increase in long term gilt rates, resulted in an increase in discount rates used to value these investments.

There are signs that the current return levels in the secondary PFI/PPP market are attracting new entrants as well as the return of previously active participants. An example of this is the sale by Balfour Beatty plc of investments in two UK PFI projects. The bid for these was won by a fund managed by AMP Capital Investors, but was subsequently sold to co-shareholders in each project, who exercised their pre-emption rights. Investor interest in PFI investments is further evidenced by recent sales by companies such as John Laing plc and Interserve plc of PFI portfolios to their pension funds.

Current market intelligence suggests that the number of assets being put up for sale is likely to increase as vendors seek sales of non-core assets to achieve profit targets and/or reduce gearing by the calendar year end.

With the formation of a coalition government in the UK following elections on 6 May 2010, it is not yet clear what impact this will have on the supply of new PFI projects being procured by public sector clients. Since the Group does not bid for these new PFI projects, it is unlikely to affect the Group's pipeline of opportunities.

There was a greater number of sale processes involving overseas PFI/PPP/P3 investments than in the prior year. This is a trend we expect to continue as these markets grow and mature as more projects become operational. The PFI/PPP/P3 assets we have reviewed in the year were located in Europe, Canada and Australia.

The secondary market in PV solar parks has been buoyant during the year. We have evaluated a number of operational schemes and in each case we were either outbid or we did not proceed for a number of reasons. These included projects with short term debt that required refinancing by longer term debt with a banking market with selective appetite. As a result, we are yet to find a solar PV asset suitable for the Group. We continue to assess opportunities in this sector carefully.

We expect the flow of attractive investment opportunities to continue as economic pressures on vendors motivate them to redefine their core assets and seek disposals to reduce gearing or recycle capital.

Portfolio performance

The portfolio continues to perform in line with forecast and to produce a growing yield. The difficult economic environment has not impacted significantly on the projects. In particular the absence of “demand based” projects in the portfolio, where income is wholly dependent on usage, means that the portfolio is not exposed to changes in consumer usage or spending.

On the Dutch High Speed Rail Link, the first scheduled train services commenced in September, and were then followed by scheduled high speed train services in December. This does not affect the revenues for the project, which are paid dependent only on the availability of the track, power and signalling. The project’s management is now working on a client-requested variation for an additional four signal stations. This variation is being funded by the Dutch state and will provide incremental revenues for the project.

Following the five new acquisitions in the year the portfolio contains 33 investments, all operational and yielding with the exception of Bradford BSF Schools Phase II project. This project is in construction with completion due in 2011. As noted in the Chairman’s statement, construction is behind schedule, but this delay is not expected to impact the value of the Group’s investment, since the project company has recourse against the construction contractor in relation to the delay.

As reported in the Group’s Interim Results, the value of the Group’s investment in the Blackburn Hospital project has decreased due to the increase in the project’s debt costs because the monoline Ambac Assurance UK Limited (“Ambac”) was downgraded in the period. Since the downgrade, Ambac’s US parent company in March entered into rehabilitation proceedings instigated by its US based regulator. This has had no impact on the Blackburn Hospital project and neither would any future downgrades of Ambac. This is the only project in the portfolio which is affected by Ambac’s downgrade.

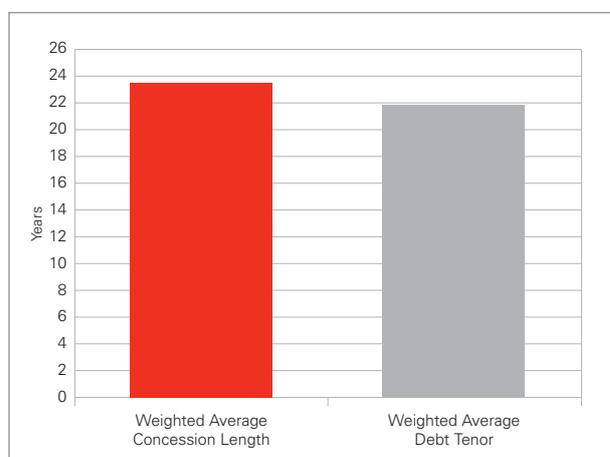
We continue to seek opportunities to maximise value across the portfolio. Our asset management team has individual business plans for each of the investments, prepared on acquisition and updated periodically. These plans cover incremental revenue opportunities, cost savings, treasury management and financial optimisation. For example in the year we have added to the projects in the insurance arrangement where the Group buys insurance across a number of projects. Adding to this arrangement reduces insurance premium and increases the economies of scale achieved.

Project variations provide further upside above those identified in the project business plans, as client changes to the scope of services generally provide some incremental revenue. These vary greatly in size and scope, and can include a funding requirement from shareholders. In December, there was a shareholder funded variation on the Helicopter Training project for which the Group committed to invest an additional £2.1m. This variation is to upgrade a Chinook simulator for the Royal Netherlands Air Force, which uses the facility in addition to the facility’s main customer, the Royal Air Force.

In September, at Colchester Garrison, significant savings were achieved for the project and the MOD through an innovative financing initiative. £52m from surplus land sale proceeds was repaid to bondholders 2½ years earlier than scheduled with a 0.5% repayment premium. The difference between the 5.4% bond interest coupon and 1% to 2% cash on deposit interest rates less transaction costs provided the cost saving, which was shared 50:50 with the MOD, the project’s client.

The PFI/PPP projects in the portfolio all have long term debt in place which does not need refinancing to meet their business plan. The weighted average PFI/PPP project concession length remaining is 23.5 years at 31 March 2010 and the weighted average debt tenor is 21.8 years.

Weighted Averages (Excluding Kemble)



In April 2010 the Government introduced legislation known as the carbon reduction commitment (‘CRC’, now renamed the CRC Energy Efficiency Scheme) with the aim of improving energy efficiency and cutting emissions in large public and private sector organisations. It works through payments and rebates for participants depending on their percentage carbon emission reductions relative to other participants in the scheme. The scheme is revenue neutral to the Government. We do not expect the legislation to materially impact the portfolio but are working with stakeholders in each investment to ascertain which project companies are required to participate within the scheme.

Acquisitions

As outlined in the Chairman’s Statement, the Group made five new investments and three incremental acquisitions in the year.

In June, the Group acquired a 30% interest in the Renfrewshire Schools project for a consideration price of £6.8m. The project comprises ten primary and secondary schools, all located in Renfrewshire. It was developed and built by Carillion and has been operational since January 2008. A subsidiary of Amey plc operates the schools under a long-term services agreement.

Investment Adviser's Report *(continued)*

In July, the Group acquired a 50% interest in the second Highland Schools PPP project for a consideration price of £16.8m. The 30 year, all new build concession comprises five primary schools, three secondary schools, a combined primary and secondary school, and a special needs school. Construction was completed in September.

In September, the Group acquired a 34% interest in the Bradford Schools project which had a funding commitment of £7.4m, the majority of which is due at the end of the construction period in early 2011. The scheme, which is part of the Bradford 'Building Schools for the Future' Programme, is for the provision of four Secondary Schools. Design and construction is by a joint venture between Costain and Ferrovial Agroman. Amey Communities will undertake the facilities management services and provide the information and communications technology.

In November, the Group acquired additional 22.92% interests in the equity and loan notes in the Metropolitan Police Training Facilities, the Durham & Cleveland Firearms Training, and the Greater Manchester Police Authority PFI project for a total consideration of £8.0m. This takes the Group's interests in these projects to 72.92%.

In December, the Group acquired a 50% interest in the Queen's Hospital PFI project in Romford for £23.9m. The project involves the design, build and finance of the Queen's Hospital in Romford, followed by the maintenance of the hospital and the provision of non-clinical services for a term of 36 years from January 2004.

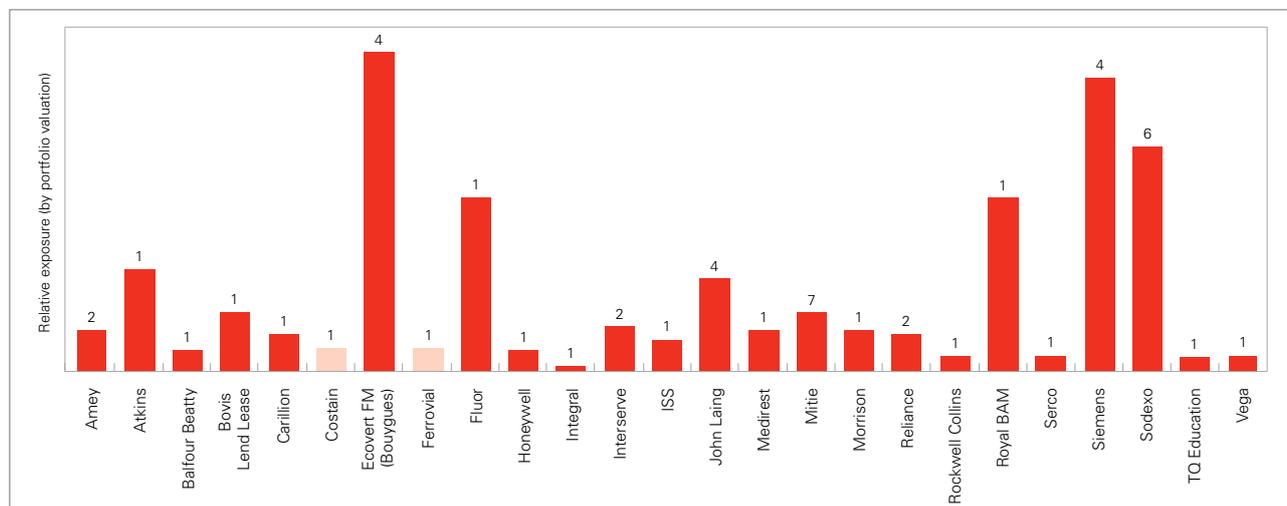
In March, the Group acquired a 50% interest in the Newcastle City Libraries PFI project for £3.0m. The project is a 25 year concession for the new city centre library in Newcastle and an additional satellite library in High Heaton. Construction was completed in March 2009. Maintenance and other facilities management services are provided by Integral UK Limited.

Counterparties

All the PFI clients are public sector bodies. We maintain a risk and control function that undertakes regular reviews of the portfolio's counterparty exposure to both the operational supply chain and the financial providers of bank deposit accounts and interest rate swaps.

The facilities management services are carried out by a range of experienced providers including Bouygues, Sodexo, Mitie and Interserve. We monitor project performance and are not aware of any service issues to date that indicate financial difficulties for any of the significant facilities management contractors. The Group's portfolio has a diversified range of facility management suppliers with no over reliance on any one supplier.

Spread of contractors on the PFI/PPP projects



Note to chart: Analysis of the various FM providers, shown by aggregate valuation of PFI/PPP projects involved in, with the figure the number of projects involved in. On some projects there is more than one service provider e.g. Dutch High Speed Rail where Royal BAM, Siemens and Fluor provide services; so that the sum of the bars is in excess of the Directors' valuation. Pale red is construction exposure.

Valuation

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

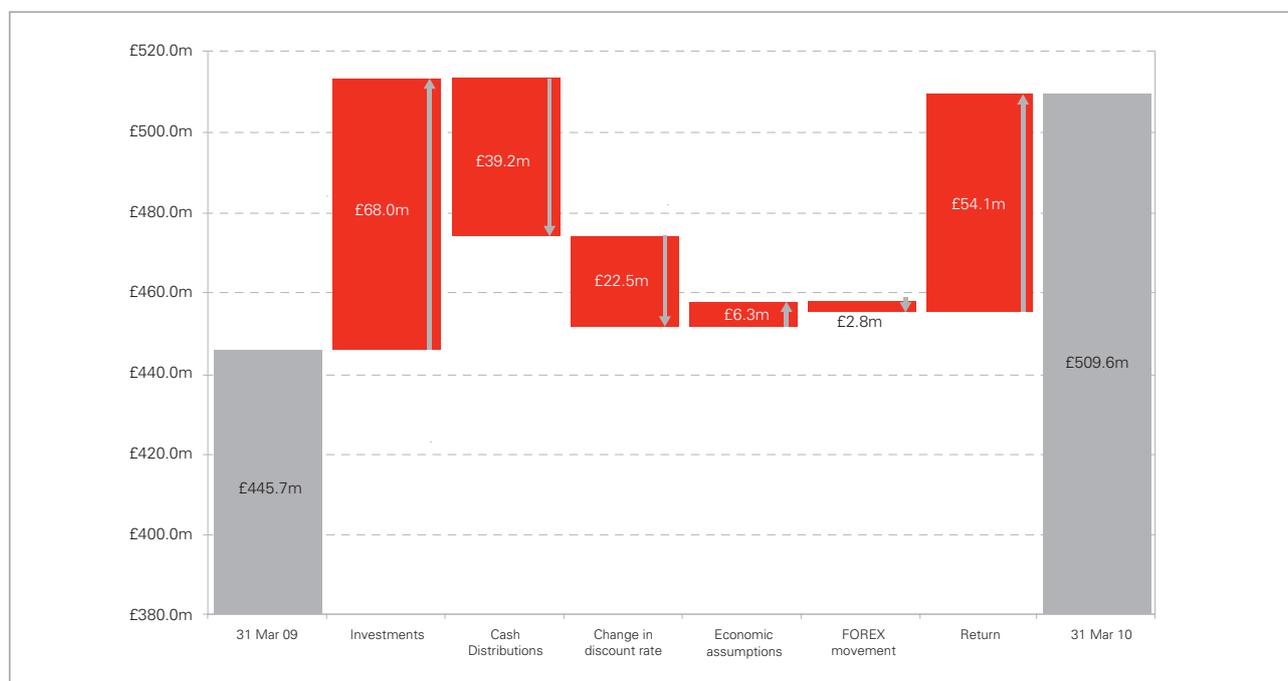
The Directors receive an independent third party report and opinion on these valuations.

For non-market traded investments, the valuation principles used are based on a discounted cash flow methodology, and adjusted in accordance with the European Venture Capital Associations' valuation guidelines where appropriate to comply with IAS 39, given the special nature of infrastructure investments. Where an investment is traded, such as the Kemble Water Junior Loan, a market quote is used.

This is the same method used at the time of launch and each subsequent six month reporting period (further details can be found in the November 2009 C Share prospectus, available from the Company's website).

The Directors' Valuation of the portfolio as at 31 March 2010 is £509.6m (including £8.3m of loan stock commitments). This portfolio valuation compares to £445.7m as at 31 March 2009 (up 14.3%) and £250.4m at the time of launch (a reconciliation between the valuation at 31 March 2010 and that shown in the financial statements is given in Note 1 to the unaudited consolidated proforma financial statements, the principle difference being the £8.3m of loan stock commitments on Bradford Schools and Helicopter Training projects).

Valuation movements in year from March 2009 to March 2010



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

Valuation movement during the year to 31 March 2010 – £m

Valuation at 31 March 2009	445.7
Investments	68.0
Cash receipts	(39.2)
Change in DCF rate	(22.5)
Economic assumptions	6.3
Forex movement on Dutch High Speed Rail Link	(2.8)
Return	54.1
Valuation at 31 March 2010	509.6

Netting out acquisitions in the period of £68.0m, and investment receipts of £39.2m, the growth over the rebased value of £474.4m was 7.4%. This increase arose from a solid performance across the portfolio, revised economic assumptions (inflation and deposit rates as outlined below) and value uplifts from acquisitions and on the Kemble Water junior loan which more than off-set the effect of an increase of 0.5% in the discount rate used to value the operational PFI/PPP projects.

Investment Adviser's Report *(continued)*

Fair value for each investment is derived from the present value of the investment's expected future cash flows, using reasonable assumptions and forecasts and an appropriate discount rate. We exercise our judgment in assessing the expected future cash flows from each investment based on the detailed concession life financial models produced by each Project Company.

Discount rates

The discount rates used for valuing each PFI/PPP investment are based on the appropriate risk free rate (derived from the relevant government bond or gilt) and a risk premium. The risk premium takes into account risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by project phase, and market participants appetite for these risks.

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

Period ending	Whole portfolio		Excluding Kemble Water Junior Loan	
	Range	Weighted average	Range	Weighted average
31 March 2009	7.8% to 22.4%	8.3%	7.8% to 8.6%	8.1%
30 September 2009	8.2% to 17.1%	8.7%	8.2% to 11.0%	8.6%
31 March 2010	8.4% to 13.2%	8.8%	8.4% to 11.0%	8.7%

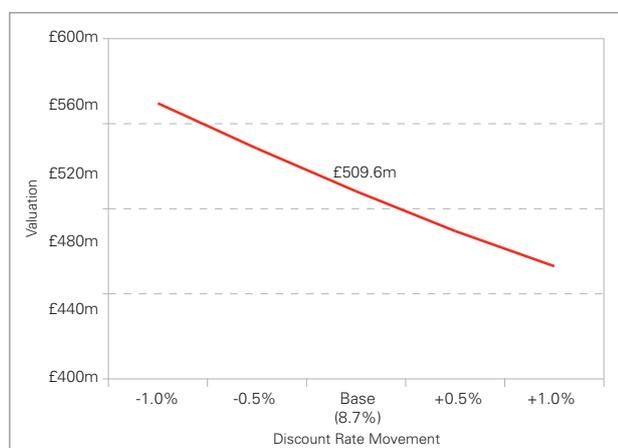
We use our judgement in arriving at the appropriate discount rate. This is based on our knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers in the appropriate market and publicly available information on relevant transactions.

An analysis of the movements in the weighted average risk free rate and risk premium for the PFI/PPP assets excluding the Kemble Water Junior Loan is shown below:

Excluding Kemble Water Junior Loan	31 March 2010	31 March 2009	Movement
Risk free rate	4.4%	4.1%	+0.3%
Risk premium	4.3%	4.0%	+0.3%
Discount Rate	8.7%	8.1%	+ 0.6%

As noted in the Market commentary above there has been an increase in long term gilt rates and an increased supply of PFI/PPP assets to the market as contractors and financial institutions have sought to deleverage and realise profits by disposing of PFI/PPP assets. The effect of this has increased discount rates used to value these assets. The average risk free rate, based on long term gilt and bond rates, has increased 0.3% in the year to 4.4%. The risk premium necessary to reflect market pricing for an operational asset has been judged as 4.2% to give an average discount rate of 8.6% for operational assets – an aggregate increase of 0.5% to 8.6%. This and an increase of 0.1% due to the 11.0% discount rate applied to the asset in construction has resulted in an increase in the weighted average rate (excluding Kemble) of 0.6% to 8.7%.

Discount Rate Sensitivity

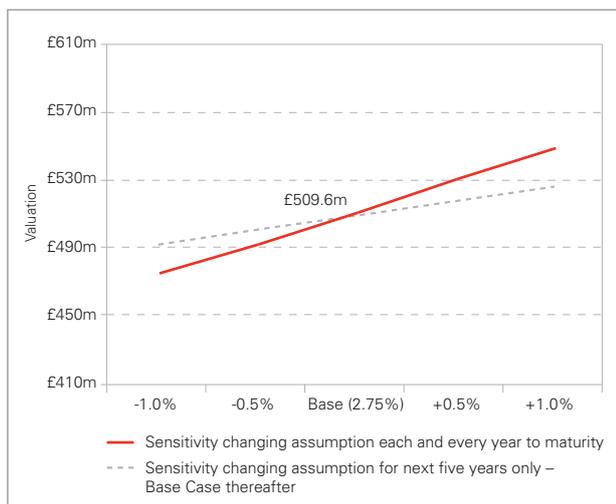


Inflation indexation

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

The portfolio valuation assumes UK inflation of 2.75% per annum, which is an increase from the March 2009 assumption of zero inflation to March 2011 and 2.75% thereafter. This judgement has been applied in the light of short term economic forecasts and the long term Bank of England CPI target. RPI and RPIx as at March 2010 were 4.4% and 4.8% respectively. The current forecasts for RPI in December 2010 range from 1.9% to 4.2% from 22 independent and City institutions as compiled by HM Treasury, with an average forecast of 3.1%.

Inflation Sensitivity



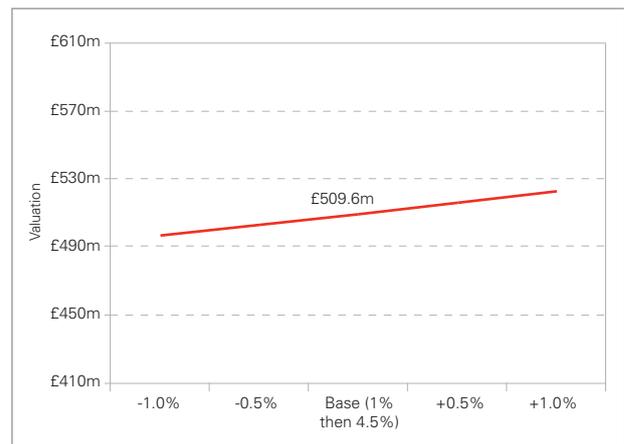
Deposit rates

Each PFI project in the portfolio has cash held in bank deposits, which is a requirement of their senior debt financing. As at 31 March 2010 cash deposits for the portfolio were earning interest at a rate of 0.7% per annum on average.

The portfolio valuation assumes UK deposit interest rates are 1% to March 2012 and 4.5% thereafter. This is a change from the March 2009 valuation which assumed 1% deposit interest rates to March 2011 and 4.5% thereafter. There is a consensus that UK base rates will remain low for an extended period, with a current average forecast for UK base rates in December 2011 of 2.2%.

