Enriching lives through infrastructure

HICL Interim Report 2023

Contents

Front cover image: Blankenburg Tunnel, courtesy of Rijkswaterstaat

References are made throughout to Alternative Performance Measures "APMs". These are provided alongside IFRS measures to provide additional information to shareholders. A full reconciliation of the APMs used is disclosed on page 20

Interim Highlights

For the six months ended 30 September 2023

- ▲ HICL's portfolio performed in line with expectations during the period, delivering an underlying return[1] of **8.2%** (30 September 2022: 13.0%), ahead of the expected return of **7.2%** as at 31 March 2023, before macroeconomic adjustments to the discount rate, inflation and interest rates.
- ▲ A decrease of **5.5p** in Net Asset Value to **159.4p** (31 March 2023: 164.9p), reflecting the increase of the portfolio's weighted average discount rate from **7.2%** to **8.0%**.
  - The increase in the discount rate reflects increased long-term government bond yields balanced by the Company's own recent cross-sector and cross-geography transactions, all sold at or above their respective valuation at 31 March 2023.
- ▲ Transaction activity in the period totalled **£532m**, demonstrating our active approach to asset rotation and portfolio enhancement:
  - **£208m** of acquisitions across two investments: Altitude Infra (fibre, France) and Hornsea II OFTO (electricity transmission, UK).
  - **£324m** of divestments, spanning a portfolio sale of four UK PPP projects and half of HICL's investment in the Hornsea II OFTO (UK); a partial disposal of the Northwest Parkway toll road (US); the sale of Bradford BSF Schools PPP, phases 1 and 2 (UK); and the sale of University of Sheffield accommodation (UK). All divestments were made at or above their respective valuation at 31 March 2023.
- ▲ Disposal proceeds will be used to reduce floating rate debt exposure, in line with the Company's disciplined capital allocation approach. On completion of disposals, the RCF is expected to be **c.£115m** drawn, bringing fund gearing down to **c.10%**.
- ▲ Contractual inflation linkage embedded in HICL's assets supported an increase in cash generation, with dividend cash cover excluding profits on disposals improving to **1.05x** over the period (September 2022: 1.03x). Including profits on disposals cash cover is **1.35x** (September 2022: 1.58x).
- ▲ The Board reaffirms that HICL remains on track to deliver its target dividend of **8.25p** per share for the financial year ending 31 March 2024[2].
- ▲ The Board reiterates its dividend guidance of **8.25p** per share for the year ending 31 March 2025[2], reflecting an appropriate balance between delivering short-term yield and enhancing HICL's long-term earnings base, particularly as its PPP concessions approach maturity.
- ▲ The Board's priority remains disciplined capital management, in particular, the reduction in short-term floating debt. The bar for new investments remains very high, informed by the cost of debt and the relative attractiveness of buying back shares.

Summary Financial Results

(On an investment basis)

For the six months to	30 September 2023	30 September 2022
Income[3]	**£10.9m**	£125.8m
Total Return[4]	**£(27.6)m**	£102.6m
(Loss) / earnings per share ("EPS")	**(1.4p)**	5.2p
Target dividend per share for the year	**8.25p**	8.25p

Net Asset Value	30 September 2023	31 March 2023
NAV per share	**159.4p**	164.9p
Interim Dividend	**2.06p**	2.07p
NAV per share after deducting interim dividend	**157.3p**	162.8p

1 Performance of the portfolio relative to the opening weighted average discount rate
2 This is a target only and not a profit forecast. There can be no assurance that this target will be met
3 Income was £(24.7)m on an IFRS Basis (2022: £104.5m)
4 Total Return was £(27.6)m on an IFRS Basis (2022: £102.6m)

Chair's Statement

HICL's results for the first half of the year demonstrate strategic asset rotation, improving portfolio composition and validating the Company's Net Asset Value.

In a period dominated by significant structural shifts in the macroeconomic environment, HICL's core infrastructure assets continued to perform in line with expectations. The Company's diversified portfolio benefits from predictable long-term cash flows which are positively correlated to inflation and insulated in large part from economic and financial market volatility. These defensive attributes are a key attraction of the core infrastructure asset class and underpin the durability of HICL's long-term investment proposition.