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

Deposit Rates Sensitivity



Investment Adviser's Report *(continued)*

Financing

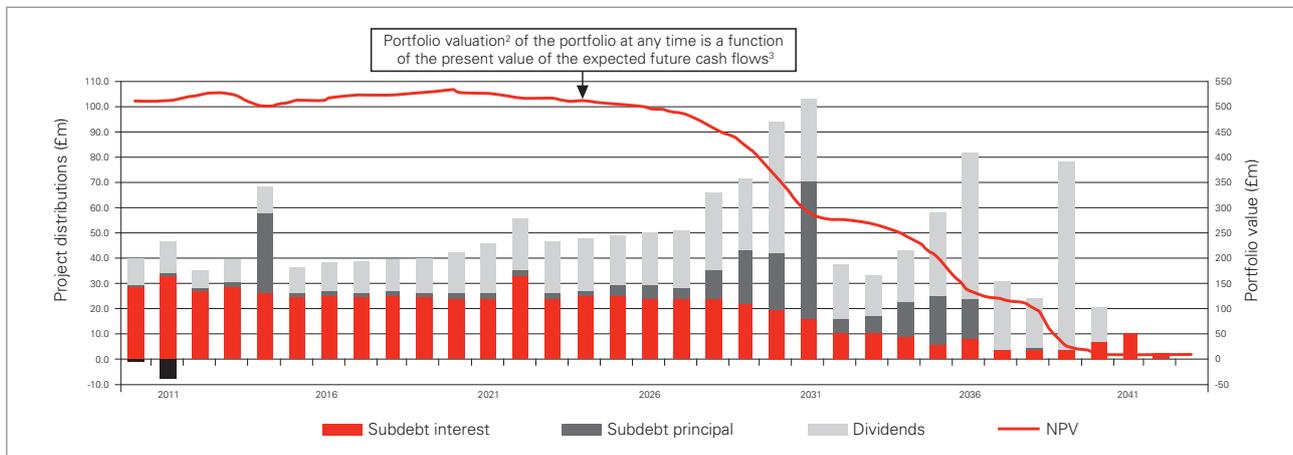
The Company successfully raised £126.3m (net of expenses) in the year from the £80m C share issue in December 2009 and the issue of 43.1m shares by way of tap issues under the Company's block listing. The net proceeds from the share issues net of the cost of new investments have been used to reduce the Group's debt. As at 31 March 2010, the Group had net cash of £11.0m and outstanding loanstock commitments on two projects totalling £8.3m.

The strategy is to use the Group's £200m revolving debt facility to fund new acquisitions, to provide letters of credit for future subscription obligations, and to provide a prudent level of debt for the portfolio to improve the operational gearing.

The Board's policy is that the Company should not be hold cash awaiting investment to any material extent above any outstanding contractual subscription obligations in respect of existing investments.

Future Cashflows¹

The chart set out below is the expected future cashflows to be received by the Group from the portfolio and how the portfolio valuation is expected to evolve over time using current forecasts and assumptions, (this is not a profit forecast, and there can be no assurance that these receipts will be achieved).



- 1 The chart represents a target only and is not a profit forecast. There can be no assurance that this target will be met.
- 2 Portfolio valuation assumes a Euro to Sterling exchange rate of 0.89 and a weighted average discount rate of 8.8 per cent. per annum. These assumptions and the valuation of the current portfolio may vary over time.
- 3 The valuation is of the Current Portfolio of 33 investments and does not include other assets or liabilities of the Group, and assumes that during the period illustrated above, (i) no new investments are purchased, (ii) no existing investments are sold and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains.

The spike in 2014 is the expected repayment of principal on the Kemble Junior Holdco Loan.

The chart shows the steady long term nature of the cashflows from the portfolio, coupled with a stable portfolio valuation to 2027. From 2028, based on current forecasts, the portfolio will move into a capital repayment phase whereby capital is repaid and the portfolio valuation reduces as projects reach the end of their concession term, assuming that the proceeds are not invested in new investments, until in 2042 all capital is repaid.

Financial Results

Accounting

At 31 March 2010, the Group had eleven investments which it was deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the project entities. This is an increase from eight investments at 31 March 2009, due to the three incremental acquisitions in November. Under International Financial Reporting Standards ("IFRS"), the results of these companies are required to be consolidated in the Group's financial statements on a line-by-line basis.

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

Income and Costs

Summary income statement

	Year to 31 March 2010			Year to 31 March 2009		
	Investment basis £million	Consolidation adjustments £million	IFRS basis £million	Investment basis £million	Consolidation adjustments £million	IFRS basis £million
Total revenue income	31.2	128.5	159.7	29.5	88.6	118.1
Expenses & finance costs	(13.4)	(121.0)	(134.4)	(9.1)	(91.0)	(100.1)
Profit before tax & valuation movement	17.8	7.5	25.3	20.4	(2.4)	18.0
Fair value movements	7.2	(24.8)	(17.6)	(42.4)	12.0	(30.4)
Tax and minority interests	(0.2)	(1.5)	(1.7)	–	(1.7)	(1.7)
Earnings/(loss)	24.8	(18.8)	6.0	(22.0)	7.9	(14.1)
Earnings/(loss) per share	6.5p		1.6p	(6.8)p		(4.3)p

On an Investment basis, Profit before tax and valuation movements was £17.8m. This is slightly lower than the prior year due to increased finance costs and because the prior year benefited from significant one-off revenues from the Colchester Garrison PFI project following construction completion.

Fair value movements are a £7.2m profit which is due to increased valuations recognised within the Directors' valuation. The Directors' valuation benefited from a strong mark to market uplift on the Kemble Water junior loan and a robust performance generally from the portfolio. Further detail on the valuation movement is given in the Investment Adviser's Report.

Earnings on an Investment basis were £24.8m, more than off-setting the £22.0m loss for the prior year. Earnings per share were 6.5p as compared to a loss per share of 6.8p in 2009. The improved earnings reflect the upwards fair value movements in the year compared to the downward movements of the prior year.

As in previous periods, in order to provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, the results have been restated in proforma tables which follow the Financial Results. The proforma tables are prepared with all investments accounted for on an Investment basis. By deconsolidating the subsidiary investments, the performance of the business under consolidated IFRS basis may be compared with the results under the Investment basis.

The proforma tables show all investments accounted for on an Investment basis, which are reconciled to the consolidated financial statements on a line by line basis.

On a consolidated IFRS basis, the earnings per share were 1.6p (2009: 4.3p loss). The results on a consolidated IFRS basis are worse than on an Investment basis due to a combination of factors. These included the intangible amortisation cost of £8.3m under IFRS which is not applicable to the investment basis and the effect of the increase in the risk free rate in the year given the Group's policy under IFRS of valuing finance receivables at fair value while borrowings are valued at amortised cost. The value of the subsidiaries recognised under IFRS has therefore been more significantly impacted by the increase in the risk free rate than the market values of the subsidiaries that underpin earnings on the Investment basis.

Profit before tax and valuation movements on a consolidated IFRS basis has increased over 40% at £25.3m reflecting full year contributions from the four additional subsidiaries recognised through incremental acquisitions in the prior year on the Home Office, West Middlesex, Central Middlesex and Barnet projects.

Financial Results *(continued)*

Cost analysis

	Year to 31 March 2010 Investment basis £million	Year to 31 March 2009 Investment basis £million
Interest income	0.1	0.4
Interest expense	(5.5)	(2.7)
Investment Adviser	(6.0)	(5.3)
Auditor – KPMG – for the Group	(0.2)	(0.2)
Directors fees & expenses	(0.1)	(0.1)
Other expenses	(1.7)	(1.2)
Expenses & finance costs	(13.4)	(9.1)

Interest was a net cost of £5.4m in the year (2009: £2.3m) increased from the prior year due to interest swap payments arising from reduced interest rates and a reduced cost in the prior year arising from a reversal of an interest accrual in that year.

Total fees accruing to HSBC Specialist Fund Management Limited (the Investment Adviser) totalled £6.0m (2009: £5.3m) in the year, comprising the 1.1% per annum management fee (1.5% for assets in construction), the 1.0% fee on the acquisitions made, and the £0.1m per annum advisory fee. The increase is a combination of the 1.0% acquisition fee on a larger number of acquisitions and the management fee on a growing portfolio value.

In addition, the Group contracted with other parts of the HSBC Group on an arms length basis for the provision of bank accounts, foreign exchange hedges, and insurance broking.

Other expenses are up £0.5m from the prior year, reflecting increased bidding activity.

Total Expense Ratio ('TER')

	Year to 31 March 2010 Investment basis £million	Year to 31 March 2009 Investment basis £million
Administrative expenses	8.0	6.8
Less operator acquisition investment fees	(0.7)	(0.3)
Total expense	7.3	6.5
Net assets	502.9	373.7
TER	1.45%	1.74%

The TER for the Group has reduced 0.29% in the year to 1.45%. This is a result of the positive effect of the Group's capital raisings which have enabled the expenses to be spread over an enlarged asset base.

Balance Sheet

Summary balance sheet

	31 March 2010			31 March 2009		
	Investment basis £million	Consolidation adjustments £million	IFRS basis £million	Investment basis £million	Consolidation adjustments £million	IFRS basis £million
Investments at fair value	501.3	(193.9)	307.4	445.7	(165.6)	280.1
Other non-current assets	–	979.3	979.3	–	838.3	838.3
Working capital	(4.8)	11.8	7.0	(3.5)	8.4	4.9
Net cash/(borrowings)	11.0	(604.0)	(593.0)	(57.7)	(505.2)	(562.9)
Other non-current liabilities	(4.6)	(196.7)	(201.3)	(10.8)	(169.4)	(180.2)
Minority interests	–	(12.8)	(12.8)	–	(4.1)	(4.1)
Net assets	502.9	(16.3)	486.6	373.7	2.4	376.1
NAV per share (before distribution)	110.7p		107.1p	110.5p		111.1p

On an Investment basis, Investments at fair value were £501.3m (31 March 2009: £445.7m) net of £8.3m of future equity commitments on the Bradford Schools and the Helicopter Training projects. This is an increase of £55.6m or 12.5%. Further detail on the movement in Investments at fair value is given in the Investment Adviser's Report under Valuation.

Following the equity capital raisings in the year the Group has a net cash position on an Investment basis of £11.0m (31 March 2009: Net debt £57.7m), comprising £12.8m of cash, and £1.8m of debt under the Group's facilities. The breakdown of the movements in net debt is shown in the cashflow analysis below.

Other financial liabilities of £4.6m (31 March 2009: £10.8m) are the mark to market valuation of the Group's interest rate swaps and a foreign currency hedging contract. In January following the C share capital raising the Group's interest rate swaps were re-profiled resulting in a payment of £2.8m to partially settle the swaps.

On an Investment basis, NAV per share was 110.7p before the 3.35p distribution (110.5p at 31 March 2009).

On a consolidated IFRS basis, net assets have increased to £486.6m (31 March 2009: £376.1m) reflecting £127.5m from the issue of shares, earnings of £6.5m less distributions of £23.0m. NAV per share was 107.1p (31 March 2009: 111.1p).

Cashflow analysis

Summary cash flow

	Year to 31 March 2010 Investment basis £million	Year to 31 March 2009 Investment basis £million
Net borrowings at start of period	(57.7)	(105.6)
Cash from investments	39.2	31.5
Operating costs outflow	(6.7)	(5.0)
Net Interest paid	(4.9)	(3.1)
Net cash inflow before acquisitions/financing	27.6	23.4
Cost of new investments	(60.1)	(51.9)
Forex movement on borrowings/hedging	(3.2)	(11.6)
Share capital raised net of costs	126.3	106.2
Dividends paid	(21.9)	(18.2)
Net cash (borrowings) at end of period	11.0	(57.7)

Financial Results *(continued)*

On an Investment basis the Group's net cash at 31 March 2010 was £11.0m (31 March 2009: net debt £57.7m)

Cash generation from the portfolio was up 24% at £39.2m (2009: £31.5m). The increase was a combination of contributions from acquisitions and the result of active cash management across the portfolio.

Cost of investments of £60.1m (2009: £51.9m) represents the cost of the five new investments, three incremental acquisitions and further investment in the Helicopter Facility.

The £3.2m (2009: £11.6m) movement in forex and hedging arises from the re-profiling of the interest rate swaps and the timing of the forward Euro sales. The forward Euro sales are to hedge the Group's Euro exposure on the Dutch High Speed Rail Link asset.

The £80.0m C share capital raising in December 2009 and placing of shares under the block listing provided cash receipts in the year of £126.3m (2009: £106.2m).

Dividends paid increased £3.7m to £21.9m (2009: £18.2m) for the year (being the payment of 3.275p in June 2009 and the payment of 3.2p per share in December 2009). The dividends paid were cash covered 1.26 times by the operational cash flow of £27.6m (2009: £23.4m).

The dividends declared for the year to 31 March 2010 represent a total of 6.55p per share (2009: 6.4p).

Gearing

The Group has a committed £200m five year revolving facility from Bank of Scotland plc ('BoS') expiring in December 2012. This facility is used to fund acquisitions and is on a recourse basis to the Group. The Company's Articles of Association limit the Group's recourse debt to 50% of Adjusted Gross Asset Value of its investments and cash balances. As at 31 March 2010, the Group had debt drawings of £3.1m under the facility.

With the successful C share equity raising in December, and the subsequent tap issue on 15 January 2010, the Group is effectively ungeared with net cash on an Investment basis as at 31 March 2010 of £11.0m (31 March 2009: net debt £57.7m). The payment of £15.2m for the second interim dividend of 3.35p per share in June will reduce the net cash of the Group.

To manage interest rate risk the Group has interest rate swaps to partially hedge the Group's debt facility. Following the degearing of the Group in January 2010 the interest rate hedges were re-profiled to reflect the likely gearing of the Group over the next three years. Foreign exchange risk from Euro income from the Dutch High Speed Rail Link has been managed in the period through financial derivatives and by drawing Euros under the debt facility.

The Group as at 31 March 2010 had £8.3m (31 March 2009: nil) of outstanding equity subscription obligations for the portfolio. This includes £7.2m for Bradford Schools which is supported by a letter of credit drawn under the BoS facility.

On a consolidated IFRS basis, the Group had net debt of £593.0m at 31 March 2010 (31 March 2009: £562.9m). This increase in net debt over the year reflects the additional debt consolidated from the three incremental acquisitions and the cost of new investments offset by the proceeds from shares issued in the year.

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

Unaudited consolidated proforma income statements

for the year ended 31 March 2010

	Year ended 31 March 2010				
	Investment basis			Consolidation adjustments £million	Consolidated IFRS basis £million
	Revenue £million	Capital £million	Total £million		
Services revenue	–	–	–	102.6	102.6
Gains on finance receivables	–	–	–	16.2	16.2
Gains/(loss) on investments	31.2	3.6	34.8	(15.5)	19.3
Total income/(loss)	31.2	3.6	34.8	103.3	138.1
Services costs	–	–	–	(89.1)	(89.1)
Administrative expenses	(8.0)	–	(8.0)	(2.0)	(10.0)
Profit/(loss) before net finance costs and tax	23.2	3.6	26.8	12.2	39.0
Finance costs	(5.5)	–	(5.5)	(30.1)	(35.6)
Finance income	0.1	3.6	3.7	0.6	4.3
Profit/(loss) before tax	17.8	7.2	25.0	(17.3)	7.7
Income tax (expense)/credit	(0.2)	–	(0.2)	3.4	3.2
Profit/(loss) for the year	17.6	7.2	24.8	(13.9)	10.9
Attributable to:					
Equity holders of the parent	17.6	7.2	24.8	(18.8)	6.0
Minority interests	–	–	–	4.9	4.9
	17.6	7.2	24.8	(13.9)	10.9
Earnings/(loss) per share – basic and diluted (pence)	4.6	1.9	6.5	(4.9)	1.6

	Year ended 31 March 2009				
	Investment basis			Consolidation adjustments £million	Consolidated IFRS basis £million
	Revenue £million	Capital £million	Total £million		
Services revenue	–	–	–	66.5	66.5
Gains on finance receivables	–	–	–	52.3	52.3
Gains/(loss) on investments	29.5	(27.2)	2.3	3.5	5.8
Total income/(loss)	29.5	(27.2)	2.3	122.3	124.6
Services costs	–	–	–	(55.4)	(55.4)
Administrative expenses	(6.8)	–	(6.8)	(1.7)	(8.5)
Profit/(loss) before net finance costs and tax	22.7	(27.2)	(4.5)	65.2	60.7
Finance costs	(2.7)	(16.1)	(18.8)	(56.7)	(75.5)
Finance income	0.4	0.9	1.3	1.1	2.4
Profit/(loss) before tax	20.4	(42.4)	(22.0)	9.6	(12.4)
Income tax (expense)/credit	–	–	–	1.6	1.6
Profit/(loss) for the year	20.4	(42.4)	(22.0)	11.2	(10.8)
Attributable to:					
Equity holders of the parent	20.4	(42.4)	(22.0)	7.9	(14.1)
Minority interests	–	–	–	3.3	3.3
	20.4	(42.4)	(22.0)	11.2	(10.8)
Earnings/(loss) per share – basic and diluted (pence)	6.3	(13.1)	(6.8)	2.4	(4.3)

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

Unaudited consolidated proforma balance sheet

as at 31 March 2010

	Investment basis £million	31 March 2010 Consolidation adjustments £million	Consolidated IFRS basis £million	Investment basis £million	31 March 2009 Consolidation adjustments £million	Consolidated IFRS basis £million
Non-current assets						
Investments at fair value through profit or loss (<i>Note 1</i>)	501.3	(193.9)	307.4	445.7	(165.6)	280.1
Finance receivables at fair value through profit or loss	–	772.0	772.0	–	634.1	634.1
Intangible assets	–	170.6	170.6	–	168.9	168.9
Deferred tax assets	–	36.7	36.7	–	35.3	35.3
Total non-current assets	501.3	785.4	1,286.7	445.7	672.7	1,118.4
Current assets						
Trade and other receivables	0.1	12.0	12.1	0.1	7.5	7.6
Finance receivables at fair value through profit or loss	–	16.6	16.6	–	12.5	12.5
Cash and cash equivalents	12.8	54.3	67.1	9.1	45.1	54.2
Total current assets	12.9	82.9	95.8	9.2	65.1	74.3
Total assets	514.2	868.3	1,382.5	454.9	737.8	1,192.7
Current liabilities						
Trade and other payables	(4.7)	(16.2)	(20.9)	(3.6)	(11.4)	(15.0)
Current tax payable	(0.2)	(0.6)	(0.8)	–	(0.2)	(0.2)
Loans and borrowings	–	(29.6)	(29.6)	–	(23.4)	(23.4)
Total current liabilities	(4.9)	(46.4)	(51.3)	(3.6)	(35.0)	(38.6)
Non-current liabilities						
Loans and borrowings	(1.8)	(628.7)	(630.5)	(66.8)	(526.9)	(593.7)
Other financial liabilities (fair value of derivatives)	(4.6)	(80.3)	(84.9)	(10.8)	(65.6)	(76.4)
Deferred tax liabilities	–	(116.4)	(116.4)	–	(103.8)	(103.8)
Total non-current liabilities	(6.4)	(825.4)	(831.8)	(77.6)	(696.3)	(773.9)
Total liabilities	(11.3)	(871.8)	(883.1)	(81.2)	(731.3)	(812.5)
Net assets	502.9	(3.5)	499.4	373.7	6.5	380.2
Equity						
Shareholders' equity	502.9	(16.3)	486.6	373.7	2.4	376.1
Minority interest	–	12.8	12.8	–	4.1	4.1
Total equity	502.9	(3.5)	499.4	373.7	6.5	380.2
Net assets/(liabilities) per share (pence)	110.7	(3.6)	107.1	110.5	0.6	111.1

Unaudited consolidated proforma cash flow

for the year ended 31 March 2010

	Year ended 31 March 2010			Year ended 31 March 2009		
	Investment basis £million	Consolidation adjustments £million	Consolidated IFRS basis £million	Investment basis £million	Consolidation adjustments £million	Consolidated IFRS basis £million
Cash flows from operating activities						
Profit/(loss) before tax	25.0	(17.3)	7.7	(22.0)	9.6	(12.4)
Adjustments for:						
(Gains)/loss on investments	(34.8)	14.3	(20.5)	(0.5)	(5.3)	(5.8)
Gains on finance receivables	–	(4.4)	(4.4)	–	(52.3)	(52.3)
Interest payable and similar charges	5.5	26.4	31.9	2.7	35.0	37.7
Changes in fair value of derivatives	(3.6)	(0.4)	(4.0)	14.3	23.5	37.8
Interest income	(0.1)	(0.2)	(0.3)	(1.3)	(1.1)	(2.4)
Amortisation of intangible assets	–	8.2	8.2	–	6.4	6.4
Operating cash flow before changes in working capital	(8.0)	26.6	18.6	(6.8)	15.8	9.0
Changes in working capital:						
(Increase)/decrease in receivables	–	(16.1)	(16.1)	2.9	(0.3)	2.6
Increase/(decrease) in payables	1.3	2.6	3.9	(1.1)	(5.4)	(6.5)
Cash flow (used in)/from operations	(6.7)	13.1	6.4	(5.0)	10.1	5.1
Interest received on bank deposits and finance receivables	1.5	0.2	1.7	0.3	1.2	1.5
Cash received from finance receivables	–	41.4	41.4	–	46.6	46.6
Interest paid	(9.9)	(28.5)	(38.4)	(10.8)	(33.3)	(44.1)
Corporation tax paid	–	(0.7)	(0.7)	–	(3.0)	(3.0)
Net cash (used in)/from operating activities	(15.1)	25.5	10.4	(15.5)	21.6	6.1
Cash flows from investing activities						
Purchases of investments	(60.1)	8.0	(52.1)	(51.9)	12.7	(39.2)
Interest received on investments	27.8	(6.7)	21.1	21.3	(4.8)	16.5
Dividends received	8.3	(1.7)	6.6	3.8	(0.9)	2.9
Fees and other operating income	2.0	(0.7)	1.3	4.1	(1.4)	2.7
Acquisition of subsidiaries net of cash acquired	–	7.0	7.0	–	24.0	24.0
Loanstock and equity repayments received	1.1	–	1.1	2.3	–	2.3
Net cash (used in)/from investing activities	(20.9)	5.9	(15.0)	(20.4)	29.6	9.2
Cash flows from financing activities						
Proceeds from issue of share capital	126.3	–	126.3	106.2	–	106.2
Proceeds from issue of loans and borrowings	66.6	–	66.6	85.2	–	85.2
Repayment of loans and borrowings	(132.2)	(20.8)	(153.0)	(145.9)	(14.7)	(160.6)
Distributions paid to Company shareholders	(21.9)	–	(21.9)	(18.2)	–	(18.2)
Distributions paid to minorities	–	(1.4)	(1.4)	–	(1.8)	(1.8)
Net cash from/(used in) financing activities	38.8	(22.2)	16.6	27.3	(16.5)	10.8
Net increase/(decrease) in cash and cash equivalents	2.8	9.2	12.0	(8.6)	34.7	26.1
Cash and cash equivalents at beginning of year	9.1	45.1	54.2	16.8	10.4	27.2
Exchange gains on cash	0.9	–	0.9	0.9	–	0.9
Cash and cash equivalents at end of year	12.8	54.3	67.1	9.1	45.1	54.2

Note to the unaudited consolidated proforma financial statements

for the year ended 31 March 2010

1. Investments

The valuation of the Group's portfolio at 31 March 2010 reconciles to the consolidated balance sheet as follows:

	31 March 2010	31 March 2009
	£million	£million
Portfolio valuation	509.6	445.7
Less: undrawn loanstock commitments	(8.3)	–
Portfolio valuation on an investment basis	501.3	445.7
Less: equity and loanstock investments in operating subsidiaries eliminated on consolidation	(193.9)	(165.6)
Investments per audited consolidated balance sheet on an IFRS basis	307.4	280.1

Analysis of the Group's Portfolio

As at 31 March 2010, the Group had 33 investments, details of which are set out in the table below.

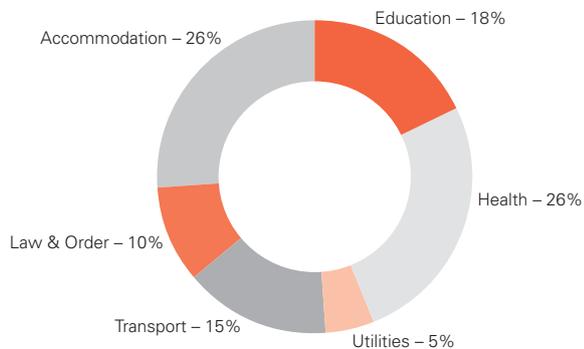
PROJECT	Equity	Group Holdings	
		Subdebt	Mezzanine debt
Ten largest investments			
Barnet Hospital	100.0%	100.0%	100.0%
Central Middlesex Hospital	100.0%	100.0%	
Colchester Garrison	42.0%	42.0%	
Dutch High Speed Rail Link	37.5%	37.5%	
GMPA Police Stations	72.9%	72.9%	
Highland Schools	50.0%	50.0%	
Home Office	100.0%	100.0%	
Kemble Water Junior Loan	–	–	3.6%
Romford Hospital	50.0%	50.0%	
West Middlesex Hospital	100.0%	100.0%	
Remaining investments			
Bishop Auckland Hospital	36.0%	36.0%	100.0%
Blackburn Hospital	50.0%	50.0%	
Bradford BSF Schools Phase II project	34.0%	34.0%	
Conwy Schools	90.0%	90.0%	
Darlington Schools	50.0%	50.0%	
Defence Sixth Form College	45.0%	45.0%	
Durham and Cleveland Firearms Training Centre	72.9%	72.9%	
Ealing Schools	50.0%	50.0%	
Exeter Crown Courts	90.0%	90.0%	
Haverstock Schools	50.0%	50.0%	
Health and Safety Laboratory	80.0%	90.0%	
Helicopter Training Facility – AssetCo	86.6%	8.6%	
– ProjectCo	21.8%	59.0%	
Heath & Safety HQ	50.0%	50.0%	
MPA Specialist Training Centre	72.9%	72.9%	
MPA South East London Police Stations	50.0%	50.0%	
North Tyneside Schools	50.0%	50.0%	
Newcastle Libraries	50.0%	50.0%	
Oxford John Radcliffe Hospital	50.0%	50.0%	
Pinnacle Schools, Fife	40.0%	40.0%	100.0%
Renfrewshire Schools	30.0%	30.0%	
Stoke Mandeville Hospital	90.0%	90.0%	
Sussex Custodial Centre	82.3%	82.3%	
Wooldale Centre	50.0%	50.0%	

Apart from Bradford BSF Schools Phase II project, all the remaining projects are operational. The pie charts overleaf show how the portfolio has developed in the last 12 months in terms of sector split, projects still in construction, geographic location, and concession lengths remaining.

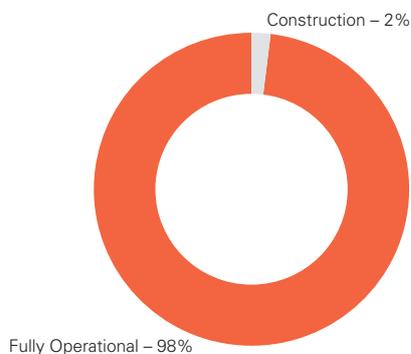
Analysis of the Group's Portfolio *(continued)*

As at 31 March 2010

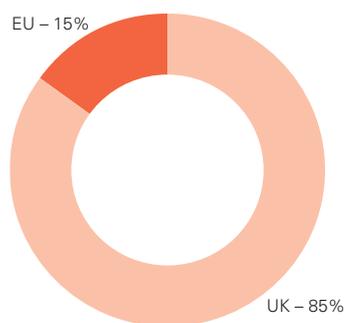
Sector analysis



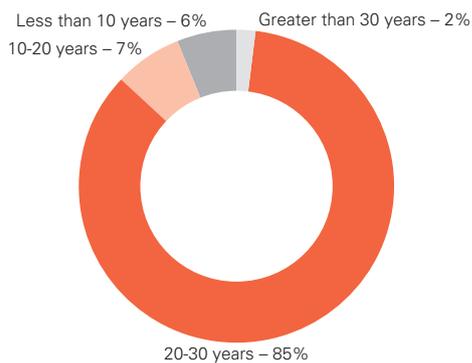
Investment status



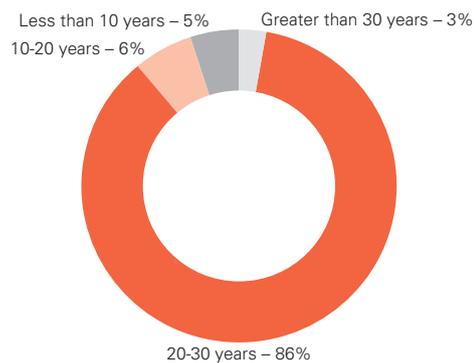
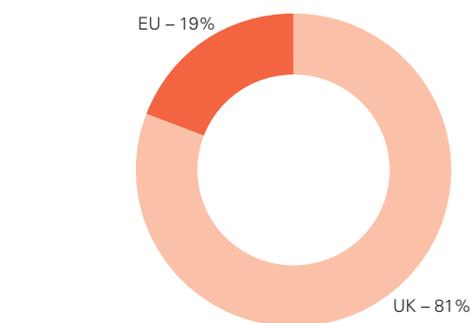
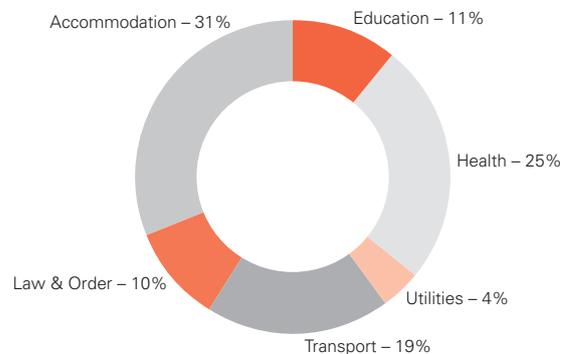
Geographic



Concession length



As at 31 March 2009



Ten largest investments

Set out below are details of the ten largest investments in the portfolio and details of each project. As at 31 March 2010, the largest investment (the Home Office project) accounted for 16.2% of the portfolio.

PROJECT	Directors' Valuation	
	at 31 March 2010 Valuation as a percentage of Directors' portfolio valuation £million	at 31 March 2009 Valuation as a percentage of Directors' portfolio valuation £million
Directors' Valuation – £m	509.6	445.7
Barnet Hospital	3.5%	4.1%
Central Middlesex Hospital	4.1%	4.6%
Colchester Garrison	8.8%	11.0%
Dutch High Speed Rail Link	14.7%	18.6%
GMPA Police Stations	3.5%	2.8%
Highland Schools	3.5%	–
Home Office	16.2%	18.3%
Kemble Water	4.8%	4.1%
Romford Hospital	4.9%	–
West Middlesex Hospital	3.4%	4.0%
Total	67.4%	67.5%

Barnet Hospital

The Barnet General Hospital project is a 33 year concession to design, construct, operate and maintain the rebuilding of Barnet General Hospital in North London for the Wellhouse National Health Service Trust. Financial close was in February 1999. The project involved capital expenditure of approximately £65m. Construction was completed in March 2002.

Barnet Hospital Project Limited (a joint venture company formed by Bouygues (UK) Limited and Ecovert FM Limited, both subsidiaries of Bouygues Construction S.A.) was responsible for the design and construction. Ecovert South Limited, also a subsidiary of Bouygues Construction S.A. is responsible for maintenance and Compass Contract Services (U.K.) Limited (trading as Medirest) is responsible for "soft" facilities management (catering, portering, cleaning etc). Siemens Healthcare Services Limited has installed and is maintaining medical imaging equipment and new IT and telecommunications.

Central Middlesex Hospital

The project is a 33 year concession to design, construct, finance and maintain new hospital facilities, as well as refurbishing some existing facilities, on the Central Middlesex Hospital site in North West London, UK. The unit provides 214 beds and three main theatres. The project involved capital expenditure of approximately £75m; financial close occurred in November 2003. Construction completion was in March 2006.

The building and maintenance contractor is Central Middlesex Hospital Project Limited, a joint venture company formed by Bouygues (UK) Limited and Ecovert FM Limited, both subsidiaries of Bouygues Construction S.A.

Colchester Garrison

The project is a 35 year concession to provide a new facility for the Secretary of State for Defence in Colchester, Essex, UK. Colchester Garrison provides accommodation for approximately 3,500 military and 750 civilian personnel. The project is located on the original garrison site and partly on an adjacent brown field site owned by the Ministry of Defence. Capital expenditure on the project was approximately £550m. Construction was completed in April 2008 which was five months ahead of the original programme.

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

During the year significant savings were achieved for the project and the MOD through an innovative financing initiative. £52m from surplus land sale proceeds was repaid to bondholders 2½ years earlier than scheduled with a 0.5% repayment premium. The difference between the 5.4% bond interest coupon and 1% to 2% cash on deposit interest rates less transaction costs provided the cost saving, which was shared 50:50 with the client.

Dutch High Speed Rail Link

The largest PPP project signed to date in the Netherlands, the Dutch high speed rail link provides a high-speed connection from Schiphol Airport to the Belgian border. The HSL Zuid project, as it is known locally, was developed for the Dutch Ministry of Transport, Public Works and Waste Management and the Ministry of Finance under a 25 year concession. The project involves

Analysis of the Group's Portfolio *(continued)*

capital expenditure of over £625m and includes track, noise attenuation, signalling, power distributions and communications systems. Financial close was in October 2001.

Certificates of Availability have been issued for both the North and Southern sections. Maintenance obligations are carried out by a joint venture comprising Siemens Nederland BV, Koninklijke BAM NBM NV and Fluor Infrastructure BV.

High speed train services (not the responsibility of the project) commenced successfully in the year.

GMPA Police Stations

This £82m project involved the design, build, financing and operation of new facilities for the Greater Manchester Police Authority as part of a 29 year concession. The new facilities are a new traffic headquarters and 16 new police stations (four divisional headquarters, five sub-divisional headquarters and seven local community police stations). All the facilities have now been constructed and are fully operational.

Nearly 3,000 police officers have been able to move from 53 old stations into the 17 new buildings. The new buildings cover 38,600 square metres of floor space. Hard and soft facilities management services (such as cleaning, grounds maintenance and helpdesk) are being supplied by John Laing Integrated Services Ltd, a subsidiary of John Laing plc.

Highland Schools

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

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

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

All the schools have been designed in consultation with the community to include a range of facilities which are available to the public. These facilities include library provision, sports and recreational facilities and community meeting rooms.

Home Office

The project is a 29 year concession commissioned by the UK Home Office to build, finance, operate and maintain a new headquarters building to replace their existing office accommodation with purpose-built serviced offices in Westminster, London. The project involved capital expenditure of approximately £200m and the demolition of the existing offices on a 4.3 acre site, followed by the construction of a building comprising three purpose-built interconnecting office blocks to accommodate up to 3,450 staff. Construction was completed in January 2005.

The services being provided include health and safety, cleaning, catering and energy management. Operations are managed by Ecovert FM Limited a facilities management subsidiary of Bouygues.

Kemble Water

This is a participation of £30m in the junior term loan facility for Kemble Water, the vehicle set up to acquire RWE Thames Water Holdings ("Thames Water"). Kemble Water acquired the whole of Thames Water from RWE, including the regulated UK water business and non-regulated businesses (this includes Thames Water's property, commercial, and international businesses).

The regulated business supplies water to approximately 8 million people (3.4 million properties) and sewerage services to approximately 13 million people (5.3 million properties). Measured by customer numbers, it is currently the largest water and sewerage company in the UK.

Romford Hospital

This project involves the design, build and finance of a new hospital – the Queen's Hospital – in Romford, Essex, followed by the maintenance of the hospital and the provision of non-clinical services and a Managed Equipment Service for a term of 36 years that ends in 2040. The project involved capital expenditure of approximately £211m and its construction was completed in October 2006 by Bovis Lend Lease Limited.

Soft and Hard Facilities management is the responsibility of Sodexo Limited and the Medical Equipment Services are provided by Siemens plc.

West Middlesex Hospital

The project is a 35 year concession to design, construct, finance, operate and maintain a new 228 bed hospital in West Middlesex, UK. Financial close occurred in January 2001 and the project involved capital expenditure of approximately £60m. Construction was completed on time in June 2003.

Building management services comprise the repair and maintenance of plumbing and security systems as well as health and safety services. Catering, laundry, cleaning, portage and security services are also being provided. Operations are being managed by Ecovert FM Limited, the facilities management subsidiary of Bouygues Construction S.A.

Risks and Risk Management

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

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

The Directors set out the material risks relating to the Group's portfolio and investing in the Company as at November 2009 in the Company's C Share Prospectus, which is available from the Company's website.

The Investment Adviser and the Operator have established internal controls to manage these risks, and also review and consider the Group's key risks on a quarterly basis. The Board reviews the key risks affecting the Company at each regular board meeting, by reference to a risk analysis matrix prepared by the Investment Adviser. If a new risk arises or the likelihood of a risk occurring increases, where appropriate, a mitigation strategy is developed and implemented, together with enhanced monitoring by the Investment Adviser.

The Board's Management Engagement Committee also reviews the performance of the Investment Adviser (as well as all key service providers) on at least an annual basis and this review includes a consideration of the Investment Adviser's internal controls and their effectiveness. The Investment Adviser, being part of HSBC Holdings plc, is also subject to periodic internal audits which review adherence against documented procedures and controls adopted by the Investment Adviser in relation to its management of the Group, the Group's investments and advice given to the Company.

Risk Assessment

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

External risks

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

The performance of the portfolio of 33 investments is affected by a number of economic factors including inflation rates, interest rates, and foreign exchange rates. Most, if not all of the PFI/PPP

projects mitigate to some extent against changes in inflation rates by seeking to match their indexation of contractual revenues to their indexation of contractual costs. This is not always achievable where costs are not indexed, an example being where bank debt interest rate exposure has been swapped into a fixed rate. In this situation, a period of low inflation (or deflation) could cause the project to have insufficient free cashflows to cover the servicing of the debt (causing the project to lock-up and even default under the loan documentation).

Risks and Risk Management *(continued)*

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

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

The UK government (and other governments now using the PFI/PPP/P3 procurement model) may in future decide to use alternative funding mechanisms and/or it may reduce the overall level of funding allocated to major capital projects. Whilst such risks cannot be mitigated, the PFI market is still anticipated to grow globally as it is considered that:

- The projects provide value for money and have a strong record of timely and within budget completion; and
- The public sector makes cost savings and gets cost certainty.

The Group is not reliant on any public procurement bidding pipeline to secure new investments, and so is not exposed to the risk that a change of government may affect new project procurement. There is a risk that an existing project might be voluntarily terminated but this risk is considered low due, in part, to the requirement for the public sector body to compensate in full the senior funders and other project termination costs.

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

Strategic risks

The Company's strategy is to deliver a progressive distribution growth with the aim of achieving 7.0p per share by March 2013. At the same time, the aim is to maintain or grow the net asset value ('NAV') of the Company. Since the current portfolio consists of investments in concessions with finite lives, if no new acquisitions are made, there will come a point in the Company's evolution when it will become necessary to start repaying capital. This is shown diagrammatically in the chart on page 16.

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

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

The Investment Adviser meets existing and potential new shareholders throughout the year to explain the Company, its investments, its performance, and the key risks. The Board believes this ongoing meeting and briefing helps educate the market and informs both existing and new potential shareholders.

Management risks

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

The Management Engagement committee of the Board reviews the performance of each service provider on an annual basis and seeks to ensure that each service provider has adequate systems and controls in place in relation to the services they provide to the Group. Any performance issues are monitored carefully, and if the Board is not satisfied with the level of service delivery, the Board will seek to change service providers.

In relation to the Investment Adviser, the Board takes comfort from the fact that the Investment Adviser has a track record in managing infrastructure investments and has developed an appropriate and detailed set of policies, procedures, compliance systems, and risk controls. The Investment Adviser is subject to routine internal review and the Board is satisfied that there is sufficient depth of expertise within the Investment Adviser's infrastructure team that the Group is not reliant on any single individual.

Investment risks

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

The Investment Adviser and Operator have internal processes and controls, developed from its experience of managing funds and investing in infrastructure, to minimise these risks through regular peer group review and internal approval processes. All investment decisions are made by an Investment Committee which has approved terms of reference to ensure only those staff with appropriate skill sets have been appointed, any conflicts should they arise are suitably managed, and an appropriate minimum quorum is achieved. Specialist advisers (such as lawyers, technical consultants, and tax advisers) are retained to carry out specific due diligence on potential acquisitions to minimise this risk.

Investments are normally acquired through competition and so it is important to analyse the investment and determine the appropriate value the Group is prepared to pay. The risk of over-paying is less than for infrastructure assets requiring revenue forecasts, since the majority of the revenue and cost streams in PFI/PPP projects and similar asset types are contractual and therefore fixed in real terms.

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

- Insurance premiums: If insurance premiums are not subject to pass down to a service provider, any increases are for the account of the project. To provide some protection against substantial increases the majority of the projects have negotiated premium risk sharing agreements with the public sector authority where when an agreed cap is met the increased premium is mostly or wholly taken by the authority.
- Life cycle (also called Asset Renewal or Major Maintenance): Lifecycle is the budget to replace parts of the project's assets which are outside the routine maintenance contract. Examples in a building will include floor finishes (e.g. carpets), doors, windows, ceilings and mechanical and electrical equipment. In some cases this risk and the budget for replacement are passed down to the maintenance contractor, and in the remaining projects, it sits with the project company. There is a risk that the budget is inadequate or expenditure needs to be carried out earlier than forecast. For the current portfolio, the Group has assessed the risk and considers that the lifecycle provisions are reasonable and adequate.

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

A key risk within a PFI project is the various counterparty exposures: the client, the sub-contractors, and the providers of finance and financial services. The Group is careful to manage its concentration exposures to any one party carefully. Whilst the Group is current predominantly UK PFI/PPP investments, there are plans to diversify this risk by acquiring non-UK investments. Sub-contractor and financial counter-parties exposures are monitored and where the Group seeks a balanced portfolio with no over-reliance on a single party.

Financial and Treasury

The Group's investments and the Group itself require debt finance to achieve its business objectives. Debt financing is scarcer than 12 months ago. All of the Groups' PFI/PPP investments have long term funding in place and do not need refinancing to meet their financial plans. The Group has a 5 year committed £200m revolving debt facility which expires in December 2012. There is a risk that it will not be possible to renew this facility on acceptable terms, and if this proves to be the case, the Group will need to either have raised further equity or will need to dispose of selected investments to enable it to meet its repayment obligations, to the extent, if at all, that the facility is drawn.

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

The Group has limited foreign currency exposure at present, with just one investment in euros. This is likely to change in the future as further non-UK investments are acquired. To date the Group has balance-sheet hedged the value of its overseas investment and will, if deemed appropriate hedge prospective income on a short term basis.

The Group is exposed to interest rate fluctuations, both on its borrowing and cash deposits. The PFI/PPP projects have hedges in place on the majority of their borrowings to minimise interest volatility. Similarly the Group's corporate borrowings are partially hedged. It is possible to some extent to mitigate rate fluctuations on the cash deposits by selecting the deposit period. However in the current low interest rate economy, the PFI/PPP projects are not earning as much from their cash deposits as they were 2 years ago. This has impacted the valuation of the portfolio, since it is an inherent risk where options to mitigate are limited.

Board of Directors

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

Mr Graham Picken (61) – Chairman

Appointed to the Board 12 January 2006

Graham Picken is an experienced banker and financial practitioner and has been Chairman of the Company since its launch. Formerly, a non executive director of the Derbyshire Building Society, he was appointed Chief Executive of the Derbyshire in February 2008 and led the society to a merger with Nationwide Building Society in December 2008, standing down at the end of March 2009 to take on a short-term advisory role with the Bank of England. Until 2003, Graham's career spanned over thirty years with Midland and HSBC Banks where, before he retired, he was General Manager of HSBC Bank plc responsible for commercial and corporate banking (including specialised and equity finance). Before that Graham was Chief Executive of Forward Trust Group, an authorised bank, and Chairman of First direct, a division of HSBC Bank plc. During his employment with HSBC, Graham never had any direct responsibility or involvement with the Investment Adviser. Graham has also been a non-executive director of HM Customs & Excise. He is a resident of the UK.