Given market conditions, the Board and Investment Manager have been particularly focused on the active management of HICL's portfolio and balance sheet. During the period, over £320m of asset sales have been announced at or above their respective valuation at 31 March 2023. These sales improve portfolio composition, validate the Company's Net Asset Value ("NAV") and, on completion, reduce exposure to floating rate debt. This exposure was also reduced in the period by completing a £150m private placement and capping £200m of floating interest rate exposure on the Revolving Credit Facility ("RCF").

Despite the solid operating performance of the portfolio and transaction evidence for the intrinsic value of HICL's assets, the higher interest rate environment has severely impacted the Company's share price in the period, with HICL trading at a significant discount to NAV. The Board believes that there is a significant disconnect between the value ascribed to the Company's portfolio by public markets, compared to the valuations consistently demonstrated in private markets through the Company's asset sales. This transaction activity, which has been across geographies, sectors and counterparties, gives the Board a high level of conviction in the reported NAV and reinforces the belief that the Company's shares have been materially oversold by public markets. Compared with fixed income products, HICL offers higher nominal returns, with inflation protection and the potential for capital growth and outperformance. The share price at 30 September 2023 implies a long-term expected return from the portfolio of 8.9% p.a. net of costs[1]. The Board believes this represents compelling risk-adjusted value.

Financial performance

The Company's NAV at 30 September 2023 was 159.4p (March 2023: 164.9p). The loss per share was (1.4)p (September 2022: earnings of 5.2p). Total Shareholder Return ("TSR")[2] on an annualised basis was (1.7)% (September 2022: 6.7%) and the underlying Annualised Return from the portfolio was 8.2%[3] (September 2022: 13.0%), which exceeds the Company's weighted average discount rate of 7.2% as at 31 March 2023.

The movement in the NAV per share from 164.9p at 31 March 2023 to 159.4p at 30 September 2023 was primarily driven by increases in discount rates. The 80bps increase in the weighted average discount rate to 8.0% reflects higher interest rates across HICL's key geographies and was partially offset by higher inflation (both forecast and actual) and by increases in deposit rates (see full updated assumptions on page 13).

A detailed explanation of the factors affecting the valuation is set out in the Valuation of the Portfolio section starting on page 11 of this report.

Accretive investment activity

Strategic asset rotation has consistently been a key driver of shareholder value for HICL, with 25 asset disposals amounting to over £830m since IPO. These have contributed over 7.5p to NAV and provide an important source of capital outside capital markets.

Over the last 18 months, HICL's portfolio has significantly evolved with over £745m[4] of new high-quality core infrastructure investments, funded in a large part through over £430m[5] of disposals. This active management has improved portfolio composition, increased diversification and delivered shareholder value despite challenging equity market conditions.

More information on these transactions can be found in the Investment Manager's Report, on page 6.

Chair's Statement continued

Financing

On completion of disposals announced in the period, the Company's £650m RCF is expected to be c.£115m drawn, down from £494m at its peak in April 2023, with gearing reduced from 16% to 10%.

In addition to disposals, the Manager executed on several initiatives to further reduce floating interest rate exposure in the period. Further information is given on page 6.

Dividend guidance

The Board is pleased to re-affirm that HICL remains on track to deliver its target dividend of 8.25p per share for the financial year ending 31 March 2024, which is expected to be cash covered. The Board also reiterates its dividend guidance of 8.25p per share for the year ending 31 March 2025.

The Board notes that the contractual inflation linkage embedded across HICL's assets, is now beginning to flow through to uplifted cash flows, having already been recognised in the NAV. This has contributed to the increase seen in dividend cash cover to 1.05x (March 2023: 1.03x) and the Board expects this upward trend to continue.