Graham has no other listed company directorships

Mrs Sarah Evans (55)

Appointed to the Board 9 June 2008

Sarah Evans is a Chartered Accountant and is a director of several other listed investment funds, as well as an unlisted fund of hedge funds. She is a member of the Institute of Directors.

Sarah spent over six years with the Barclays Bank PLC group from 1994 to 2001. During that time she was a treasury director and from 1996 to 1998 she was Finance Director of Barclays Mercantile, where she was responsible for all aspects of financial control and operational risk management. Prior to joining Barclays Sarah ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 Sarah was with Kleinwort Benson, latterly as head of group finance. She is resident in Guernsey.

Other public company directorships (listed in London)*

Crystal Amber Fund Limited (listed on AIM)
Japanese Leisure Hotels Limited (listed on AIM)
Phaunos Timber Fund Limited



From left to right: Henri Grisius, Graham Picken, John Hallam and Sarah Evans

Mr Henri Grisius (66)

Appointed to the Board 12 January 2006, and on 20 May 2010, the Company announced that Henri will retire as a Director of the Company on 1 June 2010.

Henri lives in Luxembourg and is the founder and managing partner of RSM Henri Grisius & Associés Sàrl, and is a director of a number of international investment companies. He is a former partner of Ernst & Young and BDO in Luxembourg. Before that he set up the investment funds department of Banque de Luxembourg in Luxembourg. He started his career with the Luxembourg Stock Exchange in 1969.

Henri has no other public company directorships

Mr John Hallam (61)

Appointed to the Board 12 January 2006

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

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

BH Global Limited
Cazenove Absolute Equity Limited
Develica Deutschland Limited (listed on AIM)
Dexion Absolute Limited
NB Private Equity Partners Limited
Partners Group Global Opportunities Limited (listed in Ireland)
Standard Life Investments Property Income Trust Limited
Tapestry Investment Co PCC Limited

Mr Chris Russell (61)

On 20 May 2010, the Company announced that Chris Russell will join the Company as a Director on 1 June 2010.

Chris is a Guernsey resident non-executive director of investment and financial companies in the US, UK, Hong Kong and Guernsey. He is also a director of the UK trade body, the Association of Investment Companies. Chris was formerly a director of Gartmore Investment Management Plc, where he was Head of Gartmore's businesses in the US and Japan and before that was a holding board director of the Jardine Fleming Group in Asia. He is a Fellow of the UK Society of Investment Professionals and a Fellow of the Institute of Chartered Accountants in England & Wales.

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

JP Morgan Fleming Japanese Smaller Companies Trust plc
Castle Asia Alternative pcc Ltd
F&C Commercial Property Trust Ltd
Korea Fund Inc (listed in New York)

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

Report of the Directors

The Directors present their report and accounts of the Group for the year to 31 March 2010.

Principal Activity

The Company is a Guernsey incorporated company and during the year carried on business as an infrastructure investment company.

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

Results and Distributions

The results for the year are set out in the attached accounts. The Company has declared two interim dividends, relating to the year ended 31 March 2010 as follows:

- 3.20p declared on 12 November 2009, to shareholders on the register as at 20 November 2009, paid on 31 December 2009; and
- 3.35p declared on 20 May 2010, to shareholders on the register as at 28 May 2010, to be paid at the end of June.

At the Annual General Meeting on 5 August 2009, shareholders renewed their approval to the Board, at its discretion, to offer a scrip dividend alternative. This alternative was offered to shareholders for both of the interim dividends declared for the year ending 31 March 2010.

Guernsey Regulatory Environment

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

Share Issue

At 31 March 2009, there were 338,288,733 Ordinary Shares and 2 Management Shares in issue. The Management Shares carry one vote each on a poll, do not carry any right to dividends and, in winding-up, rank only for a return of the amount of the paid-up capital on such shares after return of capital on Ordinary Shares and Nominal Shares. The Management Shares are not redeemable and are accrued for and on behalf of a Guernsey charitable trust.

On 8 August 2008, the Company made a block listing application for 33,402,711 Ordinary Shares.

Under this block-listing the Company issued 29,785,000 new Ordinary Shares of 0.01p each in the Company for cash:

Date	New Ordinary Shares
2 June 2009	1,975,000
5 June 2009	1,250,000
9 June 2009	500,000
11 June 2009	500,000
24 June 2009	10,110,000
6 July 2009	750,000
13 July 2009	700,000
17 July 2009	800,000
24 July 2009	1,000,000
11 August 2009	450,000
14 August 2009	500,000
21 August 2009	2,500,000
24 August 2009	3,800,000
25 August 2009	550,000
27 August 2009	4,400,000

On 23 September 2009, the Company made a block listing application for 36,821,287 Ordinary Shares (of which a further 5,436,287 Ordinary Shares could have been issued prior to the subsequent issuance of a new prospectus on 12 November 2009).

Under this block-listing the Company issued the following new Ordinary Shares of 0.01p each in the Company for cash:

Date	New Ordinary Shares
27 September 2009	250,000
30 September 2009	5,100,000
15 January 2010	7,965,390

As a result of the scrip dividend alternative announced on 20 May 2009 the Company issued 139,142 new Ordinary Shares of 0.01p each in the Company in lieu of the 3.275p dividend to those shareholders who had elected to receive the same.

As a result of the scrip dividend alternative announced on 12 November 2009 the Company issued 917,049 new Ordinary Shares of 0.01p each in the Company in lieu of the 3.2p dividend to those shareholders who had elected to receive the same.

On 16 December 2009, the Company issued 80,000,000 C Shares of 0.01p as a result of the Company's C Share capital raising.

On 15 January 2010, as a result of the conversion of the C Shares, the Company issued 71,856,000 new Ordinary Shares of 0.01p in exchange for 80,000,000 C Shares.

At 31 March 2010, there were 454,301,314 Ordinary Shares and 2 Management Shares in issue.

Directors

The Directors who held office during the year to 31 March 2010 were:

G Picken
S Evans
H Grisius
J Hallam

Since the period end, It was announced on 20 May 2010 that Mr Grisius will retire from the Board on 1 June 2010, and Mr Russell will be appointed as a Director of the Company from 1 June 2010.

Mr G Picken and Mr H Grisius were during the year Directors of HICL Infrastructure 1 Sàrl and HICL Infrastructure 2 Sàrl, wholly owned subsidiaries undertakings of the Company.

Biographical details of each of the Directors are shown on pages 32 and 33.

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

Director	Total Fees
G Picken	£38,250
S Evans	£29,125
H Grisius	£29,125
J Hallam	£33,250

The fees above include an additional £10,000 per director in respect of the additional work in relation to the C share issue in November 2009.

Following a review by the Remuneration Committee who retained the services of an independent fee consultant, Trust Associates, the Board is proposing to increase the fees for directors for the year to 31 March 2011 to £34,000 for the Chairman, £26,000 for Mr Hallam, £22,500 for Mrs Evans, and £22,500 for Mr Grisius and Mr Russell (pro-rata). In addition, a director who is also a director of the two Luxemburg subsidiaries, will be entitled to an additional £5k p.a. for work in connection with those companies. As in previous years, should the Company require directors to work on specific corporate actions such as a further C share raising, an additional appropriate fee will be determined. All fees paid to directors in the year need to fall within the fee cap, currently £150,000 p.a. but proposed to increase to £200,000 p.a. subject to approval at the AGM in July 2010.

The Board has decided to seek approval for these increases in Directors' proposed fees at the AGM in July 2010.

Investment Adviser and Operator

HSBC Specialist Fund Management Limited (the "Investment Adviser" or "HSFML") is authorised and regulated by the Financial Services Authority, and is a wholly owned subsidiary of HSBC Specialist Investments Limited ("HSIL"), which itself is an indirect subsidiary of HSBC Holdings plc.

HSFML acts as Investment Adviser to the Company and acts as Operator of the limited partnership which holds and manages the Group's investments. A summary of the contract between the Company, its group companies, and HSFML in respect of services provided is set out in Note 24 to the accounts.

It is the Directors' opinion, based on performance in the year, that the continuing appointment of HSFML on the agreed terms is in the best interests of the shareholders as a whole.

Brokers, Administrator & Company Secretary

During the year, the joint brokers to the Company were Collins Stewart Europe Limited and Oriel Securities Limited.

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

Substantial Interests in Share Capital

As at 21 May 2010, the Company has received notification in accordance with the FSA's Disclosure and Transparency Rule 5 of the following interests in 3% or more of the Company's 454,301,314 Ordinary Shares to which voting rights are attached

	Number of Ordinary Shares Held	Percentage Held
Rensburg Sheppards		
Investment Management	36,373,782	8.01
Schroders plc	24,368,554	5.36
Legal and General	13,912,680	3.06

Directors' interests

The Directors of the Company on 31 March 2010, all of whom held office throughout the year, and their interests in the Ordinary Shares of the Company, are shown in the table below.

	31 March 2010	31 March 2009
Graham Picken	44,910	–
Sarah Evans*	134,730	–
Henri Grisius	44,910	–
John Hallam	44,910	–

** of which 89,820 were held by her spouse*

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

Report of the Directors *(continued)*

Donations

The Company made no political or charitable donations during the year.

Payment of suppliers

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Adviser's Report on pages 10 to 16. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Results on pages 17 to 20. In addition, notes 1 to 4 and 21 to 22 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

Share repurchases

No shares have been bought back in the year. The latest authority to purchase ordinary shares for cancellation was granted to the Directors on 5 August 2009 and expires on the date of the next Annual General Meeting. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming Annual General Meeting.

Treasury shares

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

The Board currently intends only to authorise the sale of shares from treasury at prices at or above the prevailing net asset value per share (plus costs of the relevant sale). This should result in a positive overall effect on shareholders if shares are bought back at a discount and then sold at price at or above the net asset value per share (plus costs of the relevant sale).

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

Statement of Directors' Responsibilities

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

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

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

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including a Business Review) and Corporate Governance Statement that comply with that law and those regulations.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

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

Disclosure of Information to the Auditors

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

Auditors

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

By order of the Board
Authorised signatory
Dexion Capital (Guernsey) Ltd
Company Secretary
24 May 2010

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

Corporate Governance

Background

The Board is committed to maintaining the highest standards of corporate governance and is accountable to shareholders for the governance of the Company's affairs.

The Board has put in place a framework for corporate governance which it believes is appropriate for an investment company and which will enable the Company to comply voluntarily with the relevant provisions of the Combined Code on Corporate Governance (the "Combined Code") issued by the Financial Reporting Council in June 2008. Additionally, the Company became a member of the Association of Investment Companies (the "AIC") in the year, and so the Board has taken into account the recommendations of the AIC's Code of Corporate Governance (the "AIC Code") which complements the Combined Code and provides a framework of best practice for investment companies.

Compliance

The Board has made the appropriate disclosures in this report to ensure the Company meets its continuing obligations. It should be noted that as an Investment Company, most of the Company's day to day responsibilities are delegated to third parties, the Company has no employees and the Directors are non-executive. Thus, not all of the provisions of the Combined Code are directly applicable to the Company.

The Board considers that the Company has complied with the provisions contained within the Combined Code throughout this accounting period, except as explained below, and this statement describes how the relevant principles of governance are applied to the Company. In addition the Board believes it has complied with the AIC Code in the period.

The Board

The Board currently consists of four non-executive Directors, all of whom are independent of the Company's Investment Adviser. This independence allows all the Directors to sit on the Company's various Committees. The provision of the Combined Code which relates to the combination of the roles of the chairman and chief executive does not apply as the Company has no executive directors. Details about the Directors' are set out on pages 32 and 33 and demonstrate a good range of investment knowledge, business and financial skill.

The Directors retire by rotation at every third Annual General Meeting and Directors appointed to the Board since the previous Annual General Meeting also retire and stand for re-election. Any Director who is not considered by the Board to be independent of the Investment Adviser or who will have served on the Board for more than nine years will be subject to annual re-election.

The Directors retiring in accordance with the Company's Articles of Association are Graham Picken and Chris Russell, who was appointed as a Director on 1 June 2010. The Board believes that it would be in the Company's best interests for Mr Picken and Mr Russell to be proposed for re-election at the forthcoming Annual General Meeting in July.

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

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and their duties and responsibilities as a Director. In addition, a new Director will also spend some time with representatives of the Investment Adviser whereby he or she will become familiar with the various processes which the Investment Adviser considers necessary for the performance of his or her duties and responsibilities to the Company.

The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. The Directors also receive regular briefings from, amongst others, the auditors, the Joint Brokers and the Company Secretary regarding any proposed developments or changes in laws or regulations that could affect the Company and/or the Directors.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Strategic issues and all operational matters of a material nature are determined by the Board.

The Company has maintained appropriate Directors' Liability Insurance cover throughout the year.

Senior Independent Director

Further to feedback from shareholders, the Board decided to appoint a Senior Independent Director. Mr John Hallam was appointed Senior Independent Director at the Board meeting on 11 February 2010, and in accordance with the Combined Code, concerns can be conveyed to him directly.

Board's responsibilities

The Board has four scheduled meetings a year and because of the nature of the activities carried out during the year, a number of additional meetings were scheduled, some at short notice. Between meetings there is regular contact with the Investment Adviser. The table below sets out the number of scheduled Board and Audit Committee meetings held during the year to 31 March 2010 and the number of meetings attended by each Director.

	Board of Directors						Audit Committee	
	Scheduled		Adhoc		C Share		Held	Attended
	Held	Attended	Held	Attended	Held	Attended		
G Picken	4	4	6	4	7	6	na ¹	na ¹
S Evans	4	4	6	6	7	6	3	3
J Hallam	4	4	6	6	7	4	3	2
H Grisius	4	4	6	5	7	7	3	3

1. G Picken is not a member of the Audit Committee but has been in attendance.

The Board is responsible to shareholders for the overall management of the Company. It reserves to itself decisions relating to the determination of investment policy, any change in investment strategy, raising of further equity capital, policy on buying back of shares, whether to hold shares in treasury, and entering into any material contracts by the Company. In addition, approval of circulars to shareholders and listing particulars, relevant press releases and any significant change in accounting policies or practices must also be referred to the Board.

The Directors have access to the advice and services of the Company Secretary and Administrator, who is responsible to the Board for ensuring that Board procedures are followed and that it complies with applicable rules and regulations. Where necessary, in carrying out their duties, the Directors may seek independent professional advice at the expense of the Company.

The Board has responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable it to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. It is the Board's responsibility to present a balanced and understandable assessment, which extends to interim and other price-sensitive public reports.

Performance evaluation

The Board formally reviews its performance on a regular basis and an appraisal system has been agreed for the evaluation of the Board, its Committees and the individual Directors, including the Chairman.

The annual evaluation for the year ended 31 March 2010 has been carried out. This took the form of questionnaires followed by discussions to identify how the effectiveness of its activities, including its Committees, policies or processes might be improved. The results of the evaluation process were presented to and discussed by the Board and it was agreed that the current composition of the Board and its Committees reflected a suitable mix of skills and experience, and that the Board, as a whole, and its Committees were functioning effectively.

Delegation of responsibilities

The Board has delegated the following areas of management and administration responsibility:

- The day-to-day administration of the Company has been delegated to Dexion Capital (Guernsey) Ltd in its capacity as Company Secretary and Administrator.
- The Investment Adviser has two roles, Adviser to the Company and Operator of the Group's limited partnership which owns the Group's underlying investments.
 - The role as Adviser includes preparing the semi annual valuations, the statutory accounts, the management accounts, business plans, presenting results and information to shareholders, coordinating all service providers to the Group and giving the Board general advice and feedback.
 - The role of Operator includes running the partnership and taking direct responsibility for the decisions relating to the day to day running of the Group's investment portfolio, the Group's debt facilities, swap arrangements, and the sourcing of new investments. Members of the Investment Adviser's asset management team are appointed as directors of the Group's project companies and as part of their role in actively managing the portfolio, they attend board meetings and make appropriate decisions. Material decisions are referred back to the Investment Adviser's investment committee for consideration and determination.

Committees of the Board

Audit Committee

Throughout the year the Audit Committee has been in operation. The Audit Committee, chaired by Mr J Hallam, operates within clearly defined terms of reference and comprises all the Directors except for Mr G Picken. It met 3 times in the year to 31 March 2010.

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

- considering and recommending to the Board for approval the contents of the half yearly and annual financial statements and reviewing the external auditors' report thereon;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditors;
- reviewing and recommending to the Board for approval the audit and non-audit fees payable to the external auditors and the terms of their engagement;

- reviewing and approving the external auditors' plan for the following financial year;
- reviewing the appropriateness of the Company's accounting policies; and
- ensuring the adequacy of the internal control systems and standards.

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

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees. Total fees paid amounted to £0.5m for the year ended 31 March 2010 of which £0.1m related to the audit of the Group, £0.2m related to audit of the Group's project subsidiaries and other audit related services, and £0.2m was in respect of audit and tax advisory work for project companies in which the Group has an investment.

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

Other Committees of the Board

After feedback from shareholders and consultation with the Company's Joint Brokers, the Board decided on 11 February 2010 to form a Remuneration Committee, a Nomination Committee, and a Management Engagement Committee. Terms of reference for each committee have been approved by the Board. The Chairman and members of each committee are as follows:

	Remuneration Committee	Nomination Committee	Management Engagement Committee
Chairman	Mrs S Evans	Mr G Picken	Mrs S Evans
Members	Mr J Hallam Mr G Picken	Mrs S Evans Mr J Hallam	Mr J Hallam Mr G Picken

Nomination Committee

The main terms of reference of the committee are:

- regularly review the structure, size and composition required of the Board and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for directors taking into account the challenges and opportunities facing the Company; and
- be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Since its formation, the Nomination Committee has met once in the period to 31 March 2010, with the remit from the Board to select and propose suitable candidates for appointment. A list of potential candidates was developed from various sources, and after careful consideration and interview, the Committee unanimously recommended to the Board that Chris Russell be asked to join the Company as a Director. The Board approved this at its meeting on 20 May 2010 and Chris has agreed to join the Board as a director from 1 June 2010. Chris's biography is on page 33.

Remuneration Committee

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

The Remuneration Committee met once in the period to 31 March 2010 and after a review of the possible consultants available, agreed to engage independent fee consultants, Trust Associates, to carry out a review of the workload and responsibilities of each Director and to benchmark these roles with other similar comparatives and advice on what fee levels are appropriate.

This work concluded in April 2010 with a report from Trust Associates. After careful consideration, the committee proposed and the Board approved the increase in annual fees payable as set out in the Directors' Report for the year to 31 March 2011. The Board has decided to seek shareholder approval on these fees at the AGM in July.

Management Engagement Committee

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

The Management Engagement Committee met once in the period to 31 March 2010, and reviewed the performance of the key service providers to the Group and the Company. No material weaknesses were identified, some recommendations were conveyed to certain providers, and the recommendation to the Board was that the current arrangements are appropriate and provide good quality services and advice to the Company and the Group.

Internal controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness, and the Board is therefore establishing an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed. The process is based on a risk-based approach to internal control through a matrix which identifies the key functions carried out by the Investment Adviser and other key service providers, the various activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and the action which has been, or is being taken. A formal annual review of these procedures is carried out by the Audit Committee. By their nature these procedures will provide a reasonable, but not absolute, assurance against material misstatement or loss.

At each Board meeting the Board also monitors the Group's investment performance in comparison to its stated objective and it also reviews the Group's activities since the last Board meeting to ensure that the Investment Adviser and the Operator adhere to the agreed investment policy and approved investment guidelines.

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

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

The Board is responsible for the internal controls of the Company and for reviewing their effectiveness, for ensuring that financial information published or used within the business is reliable, and for regularly monitoring compliance with regulations governing the operation of the Group.

The Board reviews the effectiveness of the internal control systems on an ongoing basis to identify, evaluate and manage the Company's significant risks. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the operations of the Investment Adviser and the Company Administrator. There is a monitoring and reporting process to review these controls, which has been in place throughout the year under review and up to the date of this report, carried out by the Investment Adviser's separate finance and risk team. Should a risk be categorised by the Board as significant, an appropriate plan is agreed with the Investment Adviser to manage and mitigate the risk as far as is practicable.

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

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

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

Corporate Governance *(continued)*

Relations with shareholders

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

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

By way of assisting shareholders to understand our portfolio of investments, we have held successful site visits to two of the Group's investments. The presentations from these visits are available from the Company's website.

In addition, members of the Board met some shareholders at a dinner held in London in September and a lunch in Edinburgh in October, arranged by the Brokers. It is the Board's intention to continue to meet with shareholders periodically to facilitate open two way communication on the development of the Company.

Corporate Social Responsibility

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

As part of good practice and to mitigate risk, the Board has been working with the Investment Adviser over the last year to develop and document a set of Environmental, Social and Governance policies appropriate for a company investing in infrastructure assets, which conform to current good practice in relation to corporate responsibility.

The Board has adopted a series of Environmental, Social and Governance ("ESG") policies covering:

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

These policies are set out in further detail below and the Board has worked with the Investment Adviser and the Company Secretary and Administrator to produce the necessary operational procedures to enable the way these policies are being adhered to can be demonstrated. These procedures are now in place and being used by the Investment Adviser and other service providers.

Annual Review

The Board will review at least annually the performance of the Company against its stated ESG policies and use the Annual Report to update shareholders on the Group's performance in this regard. The Directors plan an annual review of good industry practice as applicable to an infrastructure Investment Company and following this review, the Company's policies will be updated where appropriate.