Sustainability leadership

As part of the Board's commitment to continuous improvement, a sustainability investor perception survey was commissioned during the period to allow the Board to better evaluate HICL's performance in this critical area. Many of HICL's investors provided input on HICL's approach to sustainability strategy and disclosure. This valuable feedback will feed directly into the 2024 Sustainability Report, ensuring HICL's sustainability disclosures continue to improve alongside increasing Net Zero data collection at the portfolio level. I would like to personally thank those investors who participated.

Outlook

Against a challenging backdrop of unpredictable macroeconomic conditions, the Board remains highly focused on robust governance procedures. This includes oversight of the Company's transactions, capital allocation and processes, as well proactive engagement with investors.

HICL's portfolio offers investors a highly defensive set of cash flows and a resilient NAV which has been consistently validated through third-party transactions. The Board believes that the current disconnect in pricing between public and private markets for high-quality core infrastructure assets represents a unique opportunity for investors with a long-term mindset: a return of the Company's share price to NAV would represent a 29% return before dividends[6].

In this environment the Board remains focused on appropriate capital allocation. The bar for new acquisitions is suitably high, informed by alternative uses of capital such as reducing the Company's floating rate debt or buying back shares. Additionally, market volatility has historically offered attractive investment opportunities for those companies that have maintained optionality through active balance sheet management. HICL's investors should expect the focus on self-funded and accretive portfolio rotation to continue, with live disposal activity at the time of publication. In the longer term, the megatrends of decarbonisation and digitalisation are largely unaffected by short-term market volatility and continue to drive growth in the core infrastructure sector. This provides a compelling strategic backdrop for the Company to execute its long-term strategy.

Mike Bane
Chair
21 November 2023

1 Based on discount rate, less ongoing charges ratio, adjusted to reflect the share price discount to the NAV using published discount rate sensitivities
2 Based on interim dividends paid plus change in NAV per share
3 Calculated as portfolio return divided by the rebased valuation, annualised. Excludes changes in macroeconomic assumptions. More details provided in the APM section on page 20
4 Acquisitions since March 2022 includes: B247 Road, Fortysouth, Texas Nevada Transmission, Cross London Trains, Altitude Infra, Hornsea II OFTO
5 Disposals since March 2022 includes: Queen Alexandra Hospital, Northwest Parkway (partial), Bradford Schools Phase 1+2, Oxford John Radcliffe Hospital, Romford Hospital, South Ayreshire Schools, PSBP NE Schools, Hornsea II OFTO (partial) and Sheffield Student Accommodation
6 Based on the share price of 124.0p as at 30 September 2023

The Investment Portfolio – Top 10 Assets[1]

1 Affinity Water

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

Sector: Electricity & Water
Location: UK
% of portfolio: 7.7% (March 2023: 7.3%)
HICL holding: 33.2%
Concession life remaining: Indefinite
Status: Operational

2 A63 Motorway

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

Sector: Transport
Location: France
% of portfolio: 6.6% (March 2023: 6.5%)
HICL holding: 21.0%
Concession life remaining: 27 years
Status: Operational

3 Fortysouth

Fortysouth is New Zealand's largest independent tower company, with c.1,500 wholly-owned mobile towers covering 98% of the country's population.

Sector: Communications
Location: New Zealand
% of portfolio: 6.2% (March 2023: 5.8%)
HICL holding: 40.0%
Concession life remaining: Indefinite
Status: Operational

4 Texas Nevada Transmission

Two distinct electricity transmission systems in Texas and Nevada, consisting of over 800 km of high-voltage transmission lines.

Sector: Electricity & Water
Location: USA
% of portfolio: 5.4% (March 2023: 5.5%)
HICL holding: 45.8%
Concession life remaining: Indefinite
Status: Operational

5 High Speed 1

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

Sector: Transport
Location: UK
% of portfolio: 4.4% (March 2023: 4.3%)
HICL holding: 21.8%
Concession life remaining: 17 years
Status: Operational

6 Northwest Parkway

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

Sector: Transport
Location: USA
% of portfolio: 4.0% (March 2023: 6.0%)
HICL holding: 23.3%
Concession life remaining: 83 years
Status: Operational

7 Southmead Hospital

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

Sector: Health
Location: UK
% of portfolio: 3.7% (March 2023: 3.6%)
HICL holding: 62.5%
Concession life remaining: 22 years
Status: Operational

8 Pinderfields and Pontefract Hospitals

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

Sector: Health
Location: UK
% of portfolio: 3.6% (March 2023: 3.4%)
HICL holding: 100.0%
Concession life remaining: 19 years
Status: Operational

9 Royal School of Military Engineering

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

Sector: Accommodation
Location: UK
% of portfolio: 3.5% (March 2023: 3.6%)
HICL holding: 100.0%
Concession life remaining: 15 years
Status: Operational

10 Home Office

The PPP by the UK Home Office to replace its existing headquarters with serviced offices to accommodate up to 3,450 staff in Westminster, London.

Sector: Accommodation
Location: UK
% of portfolio: 2.9% (March 2023: 2.9%)
HICL holding: 100.0%
Concession life remaining: 8 years
Status: Operational

1 All portfolio percentages based on Directors' Valuation. More details provided in the APM section on page 20

Investment Manager's Report

HICL's high-quality portfolio delivered a solid performance amidst volatile financial markets during the first half of the year.

Operational performance was in line with expectations, with key milestones achieved on some of the Company's largest assets.

Over the last six months, we have continued to execute the Company's strategy, evolving the portfolio through targeted acquisitions, balanced with selective asset sales. InfraRed's focus on portfolio rotation enhanced portfolio composition, validated asset valuations, and strengthened the Company's balance sheet.

HICL continues to offer investors a specialised investment proposition by providing exposure to a diversified portfolio of private core infrastructure assets, critical to the functioning of society. This provides investors with exposure to predictable and inflation-linked returns, and the potential for outperformance through capital growth delivered through InfraRed's active management approach. These factors set HICL apart from a wide range of investment opportunities, including fixed income.

The Investment Manager firmly believes that the current share price of HICL materially understates the demonstrated value of the portfolio. HICL's prevailing share price offers a highly attractive risk adjusted return and yield for investors.

Operational highlights

Portfolio performance was solid over the first six months of the year, delivering an annualised return of 8.2% (13.0% at 30 September 2022), ahead of the expected return of 7.2% for the period (as at 31 March 2023) before the impact of changes to reference discount rates or macroeconomic assumptions.

This outperformance was predominantly a result of the portfolio's high correlation to inflation – further details can be found in the Valuation section of this report starting on page 11.

Operational performance overview

HICL's diversified portfolio of high-quality core infrastructure assets performed in line with the Investment Manager's expectations in the period.

The Company's new modern economy assets (Fortysouth, Texas Nevada Transmission ("TNT") and Altitude Infra), have been successfully integrated into the portfolio and are performing well operationally.

The continued recovery of international travel post-Covid enabled High Speed 1 ("HS1") to resume shareholder distributions in the period, a key milestone for the project. Shortly after the end of the period, it was announced that a new international rail operator, Evolyn, had agreed to purchase 12 high-speed trains to launch a competitor service between London and Paris in 2025. The possibility of this initiative was an upside identified at acquisition and InfraRed will continue to work closely with the HS1 management team to support greater utilisation of the HS1 infrastructure.

In September 2023, Affinity Water submitted its business plan to Ofwat for the upcoming periodic price review in 2024 ("PR24"). The significant investment envisaged under the plan is expected to result in the company's RCV growing by over 32% in real terms between April 2025 and March 2030. The plan is fully funded and HICL may consider funding a portion of the growth outlined in Affinity's plan with equity during AMP 8, contingent on receiving a fair final determination from Ofwat in December 2024, including the resumption of equity distributions.

Further details of the operational performance of HICL's largest assets and the PPP portfolio can be found on pages 8 – 10.

Investment Manager's Report continued

Accretive investment activity

Optimising portfolio construction through active management and asset rotation is a key driver of shareholder value, and this was demonstrated in the period.

The combined acquisition and disposal activity over the first half of the financial year contributed positively to HICL's key portfolio metrics of yield, total return and weighted average asset life.