Governance

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

The Board wishes to be at the forefront of disclosure and reporting of the Company's performance and strategic intentions. In the last 4 years, this has been achieved by information provided as follows:

- Annual reports
- Interim statement and accounts
- Detailed presentations to accompany the results
- Two Interim Management Statements a year
- Announcements of all material acquisitions
- Site visits for shareholders and analysts
- Lunches and dinners with shareholders, the Directors and the Investment Adviser

The website (www.hicl.hsbc.com) has further background detail on each investment, copies of all publications, together with the three issued prospectuses since launch.

Disclosure of key sensitivities and risks has been developed by the Board working with the Investment Adviser and further suitable disclosure is a key aspiration for the Board.

Managing the Portfolio

Day-to-day management of the Group's portfolio is undertaken by the Investment Adviser in its capacity as Operator of the Partnership.

Environmental

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

On a routine basis, the Investment Adviser reviews that each key contractor (or their group) has appropriate environmental policies in place and that these are being adhered to in delivery of the services to the project and that further, there have been no material breaches of their policies. Should issues be found, the Investment Adviser's team aims to work with the necessary stakeholders to remedy and improve the situation.

In the case of persistent breaches, the Investment Adviser will consider the options for replacing the contractor concerned or for selling the investment if no remedy can be found.

The Investment Adviser's asset managers are taking a pro-active approach to work with both clients and key stakeholders to introduce new environmental initiatives in each project company where appropriate.

Corporate Social Responsibility *(continued)*

Social and ethical

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

Health and Safety performance of each investment is monitored and during the year a number of Health and Safety audits were carried out by a Health and Safety consultant to ensure procedures and policies were in place and being adhered to.

Governance

Apart from the single investment in a debt instrument of a water company, on all the other investments in the portfolio, the Group is entitled to appoint at least one director and members of the Investment Adviser's team have been appointed. Board meetings are not quorate without the Group's nominated director being present and this is part of the Investment Adviser's active management of the underlying investments. All the project companies have detailed governance structures including those matters which are reserved to shareholders to determine, those items which directors determine and the routine day-to-day matters that are delegated to the project's general manager and his or her team.

Making New Investments

The Investment Adviser has a detailed set of procedures and approval processes in relation to the making of new investments. Following discussions with the Board, these have been updated to include appropriate ESG checks as part of the due diligence processes.

Environmental

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

Where it is not possible to get comfortable with either a key contractor's environmental record or the project's environmental performance to date, the investment will not be made.

Social and ethical

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

Where it is not possible to sign off the proposed investment's compliance with the Group's policies, the investment will not be made.

Governance

In seeking new investments, the Investment Adviser normally seeks a minimum board representation on the underlying investment company, with appropriate voting rights and reserved matters to ensure it will be possible to manage the investment and achieve the projected returns. It is unlikely that a new investment will be made where this level of control and influence is not achievable.

Independent auditor's report to the members of HSBC Infrastructure Company Limited

We have audited the group and Company financial statements (the "financial statements") of HSBC Infrastructure Company Limited for the year ended 31 March 2010 which comprise the Consolidated and Company Income Statements, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Consolidated and Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements which give a true and fair view and are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 37.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with IFRS as adopted by the EU, and comply with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and Company's affairs as at 31 March 2010 and of its profit for the year then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

Deborah J Smith
For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants
Guernsey

24 May 2010

Consolidated income statement

for the year ended 31 March 2010

	Note	Year ended 31 March 2010			Year ended 31 March 2009		
		Revenue £million	Capital £million	Total £million	Revenue £million	Capital £million	Total £million
Services revenue	5	102.6	–	102.6	66.5	–	66.5
Gains/(loss) on finance receivables	17	35.5	(19.3)	16.2	29.7	22.6	52.3
Gains/(loss) on investments	6	21.6	(2.3)	19.3	21.9	(16.1)	5.8
Total income/(loss)		159.7	(21.6)	138.1	118.1	6.5	124.6
Services costs	7	(89.1)	–	(89.1)	(55.4)	–	(55.4)
Administrative expenses	8	(10.0)	–	(10.0)	(8.5)	–	(8.5)
Profit/(loss) before net finance costs and tax		60.6	(21.6)	39.0	54.2	6.5	60.7
Finance costs	9	(35.6)	–	(35.6)	(37.7)	(37.8)	(75.5)
Finance income	9	0.3	4.0	4.3	1.5	0.9	2.4
Profit/(loss) before tax		25.3	(17.6)	7.7	18.0	(30.4)	(12.4)
Income tax (expense)/credit	10a	(1.1)	4.3	3.2	(2.1)	3.7	1.6
Profit/(loss) for the year		24.2	(13.3)	10.9	15.9	(26.7)	(10.8)
Attributable to:							
Equity holders of the parent		24.6	(18.6)	6.0	11.9	(26.0)	(14.1)
Minority interests		(0.4)	5.3	4.9	4.0	(0.7)	3.3
		24.2	(13.3)	10.9	15.9	(26.7)	(10.8)

Earnings/(loss) per share – basic and diluted (pence)

11

1.6

(4.3)

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

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

Consolidated balance sheet

as at 31 March 2010

	Note	31 March 2010 £million	31 March 2009 £million
Non-current assets			
Investments at fair value through profit or loss	15	307.4	280.1
Finance receivables at fair value through profit or loss	17	772.0	634.1
Intangible assets	14	170.6	168.9
Deferred tax assets	10c	36.7	35.3
Total non-current assets		1,286.7	1,118.4
Current assets			
Trade and other receivables	18	12.1	7.6
Finance receivables at fair value through profit or loss	17	16.6	12.5
Cash and cash equivalents	19	67.1	54.2
Total current assets		95.8	74.3
Total assets		1,382.5	1,192.7
Current liabilities			
Trade and other payables	20	(20.9)	(15.0)
Current tax payable		(0.8)	(0.2)
Loans and borrowings	21	(29.6)	(23.4)
Total current liabilities		(51.3)	(38.6)
Non-current liabilities			
Loans and borrowings	21	(630.5)	(593.7)
Other financial liabilities (fair value of derivatives)	22	(84.9)	(76.4)
Deferred tax liabilities	10c	(116.4)	(103.8)
Total non-current liabilities		(831.8)	(773.9)
Total liabilities		(883.1)	(812.5)
Net assets		499.4	380.2
Equity			
Ordinary share capital	23	–	–
Share premium		234.0	106.5
Retained reserves		252.6	269.6
Total equity attributable to equity holders of the parent		486.6	376.1
Minority interests		12.8	4.1
Total equity		499.4	380.2
Net assets per share (pence)	13	107.1	111.1

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 24 May 2010, and signed on its behalf by:



J Hallam
Director



G Picken
Director

Consolidated statement of changes in shareholders' equity

for the year ended 31 March 2010

Year ended 31 March 2010						
	Attributable to equity holders of the parent			Total shareholders' equity £million	Minority interests £million	Total equity £million
	Share capital £million	Share premium £million	Retained reserves £million			
Shareholders' equity at beginning of year	–	106.5	269.6	376.1	4.1	380.2
Profit for the year	–	–	6.0	6.0	4.9	10.9
Minority share of acquired business	–	–	–	–	5.2	5.2
Distributions paid to Company shareholders	–	–	(23.0)	(23.0)	–	(23.0)
Distributions paid to minorities	–	–	–	–	(1.4)	(1.4)
Ordinary shares issued	–	129.3	–	129.3	–	129.3
Costs of share issue	–	(1.8)	–	(1.8)	–	(1.8)
Shareholders' equity at end of year	–	234.0	252.6	486.6	12.8	499.4

Year ended 31 March 2009						
	Attributable to equity holders of the parent			Total shareholders' equity £million	Minority interests £million	Total equity £million
	Share capital £million	Share premium £million	Retained reserves £million			
Shareholders' equity at beginning of year	–	–	302.2	302.2	3.6	305.8
Profit for the year	–	–	(14.1)	(14.1)	3.3	(10.8)
Distributions paid to Company shareholders	–	–	(18.5)	(18.5)	–	(18.5)
Distributions paid to minorities	–	–	–	–	(2.8)	(2.8)
Ordinary shares issued	–	108.3	–	108.3	–	108.3
Costs of share issue	–	(1.8)	–	(1.8)	–	(1.8)
Shareholders' equity at end of year	–	106.5	269.6	376.1	4.1	380.2

Consolidated cash flow statement

for the year ended 31 March 2010

	Year ended 31 March 2010 £million	Year ended 31 March 2009 £million
Cash flows from operating activities		
Profit/(loss) before tax	7.7	(12.4)
Adjustments for:		
Gains on investments	(20.5)	(5.8)
Gains on finance receivables	(4.4)	(52.3)
Interest payable and similar charges	31.9	37.7
Changes in fair value of derivatives	(4.0)	37.8
Interest income	(0.3)	(2.4)
Amortisation of intangible assets	8.2	6.4
Operating cash flow before changes in working capital	18.6	9.0
Changes in working capital:		
(Increase)/decrease in receivables	(16.1)	2.6
Increase/(decrease) in payables	3.9	(6.5)
Cash flow from operations	6.4	5.1
Interest received on bank deposits and finance receivables	1.7	1.5
Cash received from finance receivables	41.4	46.6
Interest paid	(38.4)	(44.1)
Corporation tax paid	(0.7)	(3.0)
Net cash from operating activities	10.4	6.1
Cash flows from investing activities		
Purchases of investments	(52.1)	(39.2)
Interest received on investments	21.1	16.5
Dividends received	6.6	2.9
Fees and other operating income	1.3	2.7
Acquisition of subsidiaries net of cash acquired (<i>Note 16</i>)	7.0	24.0
Loanstock and equity repayments received	1.1	2.3
Net cash (used in)/from investing activities	(15.0)	9.2
Cash flows from financing activities		
Proceeds from issue of share capital	126.3	106.2
Proceeds from issue of loans and borrowings	66.6	85.2
Repayment of loans and borrowings	(153.0)	(160.6)
Distributions paid to Company shareholders	(21.9)	(18.2)
Distributions paid to minorities	(1.4)	(1.8)
Net cash from financing activities	16.6	10.8
Net increase in cash and cash equivalents	12.0	26.1
Cash and cash equivalents at beginning of year	54.2	27.2
Exchange gains on cash	0.9	0.9
Cash and cash equivalents at end of year	67.1	54.2

Notes to the consolidated financial statements

for the year ended 31 March 2010

1. Reporting entity

HSBC Infrastructure Company Limited (the "Company") is a company domiciled in Guernsey, Channel Islands, whose shares are publicly traded on the London Stock Exchange. The consolidated financial statements of the Company as at and for the year ended 31 March 2010 comprise the Company and its subsidiaries (together referred to as the "Consolidated Group"). The Consolidated Group invests in infrastructure projects in the UK and Europe. The parent company financial statements present information about the Company as a separate entity and not about its Consolidated Group.

Of the Consolidated Group's portfolio of 33 investments, 22 have been accounted for as investments (the "Entity Investments") in accordance with the accounting policies set out in parts (b) and (d) of note 2. The eleven remaining investments are deemed to be subsidiaries of the Company (the "Operating Subsidiaries"), and are therefore treated as business combinations as described in parts (b) and (c) of note 2. Certain items of the accounting policies apply only to the Operating Subsidiaries. Where applicable, this is noted in the relevant accounting policy note.

2. Key accounting policies

(a) Basis of preparation

The consolidated financial statements and the company financial statements were approved and authorised for issue by the Board of Directors on 24 May 2010.

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

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Adviser's Report on pages 10 to 16. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Results on pages 17 to 20. In addition, notes 1 to 4 and 21 to 22 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

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

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

Standards adopted early by the Consolidated Group

During the year and the prior year no new standards were adopted early by the Consolidated Group.

2. Key accounting policies *(continued)*

New standards effective for the current year

The following standards which have been applied in this year's financial statements are:

- IFRS 8 'Operating Segments' – the Directors and the Investment Adviser are of the opinion that the Group is engaged in a single segment of business, being investment in infrastructure which is currently predominantly in private finance initiative and public private partnership companies. The financial information used by the Directors and the Investment Adviser to allocate resources and manage the group presents the business as a single segment.
- IAS 1 (revised 2007) 'Presentation of Financial Statements' – the Directors are of the opinion there are no other items of comprehensive income or expense apart from those disclosed in the consolidated income statement.
- Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments – which requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.
- Amendment to IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. This amendment removes the definition of the cost method and requires the presentation of all dividends (including those paid from pre-acquisition profits) as income in the separate financial statements of the investor.
- IAS 23 (revised 2007) 'Borrowing Costs' – the amendments remove the option of expensing borrowing costs relating to qualifying assets. Although the amendments are intended to clarify definitions of qualifying assets and eligible borrowing costs (especially in the case of land under development) the amendments are not intended to change the definitions fundamentally.
- Improvements to IFRSs (May 2008) – the Improvements to IFRSs 2008, which are endorsed for use in the EU, is the result of the IASB's first annual improvements project (AIP). The Improvements to IFRSs 2008 contains 35 amendments and is divided into two parts:
 - Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes (Part I amendments). The effective dates and transitional requirements are set out on a standard by standard basis.
 - Part II includes 11 terminology or editorial amendments that the IASB expects to have either no or only minimal effects on accounting (Part II amendments). The amendments in Part II shall be applied for annual periods beginning on or after 1 January 2009. Earlier application is permitted.
- Amendment to IFRS2 Share-Based Payment – Vesting Conditions and Cancellations. This clarifies the definition of vesting conditions and introduces the concept of non-vesting conditions and the relevant accounting treatment.
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement. This amendment clarifies that a reassessment of embedded derivatives is required whenever a financial asset has been reclassified out of the fair value through profit or loss category.

The adoption of these standards has not led to any changes in the Consolidated Group's accounting policies.

Standards not yet applied

As at 31 March 2010 the following standards applicable to the Consolidated Group, which have not been applied in this financial information, were in issue and endorsed by the EU but not yet effective:

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – which is mandatory for EU adopters for annual periods commencing on or after 30 June 2009. This interpretation provides guidance on accounting for hedges of net investments in foreign operations in an entity's consolidated financial statements.
- IFRS 3 Business Combinations – which is applicable for annual periods commencing on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently re-measured at fair value through income, goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest, and all transaction costs are expensed.
- IAS 27 Consolidated and Separate Financial Statements – which is applicable for annual periods commencing on or after 1 July 2009. Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

2. Key accounting policies *(continued)*

Standards not yet applied (continued)

- IFRIC 17 Distributions of Non-cash Assets to Owners – which is applicable for annual periods commencing on or after 1 July 2009. Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items – which is applicable for annual periods commencing on or after 1 July 2009. Clarifies how the principles underlying hedge accounting should be applied in particular situations.
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues – which is applicable for annual periods commencing on or after 1 February 2010. Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated.
- IFRIC 18 Transfer of Assets from Customers – which is applicable for annual periods commencing on or after 1 November 2009. Clarifies the requirements for IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The Directors anticipate that the adoption of the above standards in future years will not have a material impact on the financial statements of the Consolidated Group.

(b) Basis of consolidation

The consolidated financial statements of the Consolidated Group include the financial statements of the Company and its subsidiaries up to 31 March 2010. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities as defined in IAS 27 'Consolidated and Separate Financial Statements'. The financial statements of subsidiaries are included in the consolidated financial statements on a line by line basis from the date that control commences until the date control ceases. Nine of the eleven subsidiaries have a different statutory financial reporting date to the Company, being 31 December. Their results for the year to 31 March are included by reference to management accounts.

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

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

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

(c) Acquisition of subsidiaries

All business combinations are accounted for using the purchase method. Goodwill represents the difference between the cost of acquisition over the Consolidated Group's share of the fair value of assets acquired and liabilities and contingent liabilities assumed (including intangible assets) of a subsidiary at the date of acquisition. Identifiable intangibles are those which can be measured reliably, sold separately or which arise from legal rights regardless of whether those rights are separable.

Costs comprise the fair values of assets given and liabilities assumed, plus any direct costs of acquisition.

(d) Financial instruments

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

2. Key accounting policies *(continued)*

(i) Non-derivative financial instruments

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

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

Investments in equity and debt securities

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

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

Finance receivables

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

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

Loans and borrowings

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

Other

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

(ii) Derivative financial instruments

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

(iii) Fair values

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

(iv) Effective interest

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

(e) Intangible assets

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

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

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

2. Key accounting policies *(continued)*

(f) Impairment

(i) Financial assets

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

(ii) Non-financial assets

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

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

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

(g) Share capital and share premium

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

(h) Cash and cash equivalents

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

(i) Minority interests

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

(j) Revenue

(i) Services revenue

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

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

2. Key accounting policies *(continued)*

(ii) Gains on finance receivables

Gains on finance receivables relate solely to the Operating Subsidiaries.

Revenue

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

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

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

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

Capital

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

(iii) Gains on investments

Gains on investments relates solely to the Entity Investments.

Revenue

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

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

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

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

Capital

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

(k) Service concessions

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

(i) Service concessions treated as financial assets

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

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

During the construction phase, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, in accordance with IAS 11. Costs for this purpose include valuation of all work done by subcontractors whether certified or not, and all overheads other than those relating to the general administration of the relevant companies.

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

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

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

2. Key accounting policies *(continued)*

(ii) Service concessions treated as intangible assets

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

Revenue arising in respect of these service concessions is recognised when the services are delivered.

(l) Borrowing costs

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

(m) Income tax

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

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

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

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

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

(n) Foreign exchange gains and losses

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

(o) Segmental reporting

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

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

(p) Expenses

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

(q) Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

2. Key accounting policies *(continued)*

(r) Provisions

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

(s) Statement of compliance

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

3. Critical accounting judgements, estimates and assumptions

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

(i) Investments at fair value through profit or loss

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

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

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

The carrying amount of the PFI/PPP investments would be an estimated £7.5m higher or £7.2m lower (2009: £7.0m higher or £6.7m lower) if the discount rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The weighted average discount rate for the PFI/PPP portfolio as at 31 March 2010 was 8.7% (2009: 8.1%).

The carrying amount of the PFI/PPP investments would be an estimated £6.0m higher or £5.3m lower (2009: £5.4m higher or £5.7m lower) if the inflation rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The inflation rate assumed for all future periods from 31 March 2010 was 2.75% (2009: 0% to March 2011 and 2.75% thereafter).

The carrying amount of the PFI/PPP investments would be an estimated £1.9m higher or £2.0m lower (2009: £1.7m higher or £1.6m lower) if the deposit rates used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The deposit rates assumed for all future periods from 31 March 2010 were 1% to March 2012 and 4.5% thereafter (2009: 1% to March 2011 and 4.5% thereafter).

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

Fair values are determined using the income approach which discounts the expected cash flows at the appropriate rate. In determining the discount rate, regard is had to risk free rates, specific risks and the evidence of recent transactions.

The carrying amount of finance receivables would be an estimated £14.4m higher or £13.8m lower (2009: £15.9m higher or £15.3m lower) if the discount rate used in the discounted cash flow analysis were to differ by 25 basis points from that used in the fair value calculation. The discount rates at 31 March 2010 were between 5.4% and 6.8% (2009: between 5.0% and 6.4%).

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

3. Critical accounting judgements, estimates and assumptions *(continued)*

(iii) IFRIC 12

Service concessions fall within the scope of IFRIC 12 where the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and the price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service agreement. Each subsidiary has been assessed to determine whether they fall within the scope of IFRIC 12. Following this review it was determined that all eleven subsidiaries controlled at the year end, fall within this scope. Service concessions are determined to be finance receivables where the operator has a contractual right to receive cash or another financial asset from or at the direction of the grantor. Alternatively, service concessions are determined to be intangible assets to the extent the operator has a contractual right to charge users of the public services.

(iv) Intangible assets

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

4. Financial instruments

Financial risk management

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

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

Interest rate risk

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

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

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

The finance costs in the income statement would be an estimated £9.7m higher or £9.7m lower (2009: £8.4m higher or £8.4m lower) if the interest rates used in the fair value calculation of the interest rate swaps were to differ by 25 basis points.

4. Financial instruments (continued)

Inflation risk

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

The finance costs in the income statement would be an estimated £5.0m higher or £5.0m lower (2009: £2.4m higher or £2.4m lower) if the RPI rates used in the fair value calculation of the inflation swaps were to differ by 25 basis points.

Market risk

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

Currency risk

The projects in which the Group invests all conduct their business and pay interest, dividends and principal in sterling other than its investment in Dutch High Speed Rail project, which conducts its business and pays its interest, dividends and principal in Euros. The group monitors its foreign exchange exposures using its near term and long-term cash flow forecasts. Its policy is to use foreign exchange hedging to provide protection to the level of sterling distributions that the Investment Group aims to pay over the medium term, where considered appropriate. This may involve the use of forward exchange and other currency hedging contracts, as well as the use of Euro and other currency denominated borrowings. The Investment Group hedged its Euro exposure on its investment in Dutch High Speed Rail project through £3.1m of Euro borrowings which are included within loans and borrowings (see Note 21), and through the forward sale of Euros.

Credit risk

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

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

The Group is also reliant on the project's subcontractors continuing to perform their service delivery obligations such that revenues to projects are not disrupted. The Investment Adviser has a subcontractor counterparty monitoring procedure in place. The credit standing of subcontractors is reviewed, and the risk of default estimated for each significant counterparty position. Monitoring is ongoing, and period end positions are reported to the Board on a quarterly basis. The Investment Group's largest credit risk exposure to a project at 31 March was to the Home Office project (16.2% of portfolio by value) and the largest subcontractor counterparty risk exposure was to subsidiaries of the Bouygues group which provided facilities management services in respect of 27% of the portfolio by value.

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

As at 31 March 2010, the ageing of trade receivables past due but not impaired were as follows:

	31 March 2010	31 March 2009
	£million	£million
3 to 6 months due	0.2	0.1
Over 6 months due	0.1	–
	0.3	0.1

At 31 March 2010 there were no loans and other receivables considered past due or impaired (2009: nil) for the Consolidated Group.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

4. Financial instruments *(continued)*

Credit risk (continued)

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

Liquidity risk

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

The Investment Group's investments are generally in private companies in which there is no listed market and therefore such investment would take time to realise and there is no assurance that the valuations placed on the investments would be achieved from any such sale process. One of the Investment Group's investments is a loan to Kemble Water, the acquisition vehicle for Thames Water. There is an informal (unlisted) market for this investment providing a level of liquidity above that of the Investment Group's other investments.

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

The Investment Group's investments may include obligations to meet future subscription amounts. These obligations will typically be supported by standby letters of credit, issued by the Investment Group's bankers in favour of the senior lenders to the investment companies. Such subscription obligations are met from the Investment Group's cash resources when they fall due. Such obligations totalled £8.3m (2009: nil) at the year end.

The Investment Group currently has a committed £200m five year revolving bank facility expiring in December 2012 and is secured over all assets of the Consolidated Group. The facility is of a sufficient size to meet the Investment Group's foreseeable funding requirements, and to provide significant headroom available to support acquisitions, should suitable opportunities be identified and executed.

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

31 March 2010	Less than 1 year £million	Between 1 and 2 years £million	Between 2 and 5 years £million	More than 5 years £million
Bank borrowings	16.6	17.8	93.2	304.9
Trade and other payables	20.9	–	–	–
Interest on bank borrowings	23.9	23.0	62.2	191.0
Letter of credit facility	7.2	–	–	–
Other loans and borrowings	11.3	11.7	32.5	224.6
Interest on other loans and borrowings	13.3	13.2	40.8	195.3
Total	93.2	65.7	228.7	915.8

31 March 2009	Less than 1 year £million	Between 1 and 2 years £million	Between 2 and 5 years £million	More than 5 years £million
Bank borrowings	13.5	12.0	101.2	214.6
Trade and other payables	15.0	–	–	–
Interest on bank borrowings	17.6	16.8	45.4	158.2
Letter of credit facility	–	–	–	–
Other loans and borrowings	9.9	13.0	32.2	236.9
Interest on other loans and borrowings	13.1	12.9	36.8	151.8
Total	69.1	54.7	215.6	761.5

4. Financial instruments (continued)

Capital management

The Board utilises its £200m revolving acquisition facility to fund acquisitions. Further equity raisings are considered when debt drawings are at an appropriate level. The proceeds from the share issues are used to repay debt or to fund future investment commitments.

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

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

	31 March 2010	31 March 2009
	£million	£million
Outstanding drawings		
Bank borrowings	3.1	68.7
Letter of credit facility	7.2	–
	10.3	68.7
Adjusted Gross Asset Value		
Portfolio valuation	509.6	445.7
Cash and cash equivalents	12.8	9.1
	522.4	454.8
Borrowing concentration	2.0%	15.1%

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

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

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

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

Fair value estimation

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

Non-derivative financial instruments

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

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

Derivative financial instruments

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

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

4. Financial instruments *(continued)*

Classification of financial instruments

	31 March 2010	31 March 2009
	£million	£million
Financial assets		
Designated at fair value through profit or loss		
Investment in Entity Investments	307.4	280.1
Operating Subsidiaries' financial assets	788.6	646.6
Financial assets at fair value	1,096.0	926.7
Loans and receivables		
Trade and other receivables	12.1	7.6
Cash and cash equivalents	67.1	54.2
Financial assets at amortised cost	79.2	61.8
Financial liabilities		
Designated at fair value through profit or loss		
Other financial liabilities (fair value of derivatives)	(84.9)	(76.4)
Financial liabilities at fair value	(84.9)	(76.4)
At amortised cost		
Trade and other payables	(20.9)	(15.0)
Current tax payable	(0.8)	(0.2)
Loans and borrowings	(660.1)	(617.1)
Financial liabilities at amortised cost	(681.8)	(632.3)

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

Secured bank and bond borrowings totalling £642.3m (2009: £606.7m) are secured by fixed and/or floating charges over the Consolidated Group's financial assets. The terms of these charges are generally of a form that are usual and customary to project finance borrowing and lending activities.

Fair value hierarchy

The fair value hierarchy is defined as follows:

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

	As at 31 March 2010			Total
	Level 1	Level 2	Level 3	
	£million	£million	£million	£million
Investments at fair value through profit or loss (Note 15)	24.8	–	282.6	307.4
Finance receivables at fair value through profit or loss (Note 17)	–	–	788.6	788.6
Financial assets at fair value	24.8	–	1,071.2	1,096.0
Other financial liabilities (fair value of derivatives) (Note 22)	–	84.9	–	84.9
Financial liabilities at fair value	–	84.9	–	84.9

4. Financial instruments (continued)

Fair value hierarchy (continued)

	As at 31 March 2009			Total £million
	Level 1 £million	Level 2 £million	Level 3 £million	
Investments at fair value through profit or loss (Note 15)	18.4	–	261.7	280.1
Finance receivables at fair value through profit or loss (Note 17)	–	–	646.6	646.6
Financial assets at fair value	18.4	–	908.3	926.7
Other financial liabilities (fair value of derivatives) (Note 22)	–	76.4	–	76.4
Financial liabilities at fair value	–	76.4	–	76.4

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

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

5. Services revenue

	For year ended 31 March 2010 £million	For year ended 31 March 2009 £million
Service revenue	81.3	54.5
Construction revenue	19.8	10.8
Other revenue	1.5	1.2
	102.6	66.5

Revenue from 5 customers which each represent more than 10% of the Group's total revenues provide approximately £90.2m (2009: £57.6 million) of revenue. The Group has treated each Government entity and/or department as a separate customer.

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

Construction revenue includes £16.3m (2009: £8.0m) of capital variations funded by the Ministry of Defence and shareholders on the Helicopter Training project.

6. Gains/(loss) on investments

	For the year ended 31 March 2010			For the year ended to 31 March 2009		
	Revenue £million	Capital £million	Total £million	Revenue £million	Capital £million	Total £million
Interest from investments	14.8	–	14.8	17.2	–	17.2
Dividend income from investments	5.5	–	5.5	1.9	–	1.9
Fees and other operating income	1.3	–	1.3	2.8	–	2.8
Loss on valuation (Note 15)	–	(2.3)	(2.3)	–	(16.1)	(16.1)
	21.6	(2.3)	19.3	21.9	(16.1)	5.8

Included within the loss on valuation is an unrealised exchange loss of £0.1m on the Consolidated Group's Euro borrowings (2009: £4.8m loss). The Euro exchange rate used as at 31 March 2010 was 0.89 (2009: 0.93).

7. Services costs

	For year ended 31 March 2010 £million	For year ended 31 March 2009 £million
Service costs	76.9	47.2
Amortisation of intangibles (see Note 14)	8.3	6.4
Other costs	3.9	1.8
	89.1	55.4

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

8. Administrative expenses

	For year ended 31 March 2010	For year ended 31 March 2009
	£million	£million
Fees payable to the Consolidated Group's auditors for the audit of the Consolidated Group accounts	0.1	0.1
Fees payable to the Consolidated Group's auditors and its associates for other services:		
The audit of the Company's Operating Subsidiaries and other audit related services	0.3	0.2
Taxation advisory services	0.1	–
Management fees	1.1	0.8
Operator fees (Note 24)	5.2	4.9
Investment fees (Note 24)	0.8	0.4
Directors' fees (Note 24)	0.1	0.1
Professional fees	0.5	0.5
Project bid costs	0.8	0.6
Other costs	1.0	0.9
	10.0	8.5

In addition to the above an amount of £0.2m (2009: £0.1m) was paid to associates of the Consolidated Group's auditors in respect of audit and tax services provided to Entity Investments (and therefore not included within consolidated administrative expenses). The Consolidated Group had no employees during the year.

9. Net finance costs

	For the year ended 31 March 2010			For the year ended to 31 March 2009		
	Revenue £million	Capital £million	Total £million	Revenue £million	Capital £million	Total £million
Interest expense:						
Interest on bank loans and overdrafts	(23.9)	–	(23.9)	(16.4)	–	(16.4)
Interest and indexation on other loans	(9.4)	–	(9.4)	(19.9)	–	(19.9)
Other finance costs	(2.3)	–	(2.3)	(1.4)	(8.3)	(9.7)
Change in fair value of interest and inflation rate swaps	–	–	–	–	(29.5)	(29.5)
Total finance costs	(35.6)	–	(35.6)	(37.7)	(37.8)	(75.5)
Interest income:						
Interest on bank deposits	0.3	–	0.3	1.5	–	1.5
Other finance income	–	3.2	3.2	–	0.9	0.9
Change in fair value of interest and inflation rate swaps	–	0.8	0.8	–	–	–
Total finance income	0.3	4.0	4.3	1.5	0.9	2.4
Net finance costs	(35.3)	4.0	(31.3)	(36.2)	(36.9)	(73.1)

10a. Income tax expense

	For year ended 31 March 2010	For year ended 31 March 2009
	£million	£million
Foreign current tax:		
Foreign corporation tax on profits for the year	(1.2)	(0.3)
Total current tax expense	(1.2)	(0.3)
Deferred tax:		
Origination and reversal of temporary differences	4.4	1.9
Total income tax credit in the income statement	3.2	1.6

As noted in note 2(m) the Company is exempt from paying tax in Guernsey. Therefore, income from investments is not subject to any further tax in Guernsey, although these investments will bear tax in the individual jurisdictions in which they operate.

Subsidiaries in the UK have provided for UK corporation tax at the rate of 28% (2009: 28%).

10b. Reconciliation of effective tax rate

	For year ended 31 March 2010	For year ended 31 March 2009
	£million	£million
Profit/(loss) before taxation	7.7	(12.4)
Expected tax on profit/(loss) at 0% (2009: 0%)	–	–
Different tax rates applied in overseas jurisdictions	2.0	0.3
Utilisation of tax losses	1.2	1.3
Total income tax credit for the year	3.2	1.6

10c. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	As at 31 March 2010			As at 31 March 2009		
	Assets £million	Liabilities £million	Net £million	Assets £million	Liabilities £million	Net £million
Finance receivables at fair value through profit or loss	0.2	(21.3)	(21.1)	3.4	(18.3)	(14.9)
Intangible assets	–	(48.9)	(48.9)	–	(48.5)	(48.5)
Subordinated debt	10.1	(1.6)	8.5	8.5	(1.2)	7.3
Other financial liabilities (fair value of derivatives)	22.6	(15.3)	7.3	18.4	(8.2)	10.2
Tax losses	3.8	–	3.8	5.0	–	5.0
Carrying value of finance receivable on acquisition where there is no available tax deduction	–	(29.5)	(29.5)	–	(27.6)	(27.6)
Other	–	0.2	0.2	–	–	–
Net assets/(liabilities)	36.7	(116.4)	(79.7)	35.3	(103.8)	(68.5)

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

10d. Deferred tax movements

	For the year ended 31 March 2010			
	Opening balance £million	Acquired in business combination £million	Recognised in profit or loss £million	Closing balance £million
Finance receivables at fair value through profit or loss	(14.9)	(15.7)	9.5	(21.1)
Intangible assets	(48.5)	(2.8)	2.3	(49.0)
Subordinated debt	7.3	1.9	(0.6)	8.6
Other financial liabilities (fair value of derivatives)	10.2	4.2	(7.1)	7.3
Tax losses	5.0	–	(1.2)	3.8
Carrying value of finance receivable on acquisition where there is no available tax deduction	(27.6)	(3.2)	1.3	(29.5)
Other	–	–	0.2	0.2
	(68.5)	(15.6)	4.4	(79.7)

	For the year ended 31 March 2009			
	Opening balance £million	Acquired in business combination £million	Recognised in profit or loss £million	Closing balance £million
Finance receivables at fair value through profit or loss	(6.7)	(9.4)	1.2	(14.9)
Intangible assets	(4.7)	(42.4)	(1.4)	(48.5)
Subordinated debt	0.7	7.0	(0.4)	7.3
Other financial liabilities (fair value of derivatives)	2.8	4.5	2.9	10.2
Tax losses	3.7	2.6	(1.3)	5.0
Carrying value of finance receivable on acquisition where there is no available tax deduction	–	(27.6)	–	(27.6)
Other	(0.9)	–	0.9	–
	(5.1)	(65.3)	1.9	(68.5)

11. Earnings per share and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit/(loss) attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit/(loss) attributable to equity holders of the Company	£6.0m	(£14.1m)
Weighted average number of ordinary shares in issue	379.5m	325.1m
Basic and diluted earnings/(loss) per share	1.6 pence	(4.3 pence)

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

12. Dividends

	For year ended 31 March 2010	For year ended 31 March 2009
	£million	£million
Amounts recognised as distributions to equity holders during the year:		
Second interim dividend for the year ended 31 March 2009 of 3.275p (2008: 3.2p) per share	11.0	8.0
Interim dividend for the year ended 31 March 2010 of 3.2p (2009: 3.125p) per share	12.0	10.5
	23.0	18.5
Second interim dividend for the year ended 31 March 2010 of 3.35p (2009: 3.275p) per share	15.2	11.1

The second interim dividend was approved by the Board on 19 May 2010 and is payable by 30 June 2010 to shareholders on the register as at 28 May 2010. The second interim dividend is payable to shareholders as a cash payment or alternatively as a scrip dividend. The dividend has not been included as a liability at 31 March 2010.

The 2009 second interim distribution and the 2010 interim distribution are included in the statement of changes in shareholder equity.

	For year ended 31 March 2010	For year ended 31 March 2009	For year ended 31 March 2008	For year ended 31 March 2007
Interim dividend for the period ended September	3.20p	3.125p	3.05p	2.875p
Interim dividend for the period ended March	3.35p	3.275p	3.20p	3.225p
	6.55p	6.4p	6.25p	6.1p

13. Net assets

The calculation of net assets per share is based on shareholders' equity of £486.6m as at 31 March 2010 (£376.1m as at 31 March 2009) and 454.3m (2009: 338.3m) ordinary shares in issue at that date.

14. Intangible assets

	31 March 2010	31 March 2009
	£million	£million
Cost		
Opening balance	179.5	32.2
Acquisition through business combinations	10.0	147.3
Balance as at 31 March	189.5	179.5
Amortisation		
Opening balance	(10.6)	(4.2)
Amortisation for the year	(8.3)	(6.4)
Balance as at 31 March	(18.9)	(10.6)
Carrying amounts		
At 31 March	170.6	168.9

Intangible assets represent the fair value of customer contracts for operating subsidiary projects recognised on acquisition, which are primarily attributable to the service portion of the project contracts, and intangible assets recognised under IFRIC 12. See Note 3(iv) for the methods and assumptions used in determining the fair values. Intangibles are being amortised on a straight line basis over the forecast remaining life of the concessions concerned on acquisition of the subsidiaries (range from between 11.5 and 30.5 years). Amortisation of £8.3m (2009: £6.4m) is included within service cost expenses in the consolidated income statement.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

15. Investments at fair value through profit or loss

	31 March 2010 £million	31 March 2009 £million
Opening balance	280.1	384.7
Investments in the year	60.1	30.7
Accrued interest	(1.3)	4.3
Repayments in the year	(3.5)	(4.2)
Subscription obligations	1.0	20.5
Loss on valuation	(1.8)	(15.4)
Investments consolidated during the year	(25.8)	(139.7)
Other movements	(1.4)	(0.8)
Carrying amount at year end	307.4	280.1
Loss on valuation as above	(1.8)	(15.4)
Less: transaction costs incurred	(0.5)	(0.7)
Loss on investments	(2.3)	(16.1)

The losses have been included in Gains/(loss) on investments presented in the consolidated income statement as capital items.

The Kemble Water junior loan, which is classified as Level 1 in the fair value hierarchy, had a gain in valuation of £6.4m during the year (2009: £7.7m loss). The remaining investments were all classified as Level 3 in the fair value hierarchy.

The Investment Adviser has carried out fair market valuations of the investments as at 31 March 2010. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. The Directors have also obtained an independent opinion from a third party, with considerable expertise in valuing these type of investments, supporting the reasonableness of the valuation. The Kemble Water junior loan was valued on a market quote basis and the other investments, which are all investments in PFI/PPP projects, are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior year. Discount rates applied range from 8.4% to 11.0% (weighed average of 8.7%) (2009: 7.8% to 8.6% (weighted average of 8.1%)).

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

UK inflation rates	2.75%
UK deposit interest rates	1% for 2 years to March 2012 and 4.5% thereafter
Euro/Sterling exchange rate	0.89 for all future periods

The economic assumptions for the year ended 31 March 2009 were as follows:

UK inflation rates	Zero for 2 years to March 2011 and 2.75% thereafter
UK deposit interest rates	1% for 2 years to March 2011 and 4.5% thereafter
Euro/Sterling exchange rate	0.93 for all future periods

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

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

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

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

Investments (project name)	Percentage Holding					
	31 March 2010			31 March 2009		
	Equity	Subordinated loanstock	Mezzanine debt	Equity	Subordinated loanstock	Mezzanine debt
Bishop Auckland Hospital	36.0%	36.0%	100.0%	36.0%	36.0%	100.0%
Blackburn Hospital	50.0%	50.0%	–	50.0%	50.0%	–
Bradford Schools***	34.0%	34.0%	–	–	–	–
Colchester Garrison	42.0%	42.0%	–	42.0%	42.0%	–
Darlington Schools	50.0%	50.0%	–	50.0%	50.0%	–
Defence Sixth Form College	45.0%	45.0%	–	45.0%	45.0%	–
Durham and Cleveland Firearms Training Centre*	–	–	–	50.0%	50.0%	–
Dutch High Speed Rail Link	37.5%	37.5%	–	37.5%	37.5%	–
Ealing Schools	50.0%	50.0%	–	50.0%	50.0%	–
GMPA Police Stations*	–	–	–	50.0%	50.0%	–
Haverstock School	50.0%	50.0%	–	50.0%	50.0%	–
Health & Safety Laboratory	80.0%	90.0%	–	80.0%	90.0%	–
Health & Safety HQ	50.0%	50.0%	–	50.0%	50.0%	–
Helicopter Training Facility**/**	21.8%	59.0%	–	21.8%	21.8%	–
Highland Schools	50.0%	50.0%	–	–	–	–
Kemble Water Junior Loan	–	–	3.6%	–	–	3.6%
MPA South East London Police Stations	50.0%	50.0%	–	50.0%	50.0%	–
MPA Specialist Training Centre*	–	–	–	50.0%	50.0%	–
Newcastle Libraries	50.0%	50.0%	–	–	–	–
North Tyneside Schools	50.0%	50.0%	–	50.0%	50.0%	–
Oxford John Radcliffe Hospital	50.0%	50.0%	–	50.0%	50.0%	–
Pinnacle Schools, Fife	40.0%	40.0%	100.0%	40.0%	40.0%	100.0%
Renfrewshire Schools	30.0%	30.0%	–	–	–	–
Romford Hospital	50.0%	50.0%	–	–	–	–
Sussex Custodial Centre	82.3%	82.3%	–	82.3%	82.3%	–
Wooldale Centre	50.0%	50.0%	–	50.0%	50.0%	–

* Incremental acquisitions of additional stakes during the year has resulted in these investments being deemed subsidiaries of the Company (see Note 16 and 28).

** The Consolidated Group's economic interest in the Helicopter Training project includes the above investment in CAE Aircrew Training Services Plc (Op Co) and the controlling interest in CVS Leasing Limited (Asset Co) (see note 28).

*** The Consolidated Group has future loanstock commitments of £8.3m and its share of the projects capital commitments is £23.8m.

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

16. Acquisition of subsidiaries

During the year the Group acquired additional interests in the equity and loan stock of Durham and Cleveland Firearms Training Centre, GMPA Police Stations and MPA Specialist Training Centre. These acquisitions take the Group's economic interest in these four projects to 72.9% in each. The total consideration paid in cash for the interests in these projects was £8.0m. The transaction cost for the three acquisitions was de minimus.

Prior to the acquisition of the additional equity these PFI projects were held as investments at fair value and therefore there has been no gain or loss as a result of re-measuring to fair value the interests held prior to the acquisitions. Fair values were determined using the income approach which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at fair values.

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

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

16. Acquisition of subsidiaries *(continued)*

Durham and Cleveland Firearms Training Centre

In November 2009 the Group acquired 22.9% of the equity and loan stock in the project bringing the total equity and loan stock interests to 72.9%. The aggregate consideration paid for the interests in the project before the November acquisition was £1.3m.

This project is a concession to design, construct, finance, operate and maintain a new firearms training facility for the Cleveland Police Authority, which became operational in 2001.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Finance receivables at fair value through profit or loss*	6.7	2.2	8.9
Deferred tax assets	–	0.5	0.5
Cash and cash equivalents	1.5	–	1.5
Current liabilities	(0.3)	–	(0.3)
Deferred tax liabilities	(1.8)	(0.5)	(2.3)
Other non-current liabilities	(5.9)	(1.8)	(7.7)
Minority interests	–	(0.2)	(0.2)
Net assets acquired	0.2	0.2	0.4
Goodwill			–
Fair value of consideration for equity			0.4
Fair value of consideration for loan stock			1.4
			1.8
Less: Carrying amount of investment previously held as fair value through profit or loss			(1.2)
Consideration paid for the remaining interests			0.6
Cash acquired			(1.5)
Net cash inflow			(0.9)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

16. Acquisition of subsidiaries (continued)

GMPA Police Stations

In November 2009 the Group acquired 22.9% of the equity and loan stock in the project bringing the total equity and loan stock interests to 72.9%. The aggregate consideration paid for the interests in the project before the November acquisition was £14.1m.