During the period, HICL signed and completed two targeted investments totalling £208m:

- Altitude Infra (France), the largest independent wholesale fibre network in rural France (3% of the Directors' Valuation); and
- Hornsea II OFTO (UK), the offshore transmission assets associated with the world's largest installed windfarm (2% of the Directors' Valuation).

Importantly, HICL added to its strong track record of disposals in the period. The recent disposals take the total asset sales to over £830m across 25 investments since IPO adding over 7.5p to the Company's NAV. This is the most extensive track record of asset rotation of any core infrastructure investment company.

Accretive disposals in the period, amounting to over £320m, were made at or above their respective valuation at 31 March 2023, as set out below:

- A portfolio sale comprising four UK PPP projects; Queens (Romford) Hospital, Oxford John Radcliffe Hospital, Priority Schools North East Batch and South Ayrshire Schools, in addition to half of the Company's investment in the Hornsea II OFTO for c.£200m;
- Northwest Parkway (US), a partial disposal for $86m crystallising an 11.0% holding period IRR since the initial investment in December 2016;
- Bradford BSF Phase 1 & 2 (UK), the combined sale of two PPP schools for c.£37m at an 8% premium to the 31 March 2023 valuation; and
- University of Sheffield Accommodation (UK), the sale of a concession with demand-based revenues for £18m.

InfraRed has a structured and objective methodology to identify assets suitable for sale, which takes into consideration key characteristics including inflation correlation, asset life and yield to ensure an appropriate portfolio mix.

The assets were sold to various counterparties and spanned a range of sectors, geographies and revenue types. They are a good representation of HICL's total portfolio, and evidence the resilience of valuations for high-quality core infrastructure.

Critically, given the wider macroeconomic environment, these disposals have enabled HICL's strategic portfolio evolution over the last 18 months to be significantly self-funded.

Financial highlights

The Company's NAV per share decreased by 5.5p over the period to 159.4p at 30 September 2023 (31 March 2023: 164.9p). This reflected the increase of the portfolio's weighted average discount rate from 7.2% to 8.0% which was partially offset by higher actual and forecast inflation, higher interest on cash deposits, and positive underlying portfolio performance.

During the period, central bank base rates increased across all the markets in which HICL operates, reducing the Company's implied equity risk premium. Notwithstanding this, the Company carried out nine asset sales, at or above their respective valuations as at 31 March 2023. The movement in the weighted average portfolio discount rate of 80bps (100bps in the UK) balances these important external data points. The adoption of higher inflation assumptions for the portfolio valuation better aligns with long-term market expectations and is consistent with the observed transaction activity.

Further detail on the approach to valuation can be found in the Valuation section of this report starting on page 11.

The Board and InfraRed have been focused on maintaining a strong balance sheet and have taken a proactive approach to ensure that the Company is best placed to operate in a higher interest rate environment:

- In May 2023, HICL completed a £150m Private Placement, effectively converting existing short-term drawings to a longer maturity (10- and 12-year tranches), reducing interest rate risk and diversifying the Company's sources of funding;
- To protect against further rises in interest rates, in July 2023 the Company purchased an option to cap £200m of its SONIA exposure to 6.5% for three years; and
- Proceeds from the nine disposals announced in the period have been, and will continue to be used to pay down the Company's RCF, which is forecast to be c.£115m drawn once the announced transactions complete.

In combination, these initiatives reduced HICL's fund level gearing to 10% and the cap ensures that the Company has limited exposure to floating interest rates.

Further information on the Company's financial performance can be found in the Financial Review section starting on page 17.

Investment Manager's Report continued

Sustainability

The decarbonisation of existing infrastructure projects is a goal shared by the private and public sector, and the scale of the challenge will require a true partnership approach given the contractual frameworks were developed long before net zero targets. During the period, InfraRed's Asset Management and Sustainability teams contributed heavily to the Infrastructure and Projects Authority (IPA) Net Zero Working Group, feeding directly into the publication of the Decarbonisation of Operational PFI Projects handbook. A key pillar of this work has been the agreed standardised approach to data collection to support the measurement of greenhouse gas emissions from PFI projects, which will be reflected in HICL's 2024 Sustainability Report.

Key risks update

HICL's risk appetite statement, approach to risk management and governance structure are set out in the Risk and Risk Management section of HICL's 2023 Annual Report, which can be accessed on the Company's website at www.hicl.com.

The principal risks for the Company for the remaining six months of its financial year are unchanged from those reported on in the Annual Report 2023. Notable updates against these risks in the period are summarised below.

Macroeconomic risk

The Investment Manager notes the challenging macroeconomic environment which has negatively affected the Company's share price, alongside the wider listed real asset market segment. Whilst InfraRed believes the Company's shares have been oversold and that it has consistently demonstrated the validity of its NAV through deliberate disposals, a persistently high interest rate environment may inhibit HICL's ability to issue new equity capital. The key mitigant to closed public equity markets is active portfolio rotation through further targeted asset sales to raise the capital needed to fund new investments and repay debt facilities. This was clearly demonstrated in the period and continues to be the Company's near-term focus.

There remains the possibility of further interest rate increases across HICL's investment geographies, which would increase the cost of floating rate debt at both asset and fund levels. HICL's portfolio gearing is 67% (31 March 2023: 66%) however the vast majority of asset level debt is fixed and termed for the duration of each concession, removing floating rate risk. There are six assets in the portfolio, predominantly assets with perpetual lives, which have refinancing requirements exposing them to interest rate risk. These assets have lower gearing than the portfolio average, and refinancing timings are carefully managed. At the fund level, the drawn balance of the Company's RCF is subject to floating rate risk. This was mitigated in the period through the conversion of £150m of short-term floating-rate borrowings into a fixed-rate private placement, as well as the purchase of an option to cap £200m of exposure, as detailed above.

Further detail on the portfolio's interest rate sensitivity can be found in the Valuation section on page 15.

Political and regulatory risk

The Investment Manager notes the key political elections expected to occur in the next 12 months in the UK, USA and Europe. Any change of national government brings the possibility of policy change in relation to existing infrastructure projects, as well as the future procurement of urgently needed new infrastructure.

Existing contractual frameworks provide a high level of protection to investors from government intervention and the political consensus across HICL's key jurisdictions on the need for continued investment to maintain and replace ageing infrastructure is a key mitigant against this risk. This accepted need for infrastructure investment, and the role of private capital in support, is expected to provide attractive opportunities for the Company in due course.

HICL's approach to diversifying political and regulatory risk across jurisdictions helps protect the portfolio from localised risks. HICL's portfolio is now comprised of 63% of assets within the UK (31 March 2023: 64%), with the balance of the portfolio invested in Europe, North America and New Zealand.

In the UK, the Investment Manager notes heightened public scrutiny of the water sector, with several companies subject to investigations and negative media attention over claims of illegal wastewater discharge practices. Affinity Water is a water only company with no wastewater operations, distinguishing it from those companies which may face specific action in this area. Affinity Water was rated as an 'average' performer (in line with the highest awarded grade) in Ofwat's recently published Water Company Performance Report. InfraRed believes Affinity Water is well positioned for PR24. Further information on Affinity's operating performance is given on page 8.

Market and outlook

The volatile macroeconomic environment continues to be the primary driver of public market valuations across the real assets sector, with this trend set to continue until markets establish greater certainty over the rate cycle. However, resilient valuations evidenced in the period continue to demonstrate a disconnect between private and public market valuations for attractive core infrastructure.

As long-term investors through multiple cycles, it is the Investment Manager's experience that such an environment can present attractive investment opportunities via special situations, including with reduced competition. The bar for new investments is high, set by the relative attractiveness of repurchasing shares, the cost of the Company's debt facilities, and the desire to further reduce the balance of HICL's RCF. InfraRed will continue to evaluate investment opportunities on a case-by-case basis and with a high degree of investment discipline. The Company's strong track record of accretive asset rotation stands it in good stead to self-fund its future investment activities, as required, and continue to enhance HICL's investment proposition for shareholders.