This project is a concession to design, construct, finance, operate and maintain a new traffic headquarters and 16 new police stations.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Intangible assets	–	4.4	4.4
Finance receivables at fair value through profit or loss*	89.6	25.8	115.4
Deferred tax assets	–	4.0	4.0
Cash and cash equivalents	8.3	–	8.3
Other current assets	0.1	–	0.1
Current liabilities	(3.8)	–	(3.8)
Deferred tax liabilities	–	(8.5)	(8.5)
Other non-current liabilities	(93.7)	(14.3)	(108.0)
Minority interests	–	(3.2)	(3.2)
Net assets acquired	0.5	8.2	8.7
Goodwill			–
Fair value of consideration for equity			8.7
Fair value of consideration for loan stock			8.7
			17.4
Less: Carrying amount of investment previously held as fair value through profit or loss			(12.1)
Consideration paid for the remaining interests			5.3
Cash acquired			(8.3)
Net cash inflow			(3.0)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

16. Acquisition of subsidiaries *(continued)*

Metropolitan Police Specialist Training Centre

In November 2009 the Group acquired 22.9% of the equity and loan stock in the project bringing the total equity and loan stock interests to 72.9%. The aggregate consideration paid for the interests in the project before the November acquisition was £5.3m.

This project involved a complete remodelling and refurbishment of the Metropolitan Police's existing training school, which was completed in 2003.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Intangible assets	–	5.5	5.5
Finance receivables at fair value through profit or loss*	37.8	8.7	46.5
Deferred tax assets	–	1.6	1.6
Cash and cash equivalents	5.2	–	5.2
Other current assets	1.5	–	1.5
Current liabilities	(2.3)	–	(2.3)
Deferred tax liabilities	(6.7)	(4.0)	(10.7)
Other non-current liabilities	(35.0)	(5.7)	(40.7)
Minority interests	–	(1.8)	(1.8)
Net assets acquired	0.5	4.3	4.8
Goodwill			–
Fair value of consideration for equity			4.8
Fair value of consideration for loan stock			2.2
			7.0
Less: Carrying amount of investment previously held as fair value through profit or loss			(4.9)
Consideration paid for the remaining interests			2.1
Cash acquired			(5.2)
Net cash inflow			(3.1)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

If all the acquisitions had occurred on 1 April 2009, the estimated consolidated total income would have been £151.3m and consolidated profit for the year would have been £11.6m. The aggregate loss in respect of the acquired subsidiaries was £2.1m during the year.

16. Acquisition of subsidiaries *(continued)*

In the year to 31 March 2009 the following became subsidiaries of the Group:

West Middlesex Hospital

In July 2008 the Group acquired 5% of the equity and 2% of the loan stock in the project bringing the total equity and loan stock interests to 100%. The aggregate consideration paid for the interests in the project before the July acquisition was £12.7m.

This project is a concession to design, construct, finance, operate and maintain a 228 bed hospital in West Middlesex, UK which became operational in June 2003.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Intangible assets	–	12.5	12.5
Finance receivables at fair value through profit or loss*	50.3	2.6	52.9
Deferred tax assets	1.0	0.8	1.8
Cash and cash equivalents	2.6	–	2.6
Other current assets	1.3	–	1.3
Current liabilities	(1.8)	–	(1.8)
Deferred tax liabilities	–	(4.2)	(4.2)
Other non-current liabilities	(54.8)	(2.8)	(57.6)
Net assets acquired	(1.4)	8.9	7.5
Goodwill			–
Fair value of consideration for equity			7.5
Fair value of consideration for loan stock			9.2
			16.7
Less: Carrying amount of investment previously held as fair value through profit or loss			(16.0)
Consideration paid for the remaining interests			0.7
Cash acquired			(2.6)
Net cash inflow			(1.9)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

16. Acquisition of subsidiaries *(continued)*

Year ended 31 March 2009 (continued)

Central Middlesex Hospital

In July 2008 the Group acquired 15% of the equity in the project bringing the total equity interest to 100%. The aggregate consideration paid for the interests in the project before the July acquisition was £13.2m.

This project is a concession to design, construct, finance, operate and maintain hospital facilities for 214 beds and three main theatres, as well as refurbishing some existing facilities, on the Central Middlesex Hospital site in North West London, UK. Construction was completed in January 2007.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Intangible assets	–	45.2	45.2
Finance receivables at fair value through profit or loss*	77.5	4.7	82.2
Deferred tax assets	9.0	0.5	9.5
Cash and cash equivalents	5.4	–	5.4
Other current assets	2.0	–	2.0
Current liabilities	(1.7)	–	(1.7)
Deferred tax liabilities	–	(14.0)	(14.0)
Other non-current liabilities	(115.2)	(1.6)	(116.8)
Net assets acquired	(23.0)	34.8	11.8
Goodwill			–
Fair value of consideration for equity			11.8
Fair value of consideration for loan stock			9.3
			21.1
Less: Carrying amount of investment previously held as fair value through profit or loss			(19.7)
Consideration paid for the remaining interests			1.4
Cash acquired			(5.4)
Net cash inflow			(4.0)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

16. Acquisition of subsidiaries (continued)

Year ended 31 March 2009 (continued)

Home Office

In July 2008 the Group acquired 20% of the equity in the project bringing the total equity interests to 100%. The aggregate consideration paid for the interests in the project before the July acquisition was £70.2m.

This project is a concession commissioned by the UK Home Office to build, finance, operate and maintain a new headquarters building to replace their existing offices on a 4.3 acre site, followed by the construction of a building comprising three purpose-built interconnecting office blocks to accommodate up to 3,450 staff. Construction was completed in January 2005.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Intangible assets	–	80.0	80.0
Finance receivables at fair value through profit or loss*	272.6	17.5	290.1
Deferred tax assets	29.6	0.4	30.0
Cash and cash equivalents	18.3	–	18.3
Other current assets	4.5	–	4.5
Current liabilities	(3.6)	–	(3.6)
Deferred tax liabilities	(57.0)	(27.3)	(84.3)
Other non-current liabilities	(296.6)	(1.8)	(298.4)
Net assets acquired	(32.2)	68.8	36.6
Goodwill			–
Fair value of consideration for equity			36.6
Fair value of consideration for loan stock			51.4
			88.0
Less: Carrying amount of investment previously held as fair value through profit or loss			(81.8)
Consideration paid for the remaining interests			6.2
Cash acquired			(18.3)
Net cash inflow			(12.1)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

16. Acquisition of subsidiaries *(continued)*

Year ended 31 March 2009 (continued)

Barnet Hospital

In December 2008 and February 2009 the Group acquired 49% of the equity and 1% of loan stock in the project bringing the total equity and loan stock interests to 100%. The aggregate consideration paid for the interests in the project before the December acquisition was £10.4m.

This project is a concession to design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust. The project has been operating since April 2000.

	Book value at acquisition	Fair value adjustments	Fair value acquired
	£million	£million	£million
Intangible assets	–	9.6	9.6
Finance receivables at fair value through profit or loss*	32.9	12.7	45.6
Deferred tax assets	–	2.1	2.1
Cash and cash equivalents	10.4	–	10.4
Other current assets	2.2	–	2.2
Current liabilities	(2.3)	–	(2.3)
Deferred tax liabilities	–	(6.2)	(6.2)
Other non-current liabilities	(42.6)	(7.4)	(50.0)
Net assets acquired	0.6	10.8	11.4
Goodwill			–
Fair value of consideration for equity			11.4
Fair value of consideration for loan stock			7.1
			18.5
Less: Carrying amount of investment previously held as fair value through profit or loss			(14.1)
Consideration paid for the remaining interests			4.4
Cash acquired			(10.4)
Net cash inflow			(6.0)

*The finance receivable in the book value at acquisition under IFRS is valued at amortised cost rather than at fair value through profit or loss, and therefore there is a fair value adjustment to reflect the fair value acquired.

Purchase of investment holding company

Investments in holding companies are not treated as a business combination where the Directors judge that the holding companies have no real operations, business activities or material balances other than in investments they hold. In these circumstances consideration is allocated between the individual assets and liabilities in the investment holding company based on their relative fair values at the date of acquisition.

Year ended 31 March 2010

In June 2009, the Group acquired a 30% interest in the equity and loanstock of The Renfrewshire Schools Partnerships Limited through the acquisition of a 30% interest in the investment holding company, RSP (Holdings) Limited. The total consideration paid in cash for the interest in this project was £6.8m.

In July 2009, the Group acquired a 50% interest in the equity and loanstock of Alpha Schools Highland Limited through the acquisition of a 50% interest in the investment holding company, Alpha Schools Highland (Holdings) Limited. The total consideration paid in cash for the interest in this project was £16.8m.

In September 2009, the Group acquired a 34% interest in the equity and loanstock of Integrated Bradford SPV Two Limited through the acquisition of a 34% interest in the investment holding company, Integrated Bradford Hold Co Two Limited. The total consideration for the interest in this project was £7.4m, the majority of which is a loanstock subscription obligation payable at the end of construction in 2011.

In December 2009, the Group acquired a 50% interest in the equity and loanstock of Catalyst Healthcare (Romford) Limited through the acquisition of a 50% interest in the investment holding company, Catalyst Healthcare (Romford) Holdings Limited. The total consideration paid in cash for the interest in this project was £23.9m.

16. Acquisition of subsidiaries (continued)

Purchase of investment holding company (continued)

In March 2010, the Group acquired a 50% interest in the equity and loanstock of Kajima Newcastle Library Limited through the acquisition of a 50% interest in the investment holding company, Kajima Newcastle Library Holdings Limited. The total consideration paid in cash for the interest in this project was £3.0m.

Year ended 31 March 2009

In August 2008, the Group acquired a 50% interest in the equity and loanstock of The Hospital Company (Oxford John Radcliffe) Holdings Limited for a consideration price of £18.0m.

17. Finance receivables at fair value through profit or loss

	31 March 2010	31 March 2009
	£million	£million
Opening balance	646.6	170.4
Acquisition of subsidiaries	170.8	470.8
(Loss)/gain on valuation	(19.3)	22.6
Repayments in the year	(13.6)	(10.9)
Other movements	4.1	(6.3)
Carrying amount at year end	788.6	646.6
This is represented by:		
Less than one year	16.6	12.5
Greater than one year	772.0	634.1
Carrying amount at year end	788.6	646.6

The operating subsidiaries' concession contracts with public sector bodies are considered as financial assets. Loss in fair values of financial assets of £19.3m for the year ended 31 March 2010 (2009: £22.6m gain), are separately disclosed in the consolidated income statement as a capital amount. See Note 3 (ii) for the methods and assumptions used in determining the fair values. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in the balance sheet.

Interest income in relation to finance receivables of £35.5m has been recognised in the consolidated income statement for the year ended 31 March 2010 as a revenue amount (2009: £29.7m).

18. Trade and other receivables

	31 March 2010	31 March 2009
	£million	£million
Trade receivables	5.1	3.2
Other debtors	0.5	0.4
Prepayments and accrued income	6.5	4.0
	12.1	7.6

19. Cash and cash equivalents

	31 March 2010	31 March 2009
	£million	£million
Bank balances	39.5	30.4
Call deposits	27.6	23.8
Cash and cash equivalents	67.1	54.2

The effective interest rate on call deposits was between 0.3% and 0.9% (2009: between 0.3% and 2.2%). The deposits had a maturity of between 30 and 183 days (2009: between 17 and 264 days).

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

20. Trade and other payables

	31 March 2010 £million	31 March 2009 £million
Trade payables	4.4	3.6
Accruals	11.5	7.0
Other payables	5.0	4.4
	20.9	15.0

21. Loans and borrowings

	31 March 2010 £million	31 March 2009 £million
Non-current liabilities		
Bank borrowings	369.5	327.9
Subordinated debt	16.8	10.4
RPI-linked bonds	159.7	171.6
Fixed rate bond	84.5	83.8
	630.5	593.7
Current liabilities		
Bank borrowings	18.6	13.5
Subordinated debt	1.0	–
RPI-linked bonds	10.0	9.9
	29.6	23.4
Total loans and borrowings	660.1	617.1

Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

	Weighted average effective interest rate	Average year of maturity	Carrying amount	
			2010 £million	2009 £million
Secured bank borrowings – Operating Subsidiaries	5.9%	2025	386.3	274.6
Secured bank borrowings – Partnership	5.8%	2012	1.8	66.8
Subordinated debt	12.9%	2021	17.8	10.4
RPI-linked bonds	6.8%	2030	169.7	181.5
Fixed rate bond	5.7%	2031	84.5	83.8
			660.1	617.1

The bonds are guaranteed by FSA (UK) Limited and Ambac Assurance UK Limited and are secured by a fixed and floating charge over the assets of the respective subsidiary companies. The index-linked bonds are indexed annually and semi-annually using published RPI figures. The index ratio uses a base index figure ranging from 173.3 to 174.5 and a numerator index figure that is published by the Office for National Statistics.

The fair value of all borrowings is deemed to reflect their carrying value, except fixed rate and RPI-linked bonds. An analysis of fair values and carrying values of bonds is detailed below:

	31 March 2010		31 March 2009	
	Carrying amount £million	Fair value £million	Carrying amount £million	Fair value £million
RPI-linked bonds	169.7	204.5	181.5	173.9
Fixed rate bond	84.5	91.4	83.8	75.2
	254.2	295.9	265.3	249.1

The fair value of fixed rate and RPI-linked bonds has been determined on a market quote basis.

21. Loans and borrowings (continued)

The currency profile of the Consolidated Group's loans and borrowings is as follows:

	2010 £million	2009 £million
Pound Sterling	657.0	570.4
Euro	3.1	46.7
	660.1	617.1

The exchange rate used as at 31 March 2010 to convert the Euro loan was 0.89 (2009: 0.93).

The Consolidated Group has the following undrawn borrowing facilities at 31 March:

<i>Floating rate</i>	2010 £million	2009 £million
Secured		
– expiring within one year	–	–
– expiring between 1 and 2 years	–	–
– expiring between 2 and 5 years	189.7	131.3
– expiring after 5 years	8.0	8.2
	204.9	139.5
Unsecured		
– expiring within one year	–	–
	204.9	139.5

22. Other financial liabilities (fair value of derivatives)

	31 March 2010 £million	31 March 2009 £million
Non-current liabilities		
Interest rate swaps	63.5	55.1
Inflation swap	22.6	19.5
Forward foreign exchange contract	(1.2)	1.8
	84.9	76.4

Financial liabilities have been fair valued in accordance with Note 2(d). The gain in fair value of interest and inflation rate swaps of £0.8m for the year ended 31 March 2010 (2009: Loss £29.5m) is disclosed within finance income in the consolidated income statement as a capital amount (see Note 9).

In order to manage exposure to movements in interest rates, project companies financed by floating rate debt swap their floating rate exposure for fixed rates using interest rate swaps. The notional amounts of the outstanding interest rate swap contracts at 31 March 2010 were £438.4m (2009: £412.0m). As at 31 March 2010, the fixed interest rates on the swaps range from 4.53% to 6.51% (2009: 4.53% to 6.51%) and maturities range from 2012 to 2036 (2009: 2009 to 2036). The notional amount of the outstanding inflation rate swap contracts at 31 March 2010 was £1.4m (2009: £1.4m). As at 31 March 2010, the fixed inflation rates on the swaps range from 2.12% to 2.77% (2009: 2.12% to 2.77%) and maturities range from 2034 to 2036 (2009: 2009 to 2036).

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

23. Share capital and reserves

	31 March 2010	31 March 2009
	£000	£000
<i>Issued and fully paid</i>		
454,301,314 (31 March 2009: 338,288,733) ordinary shares of 0.01p each	45.4	33.8
2 Management Shares of 0.01p each	–	–
	45.4	33.8

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Management Shares carry one vote each on a poll, do not carry any right to dividends and, in winding-up, rank only for a return of the amount of the paid-up capital on such shares after return of capital on Ordinary Shares and Nominal Shares. The Management Shares are not redeemable and are accrued for and on behalf of a Guernsey charitable trust.

Retained reserves

Retained reserves comprise retained earnings and the balance of the share premium account, as detailed in the consolidated statements of changes in shareholders' equity.

Issued share capital

On 30 June 2009 0.1 million new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2009.

On 31 December 2009 0.9 million new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the year ending 31 March 2010.

On 11 December 2009 the Company announced the results of its Placing and Offer for Subscription of C shares. The Company raised £80.0m (before expenses) through the issue of 80,000,000 C shares at a price of £1.00 per C share, of which 19,838,594 C shares were issued pursuant to the offer for subscription and 60,161,406 C shares were issued by way of the placing. The C shares were converted to 71,856,000 ordinary shares and admitted to trading on the London Stock Exchange on 15 January 2010.

In the year ending 31 March 2010 43.1 million new ordinary shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 109.9p and 115.75p (2009: 3.6 million ranging between 115p and 126.25p).

24. Related party transactions

HSBC Specialist Fund Management Ltd ("HSFML") is the Company's Investment Adviser and the Operator of a limited partnership through which the Group holds its investments. HSFML's appointment as Investment Adviser is governed by an Investment Advisory Agreement which may be terminated after an initial four year term, starting in February 2006, by either party giving one year's written notice. The appointment may also be terminated if HSFML's appointment as Operator is terminated. The Investment Adviser is entitled to a fee of £0.1m per annum (disclosed within investment fees in Note 8) (2009: £0.1 million), payable half-yearly in arrears and which is subject to review, from time to time, by the Company.

HSFML has been appointed as the Operator of Infrastructure Investments Limited Partnership by the General Partner of the Partnership, Infrastructure Investments General Partner Limited, a sister subsidiary of HSFML. The Operator and the General Partner may each terminate the appointment of the Operator after an initial four year term, starting in February 2006, by either party giving one year's written notice. Either the Operator or the General Partner may terminate the appointment of the Operator by written notice if the Investment Advisory Agreement is terminated in accordance with its terms. The General Partner's appointment does not have a fixed term, however if HSFML ceases to be the Operator, the Company has the option to buy the entire share capital of the General Partner and HSBC Group has the option to sell the entire share capital of the General Partner to the Company, in both cases for nominal consideration. The Directors consider the value of the option to be insignificant.

In aggregate HSFML and the General Partner are entitled to fees and/or profit share equal to: i) 1.1 per cent. per annum of the adjusted gross asset value of all investments of the Group that are not in either their construction or ramp-up phases; ii) 1.5 per cent. per annum of investments of the Group that are in either their construction or ramp-up phases, excluding investments acquired with the acquisition of the initial portfolio (the ramp-up phase of an investment means the period following completion of a project's construction phase during which it is building up to be fully operational with full service provision); and iii) 1.0 per cent. of the value of new portfolio investments, that are not sourced from entities, funds or holdings managed by the HSBC Group.

24. Related party transactions *(continued)*

The total Operator fees charged to the Income Statement was £5.2m (2009: £4.9m) of which £2.7m remained payable at year end (2009: £2.5m). The total charge for new portfolio investments (disclosed within investment fees in Note 8) was £0.7m (2009: £0.3m) of which £0.3m remained payable at year end (2009: nil).

Transactions during the year

The following summarises the transactions between the Consolidated Group and its associates in the year:

	Transactions		Balance	
	Year ended 31 March 2010 £million	Year ended 31 March 2009 £million	31 March 2010 £million	31 March 2009 £million
Loanstock investments	29.1	30.5	199.9	178.3
Loanstock repayments	(2.1)	(3.1)	–	–
Equity investments	21.6	8.0	84.1	77.2
Equity repayments	(1.3)	(1.1)	–	–
Outstanding subscription obligations	–	–	–	–
Loanstock interest	14.8	17.2	10.9	6.4
Dividends received	5.4	1.9	–	–
Fees and other income	1.3	2.8	–	–

At 31 March 2010 the Consolidated Group had total cash holdings with HSBC Bank plc of £34.5m (2009: £49.1m). Total interest income earned from cash holdings held with HSBC Bank plc for the year was £0.2m (2009: £1.3m).

The Consolidated Group paid £0.1m (2009: £0.1m) to HSBC Insurance Brokers Limited in the year for premiums in respect of Directors and Officers liability insurance.

The Consolidated Group entered into Euro to Sterling sale and forward sale agreements with HSBC Bank plc during the year. Net payments paid in respect of these agreements were £1.5m (2009: £6.5m), and as at 31 March 2010 the mark to market of the outstanding Euro sale agreement was a £1.2m asset (2009: £1.8m liability).

The Directors of the Consolidated Group, who are considered to be key management, received fees for their services. Further details are provided in the Report of the Directors on page 35. Total fees for the year were £129,000 (2009: £94,672). Directors expenses of £3,982 (2009: £6,134) were also paid in the year.

RSM Henri Grisius & Associés, a firm of which Mr H. Grisius was a partner until 31 December 2009, earned £128,568 (2009: £16,866) in fees for tax, accounting and administrative services provided in the year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

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

25. Guarantees and other commitments

As at 31 March 2010 the Consolidated Group had £8.3m in loan stock commitments to subscribe to project investments (2009: nil) and £12.3m in capital commitments (2009: £23.5m).

26. Events after balance sheet date

There were no events after the balance sheet date, which are required to be disclosed.

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

27. Disclosure – Service Concession Arrangements

The Group holds investments in 32 service concession arrangements in the Accommodation, Education, Health and Law and Order sectors. The concessions vary on the required obligations but typically require the financing and operation of an asset during the concession period. As at 31 March 2010 31 of the service concessions were fully operational.

The rights of both the concession provider and concession operator are stated within the specific project agreement. The standard rights of the provider to terminate the project include poor performance and in the event of force majeure. The operator's rights to terminate include the failure of the provider to make payment under the agreement, a material breach of contract and relevant changes of law which would render it impossible for the service company to fulfil its requirements.