Operational Highlights

Affinity Water % of portfolio: 7.7%

Affinity Water provides on average 950 million litres of clean water each day to a population of more than 3.6 million people in Southern and Eastern England. As a regulated utility, the company has clear visibility over its appointed revenue through a well-established price review mechanism.

The company's operational performance in the period was slightly ahead of expectations, aided by mild weather and the management team's focus on controlling costs despite continued high inflation. In September 2023, Ofwat published its latest Water Company Performance Report, the regulator's annual assessment of the 17 largest water companies in England and Wales. Affinity Water's performance was rated as 'average', with no company classed as 'leading' and seven noted as 'lagging behind'. Encouragingly, Affinity Water's three-year average leakage reduction of 15.8% was ahead of target and sector-leading, with the company on track to be one of few that meets its 2025 leakage reduction target. Affinity Water was also one of only four companies that has achieved a drinking water quality compliance score within the deadband level[1] for every year of the current regulatory period.

On 28 September 2023, Affinity Water submitted its PR24[2] business plan to Ofwat. The plan sets out the company's operational approach and the significant capital investment it is expecting to make over the five-year period to March 2030. As noted in the Investment Manager's Report, Affinity Water's shareholders may consider funding some of the investment programme, which would grow RCV and long-term earnings, with equity during AMP8[3] if the business receives a satisfactory final determination in December 2024.

As a result of proactive management, Affinity Water's improved operating performance is underpinned by a stable, resilient capital structure. The company's investment grade credit ratings are in excess of Ofwat's thresholds despite the volatile macroeconomic environment, and there is no refinancing requirement until the next regulatory period, at which point the impact of increased interest rates is expected to be mitigated through the regulatory mechanism.

A63 Motorway % of portfolio: 6.6%

HICL's investment relates to a 105km stretch of the A63 Autoroute in France, which connects Bordeaux to the Spanish border. As such, the road is an important trans-European transport corridor for both freight and leisure travel, enabling journeys from the Iberian Peninsula and South-Western France to the whole of Northern Europe.

Over the first half of the financial year, light vehicle traffic continued to grow strongly due to buoyant leisure demand, with heavy vehicle traffic broadly flat despite macroeconomic volatility and wider supply-chain pressures[4]. Despite this strong underlying performance, toll revenue over the six months was slightly behind HICL's valuation assumption due to a traffic accident on 9 August 2023 that required toll collection to be halted for approximately two weeks. The cost of repairing the damaged toll plaza, as well as the revenue lost while tolling was paused, is expected to be fully recovered through insurance.

During a period of sustained high inflation, the management team has been focused on controlling costs, and has been able to achieve modest savings against budget for both operating and capital expenditures. The project has fixed-rate, long-term financing, and can therefore fully benefit from the positive impact of higher interest rates on cash deposits. The company also launched a commercial partnership to sell 'Liber-t' electronic toll tags, which cover the entire French toll road network and allow drivers to avoid queuing at toll plazas by charging their accounts automatically. The incremental third-party revenues from this new channel have been incorporated into HICL's valuation as at 30 September 2023, resulting in a modest uplift.

In September 2023, the French government announced a plan to impose a levy on revenues earned by companies operating long-distance transport infrastructure in the country. InfraRed is working closely with the portfolio company management team and its legal advisers as the draft legislation is considered by the French parliament, but currently expects that any such tax, if enacted, would constitute a Change of Law under the concession agreement and be compensated through higher tolls.

1 The deadband is the performance limit within which companies do not incur underperformance payments
2 The Ofwat 2024 price review process that sets prices for the period from April 2025 to March 2030
3 The UK water industry regulatory period from 2025 to 2030
4 Changes in traffic compared with the six months to 30 September 2022

Operational Highlights continued

Fortysouth % of portfolio: 6.2%

Fortysouth is the largest independent mobile tower operator in New Zealand. With over 1,500 wholly owned towers covering 98% of New Zealand's population, Fortysouth enables mobile network operators, fixed wireless providers, and critical communications operators to deliver communications services that connect New Zealanders to each other, and the world.