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Barnet Hospital	Design, construct, operate and maintain the re-building of Barnet General Hospital in North London for the Wellhouse National Health Service Trust.	1999	2032	33	£65m	Ecovert South Ltd Compass Contract Services (UK) Ltd
Bishop Auckland Hospital	Design, construct, finance, service and maintain a redevelopment of Bishop Auckland General Hospital, County Durham for South Durham Health Care NHS Trust.	1999	2062	60 (with break clause option by Grantor at Year 30, 40 & 50)	£66m	ISS Mediclean Ltd
Blackburn Hospital	Design, construct, finance and maintain new facilities at the Queens Park Hospital in Blackburn for the East Lancashire Hospitals NHS Trust.	2003	2041	38	£100m	Haden Building Management
Bradford Schools	Design, construct, finance and maintain four secondary schools for Bradford Metropolitan District Council.	2009	2036	27	£175m	Amev Communities
Central Middlesex Hospital	Design, construct, finance and maintain new hospital facilities, and to refurbish some existing facilities, for the Brent Emergency Care and Diagnostic Centre on the Central Middlesex Hospital site in North West London.	2003	2036	33	£75m	Ecovert FM Ltd
Colchester Garrison	Design, construct, finance and maintain a new garrison facility at Colchester, Essex for The Secretary of State for Defence.	2004	2039	35	£550m	Sodexo Defence Services Ltd WS Watkins Facilities Management Ltd
Conwy Schools	Design, build, operate and maintain three schools for Conwy County Borough Council in North Wales.	2003	2030	27	£40m	Sodexo Education Services Ltd
Cleveland and Durham Police Tactical Training Centre	Construction of a state of the art firearms and tactical training centre at Urray Nook in the North of England. Construction completed successfully in March 2002.	2000	2026	26	£6m	John Laing Integrated Services Ltd
Darlington Schools	Darlington Schools is a four-school education PFI project consisting of an Education Village (which brought together three existing schools) and one primary school. The facilities became available on a phased basis in 2005 and 2006	2004	2031	27	£31m	Mitie PFI Ltd
Defence 6th Form College	Design, build, operate, finance and maintain a new residential sixth form college for the Secretary of State for Defence.	2003	2033	30	£40m	TQ Education and Training Ltd Interserve Defence Ltd
Dutch High Speed Rail	Design, construct, finance, operate and maintain one of the largest high speed railway projects in Europe to date.	2001	2031	30	£625m	Siemens Nederland By Koninklijke BAM NBM NV Fluor Infrastructure BV
Ealing Schools	Ealing Schools is a four-school education PFI project consisting of one secondary school and three primary schools in the London Borough of Ealing. The schools became operational in 2004.	2004	2031	27	£31m	Mitie PFI Ltd

27. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Exeter Crown Court	Build and service a new crown and county court building in Exeter.	2002	2034	32	£20m	Sodexo Ltd
Fife Schools	The facility involved the construction of 3 new schools and a sports hall, all of which have been constructed successfully and are now fully operational.	2001	2028	27	£40m	Sodexo Ltd
GMPA Police Stations	Construction of 17 police stations on 16 sites around Greater Manchester. Construction of all stations were complete by September 2006.	2002	2030	28	£82m	John Laing Integrated Services Ltd
Haverstock School	Haverstock is a single school education PFI project consisting of a new secondary school on an existing school site on Haverstock Hill, Camden. Phase 1 of the new school became operational in 2004 with subsequent phases handed over one year later.	2003	2030	27	£21m	Mitie PFI Ltd
Health & Safety Merseyside HQ	HSE Merseyside HQ is an accommodation PFI project. It is a four-storey office building that serves as the HSE's operational headquarters and houses 1,500 employees. The building became operational in 2005.	2002	2035	30	£62m	Honeywell Control Systems Reliance Integrated Services Ltd
Health & Safety Laboratory	Building of new workshops and offices in Buxton and the disposal of old facilities at Sheffield.	2002	2035	33	£60m	Interserve (Facilities Management) Ltd
Helicopter Training Facility	Design, construction, management, operation and financing of a simulator based training facility for RAF helicopter pilots.	1997	2037	40 (with break clause by Grantor at Year 20)	£100m	Serco Ltd Vega Software Engineering Ltd
Highland Schools	Design, construction and operate eleven urban and rural schools.	2006	2037	30	£143m	Morrison Facilities Services
Home Office HQ	Build, finance, operate and maintain a new headquarters building to replace the Home Office's existing London office accommodation with purpose-built serviced offices.	2002	2032	29	£200m	Ecovert FM Ltd
MPA Specialist Training Centre	Construction of a firearms and public order training facility in Gravesend, Kent for the Metropolitan Police Authority. Construction was completed in February 2003.	2001	2028	27	£40m	John Laing Integrated Services Ltd
MPA SEL Police Stations	Construction of 4 police stations in South East London for the Metropolitan Police Authority. Construction was completed in February 2004.	2001	2029	28	£80m	John Laing Integrated Services Ltd
Newcastle Libraries	Finance, develop, construct and operate a new city centre library in Newcastle and an additional satellite library in High Heaton, both in the North East of the UK. Construction was completed in March 2009.	2007	2034	27	£30m	Integral UK Limited
North Tyneside Schools	North Tyneside Schools is a four-school education PFI project consisting of one secondary school (Burnside) and three primary schools (Western, Marine, Coquet) in North Tyneside. The schools became operational in 2003/2004.	2002	2034	32	£30m	Mitie PFI Ltd
Oxford John Radcliffe Hospital	Design, construction, management, financing, operation and maintenance of a new wing adjacent to the former Radcliffe Infirmary. Construction was completed ahead of schedule in March 2001.	2003	2036	33	£161m	Carillion Services Ltd
Renfrewshire Schools	Design, construction, management, financing, operation and maintenance of six primary and four secondary schools in Renfrewshire, Scotland.	2005	2037	32	£100m	Amey BPO Services Ltd

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2010

27. Disclosure – Service Concession Arrangements *(continued)*

Project	Short description of concession arrangements	Start date	End date	Number of years	Project Capex	Key subcontractors
Romford Hospital	Design, construction, management, financing, operation and maintenance of a new hospital in Romford.	2004	2040	36	£211m	Sodexo Healthcare Services Ltd Sodexo Services Ltd Bovis Lend Lease Ltd
Stoke Mandeville Hospital	Design, finance, construct, refurbish, operate and maintain a new hospital facility for the Buckingham Hospitals NHS Trust.	2004	2036	30	£40m	Sodexo Healthcare Services Ltd
Sussex Custodial Centre	Build and service three custody centres in Sussex for Sussex Police Authority. The centres are at Worthing, Chichester and Brighton. A fourth centre at Eastbourne was subsequently contracted for as a variation.	2001	2031	30	£20m	Reliance Task Management Ltd
West Middlesex Hospital	Design, construct, finance, operate and maintain a new 228 bed hospital for West Middlesex University Hospital NHS Trust.	2001	2036	35	£60m	Ecovert FM Ltd
Wooldale Centre for Learning	Wooldale Centre for Learning is an education PFI project consisting of a Centre for Learning (CfL) comprising a secondary school with sixth form, public library, primary school and nursery on a large site in Northamptonshire. The first phase of the CfL (the primary school, library and part of the secondary school) became operational in 2004.	2003	2029	26	£24m	Mitie PFI Ltd

28. Principal subsidiaries

Name	Country	Ownership interest
HICL Infrastructure 1 SARL	Luxembourg	100.0%
HICL Infrastructure 2 SARL	Luxembourg	100.0%
Infrastructure Investments Limited Partnership	United Kingdom	100.0%
Infrastructure Investments Holdings Limited	United Kingdom	100.0%
AGP Holdings (1) Limited*	United Kingdom	100.0%
AGP (2) Limited*	United Kingdom	100.0%
Annes Gate Property PLC*	United Kingdom	100.0%
ByCentral Holdings Limited*	United Kingdom	100.0%
ByCentral Limited*	United Kingdom	100.0%
ByWest Holdings Limited*	United Kingdom	100.0%
ByWest Limited*	United Kingdom	100.0%
CVS Leasing Limited	United Kingdom	80.4%
Enterprise Civic Buildings (Holdings) Limited*	United Kingdom	90.0%
Enterprise Civic Buildings Limited*	United Kingdom	90.0%
Enterprise Education Conwy (Holdings) Limited*	United Kingdom	90.0%
Enterprise Education Conwy Limited*	United Kingdom	90.0%
Enterprise Healthcare (Holdings) Limited*	United Kingdom	90.0%
Enterprise Healthcare Limited*	United Kingdom	90.0%
Metier Healthcare Limited	United Kingdom	100.0%
Metier Holdings Limited	United Kingdom	100.0%
Services Support (Cleveland) Holdings Limited*	United Kingdom	72.9%
Services Support (Cleveland) Limited*	United Kingdom	72.9%
Services Support (Gravesend) Holdings Limited*	United Kingdom	72.9%
Services Support (Gravesend) Limited*	United Kingdom	72.9%
Services Support (Manchester) Holdings Limited*	United Kingdom	72.9%
Services Support (Manchester) Limited*	United Kingdom	72.9%

*Reporting date 31 December

All the consolidated revenues and the material net assets of the subsidiaries above are derived from the United Kingdom.

Company income statement

for the year ended 31 March 2010

	<i>Note</i>	Year ended 31 March 2010 £million	Year ended 31 March 2009 £million
Gain/(loss) on financial assets	A	25.7	(21.3)
Total income/(loss)		25.7	(21.3)
Administrative expenses		(1.0)	(0.9)
Profit/(loss) before net finance costs and tax		24.7	(22.2)
Finance income		–	0.1
Profit/(loss) before tax		24.7	(22.1)
Income tax expense		–	–
Profit/(loss) for the year		24.7	(22.1)

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

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

Company balance sheet

as at 31 March 2010

	Note	31 March 2010 £million	31 March 2009 £million
Non-current assets			
Investments in subsidiaries	B	0.1	0.1
Financial assets at fair value through profit or loss	C	502.9	373.8
Total non-current assets		503.0	373.9
Current assets			
Trade and other receivables	D	0.1	0.1
Cash and cash equivalents		0.1	–
Total current assets		0.2	0.1
Total assets		503.2	374.0
Current liabilities			
Trade and other payables		(0.3)	(0.3)
Total current liabilities		(0.3)	(0.3)
Net assets		502.9	373.7
Equity			
Ordinary share capital	23	–	–
Share premium		234.0	106.5
Retained reserves		268.9	267.2
Total equity attributable to equity holders of the parent		502.9	373.7

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

The financial statements were approved and authorised for issue by the Board of Directors on 24 May 2010, and signed on its behalf by:



J Hallam
Director



G Picken
Director

Company statement of changes in shareholders' equity

for the year ended 31 March 2010

	For the year ended 31 March 2010			Total £million
	Share capital £million	Share Premium £million	Retained reserves £million	
Shareholders' equity at beginning of year	–	106.5	267.2	373.7
Profit for the year	–	–	24.7	24.7
Distributions paid	–	–	(23.0)	(23.0)
Ordinary shares issued	–	129.3	–	129.3
Costs of shares issued	–	(1.8)	–	(1.8)
Shareholders' equity at end of year	–	234.0	268.9	502.9

	For the year ended 31 March 2009			Total £million
	Share capital £million	Share Premium £million	Retained reserves £million	
Shareholders' equity at beginning of year	–	–	307.8	307.8
Loss for the year	–	–	(22.1)	(22.1)
Distributions paid	–	–	(18.5)	(18.5)
Ordinary shares issued	–	108.3	–	108.3
Costs of shares issued	–	(1.8)	–	(1.8)
Shareholders' equity at end of year	–	106.5	267.2	373.7

Company cash flow statement

for year ended 31 March 2010

	Year ended 31 March 2010 £million	Year ended 31 March 2009 £million
Cash flows from operating activities		
Profit/(loss) before tax	24.7	(22.1)
Adjustments for:		
(Loss)/gains on financial assets	(25.7)	21.3
Interest income	–	(0.1)
Operating cash flow before changes in working capital	(1.0)	(0.9)
Changes in working capital:		
Decrease in receivables	–	0.3
Decrease in payables	–	(0.4)
Cash flow from operations	(1.0)	(1.0)
Interest received on bank deposits	–	0.1
Net cash used in operating activities	(1.0)	(0.9)
Cash flows from investing activities		
Interest received on financial assets	23.5	21.8
Financial assets – loans given	(131.4)	(113.4)
Financial assets – repayments received	4.6	4.4
Net cash generated used in investing activities	(103.3)	(87.2)
Cash flows from financing activities		
Proceeds from issue of share capital	126.3	106.2
Dividends paid to Company shareholders	(21.9)	(18.2)
Net cash from financing activities	104.4	88.0
Net decrease in cash and cash equivalents	0.1	(0.1)
Cash and cash equivalents at beginning of year	–	0.1
Cash and cash equivalents at end of year	0.1	–

Notes to the company financial statements

for year ended 31 March 2010

Key accounting policies

The accounting policies relevant to the Company are the same as those set out in the accounting policies of the Consolidated Group in Note 2, except as set out below:

Investments

Investments in equity shares of subsidiaries are carried at cost less impairment.

Financial instruments

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise certain securities held with the Company's wholly owned subsidiary. These financial assets are designated at fair value through profit or loss since the Company manages these as a portfolio of assets and takes investment decisions based on their fair values. After initial recognition, financial assets at fair value through profit or loss are measured at fair value with changes recognised in the income statement. Fair values are determined by discounting the expected future principal, interest and dividend cash flows associated with these assets at an appropriate rate to arrive at fair values. The rate applied at 31 March 2010 was the weighted average rate used in determining the fair value of the group's investments.

Interest income

Interest income arising on financial assets at fair value through profit or loss is recognised in the income statement as it accrues, using the effective interest rate of the instrument concerned as calculated at the origination date. The effective interest rate is that rate that exactly discounts estimated cash payments or receipts through the expected life of the financial instrument to the relevant asset's carrying amount.

Financial risk management

The relevant risks to the Company are managed as described in Note 4 to the consolidated accounts.

A. Gains on financial assets

	For year ended 31 March 2010	For year ended 31 March 2009
	£million	£million
Interest from financial assets	23.5	20.4
Gain/(loss) on financial assets (see Note C)	2.2	(41.7)
	25.7	(21.3)

B. Investments in subsidiary undertakings

	31 March 2010	31 March 2009
	£million	£million
Investments in subsidiary undertakings	0.1	0.1

The Company owns 100% of the share capital of HICL Infrastructure 1 SARL, a company incorporated in Luxembourg.

Notes to the company financial statements *(continued)*

for year ended 31 March 2010

C. Financial assets at fair value through profit or loss

	31 March 2010 £million	31 March 2009 £million
Opening balance	373.8	307.9
Acquisitions during the year	131.4	113.4
Gain/(loss) in fair value	2.2	(41.7)
Repayments in the year	(4.6)	(4.4)
Other movements	0.1	(1.4)
Carrying amount at the end of the year	502.9	373.8

Financial assets at fair value through profit or loss represent receivables from HICL Infrastructure 1 SARL ("Luxco 1") and comprise interest financing loans and redeemable convertible bonds. These financial assets were valued at 31 March 2010 by the Directors by discounting the expected future principal, interest and dividend cash flows associated with these instruments at an appropriate rate to arrive at fair values. The rate applied at 31 March 2010 was 8.8% (2009: 8.3%).

Financial assets at fair value through profit or loss are classified as Level 3 which is defined as assets where the inputs are not based on observable market data (unobservable inputs).

The nominal value of the financial assets at 31 March 2010 was £457.6m (2009: £334.3m). The gain in fair value of financial assets of £2.2m for the year to 31 March 2010 (2009: £41.7m loss) is disclosed in the income statement.

The carrying amount of financial assets at fair value through profit or loss would be an estimated £12.2m (2009: £11.1m) higher or £11.7m (2009: £10.6m) lower if the discounted rate used in the cash flow analysis to differ by 25 basis points from that used in the fair value calculations.

D. Trade and other receivables

	31 March 2010 £million	31 March 2009 £million
Prepayments	0.1	0.1
	0.1	0.1

There are no material differences between the carrying value and fair value of trade and other receivables as at 31 March 2009 or 2010. No classes within trade and other receivables contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

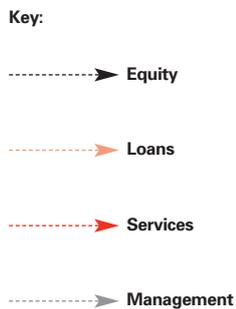
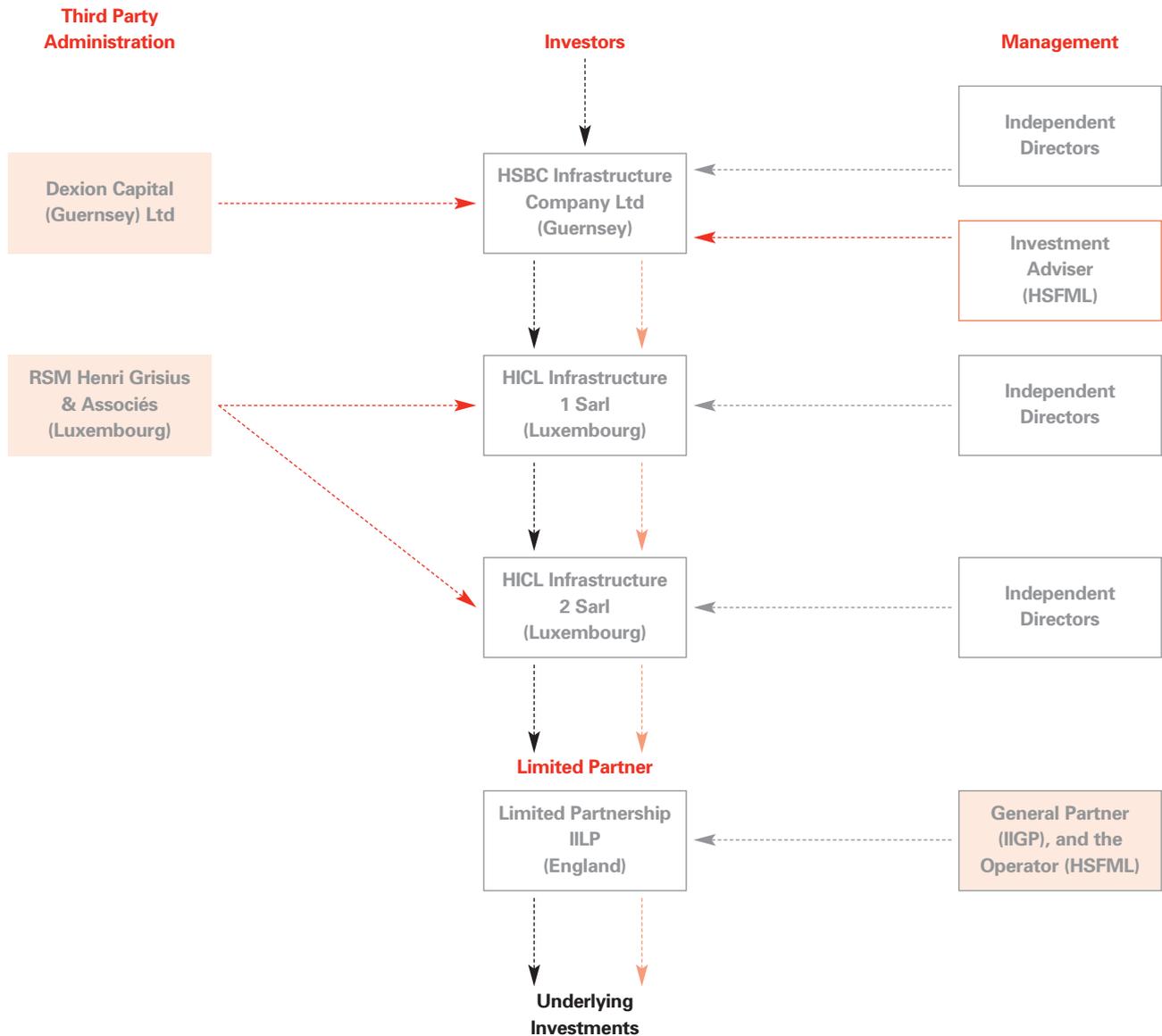
E. Related party transactions

Financial assets acquired by the Company's subsidiary had a value at 31 March 2010 of £502.9m (2009: £373.8m) (see Note C). Total interest earned in relation to these instruments was £23.5m (2009: £20.4m) in the year, of which £nil remains receivable at 31 March 2010 (2009: £nil).

The Company paid £0.1m (2009: £0.1m) to HSBC Insurance Brokers Limited in the year for premiums in respect of Directors and Officers liability insurance.

Refer to Note 24 of the consolidated accounts for disclosures regarding payments to related parties for insurance, Directors fees, investment advice and priority profit share to the General Partner.

Group Structure



The Group invests in infrastructure investments indirectly via the above entities. The Group's infrastructure investments, the holdings in the various project companies, are registered in the name of the General Partner, Infrastructure Investments General Partner ('IIGP') or the Partnership.

Directors and Advisers

DIRECTORS

Graham Picken (Chairman)
Sarah Evans
Henri Grisius (resigning on 1 June 2010)
John Hallam
Chris Russell (appointed from 1 June 2010)

REGISTRAR

Capita Registrars (Guernsey) Limited
Longue Hougue House
St. Sampson
Guernsey GY2 4JN

ADMINISTRATOR TO COMPANY, COMPANY SECRETARY AND REGISTERED OFFICE

Dexion Capital (Guernsey) Limited
1, Le Truchot
St. Peter Port
Guernsey GY1 1WD

INVESTMENT ADVISER AND OPERATOR

HSBC Specialist Fund Management Limited
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London E14 5HQ

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London EC2Y 9HT

UK TRANSFER AGENT

Capita Registrars
The Registry
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Beckenham
Kent BR3 4TU
Helpline: 0870 162 3100

AUDITORS

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20 New Street
St. Peter Port
Guernsey GY1 4AN

JOINT BROKERS

Collins Stewart Europe Limited
9th Floor
88 Wood Street
London EC2V 7QR

Oriel Securities Limited
125 Wood Street
London
EC2V 7AN



1

2



1 Greater Manchester Police Authority (GMPA) PFI Project

In November 2009 the Group increased its stake in the GMPA project by 22.92% to 72.92%. This fully-operational project comprises 17 buildings – 1 traffic headquarters and 16 police stations

2 Bradford Schools Project

The Group acquired a 34% stake in the £230m Bradford Schools project in September 2009. Part of the Bradford 'Building Schools for the Future' Programme, this phase will supply four secondary schools, also comprising four smaller schools, to Bradford Metropolitan District Council and in addition will provide dedicated learning for students with special educational needs

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