Since the completion of HICL's acquisition in November 2022, InfraRed's local asset management team has worked closely with the Fortysouth executive management team to guide the business through its first full year of operations. By 30 September 2023, Fortysouth had reached its 'steady state' staffing level ahead of schedule, with c.30 full time employees in place. The management team maintains an excellent working relationship with One NZ and will continue to work collaboratively as Fortysouth takes on additional operational scope from One NZ over the coming year as envisaged at the time of acquisition.

Operational and financial performance over the period was broadly in line with HICL's valuation assumption, with revenues underpinned by the availability-based, inflation-linked anchor tenancy contract with One NZ. Fortysouth also benefited from lower than budgeted carve-out costs, offset by higher than projected operational expenses which are expected to moderate as the transition process from One NZ concludes. During the period, the management team worked with One NZ to accelerate Fortysouth's tower upgrades programme to meet New Zealand's 5G roll-out targets. The company paid its first dividend in the period in line with expectations, has no refinancing exposure before 2027, and is on track to deliver 290 new towers by March 2027.

Texas Nevada Transmission % of portfolio: 5.4%

Texas Nevada Transmission ("TNT") comprises two distinct electricity transmission systems: Cross Texas Transmission ("CTT") and One Nevada Transmission ("ON Line"). Together, the networks consist of over 800km of high-voltage transmission lines, as well as a number of switching stations and substations, which have been fully operational since 2014.

TNT's operational performance was in line with HICL's acquisition assumptions, with CTT and ON Line achieving availabilities of 99.97% and 100% respectively over the six months. Facility inspections carried out at both systems also identified no significant issues and HICL received its first distribution in the period. Both CTT and ON Line benefit from predominantly fixed borrowing costs, however partial exposure to floating rates resulted in interest expenses being higher than forecast. CTT is expected to issue new debt in 2024 but the impact of higher interest rates is expected to be mitigated through the regulatory mechanism.

LS Power also finalised its Annual Planning Assessment for CTT early in the period. This involved an evaluation of future system performance and the results indicated that the network's transmission facilities met or exceeded standards set by the North American Electric Reliability Corporation and the Electric Reliability Council of Texas, while also meeting CTT's own planning criteria.

With InfraRed's support, TNT's management team is working to drive growth by connecting new power generation to the transmission systems and making long-term investments to improve the resilience of the grid.

Operational Highlights continued

High Speed 1 % of portfolio: 4.4%

High Speed 1 ("HS1") is the UK's only high-speed rail line, linking London St Pancras with the Channel Tunnel. It is a vital component of the UK's rail link with Continental Europe, and also enables fast and frequent domestic rail services between Kent and Greater London.

International train path bookings continued to increase gradually in the period, reaching 91% of pre-Covid levels on average. This was marginally above HICL's valuation assumption and contributed to a c.33% increase in international train path revenue relative to the same period in FY23[1]. During the period, Eurostar returned to its pre-Covid practice of booking almost all of its planned services in advance, which provides a high degree of cash flow visibility until May 2024. This strong operational performance, alongside higher-than-expected retail sales, enabled HS1 to resume shareholder distributions in the period.

Border congestion in London and Paris continues to restrict growth in international services, although HICL's 30 September 2023 valuation assumption that bookings return to pre-Covid levels in March 2025 remains unchanged. As noted in the Investment Manager's Report, the potential introduction of a second international operator would be expected to increase train path bookings in the medium term and supports the asset's long-term strategic value.

Domestic services remain under UK government control and HS1 continues to benefit from the contractual underpin from the Department for Transport, guaranteeing 96% of pre-Covid domestic track access revenues. HICL's forecast continues to assume that domestic train path bookings will remain at current levels (25% below pre-Covid) until March 2028. HS1's fixed-rate borrowings, which are termed to match the concession length, also insulate HICL's investment from the impact of higher interest rates on debt costs.

Northwest Parkway % of portfolio: 4.0%

The Northwest Parkway is a free-flow toll road which provides access to key residential and employment districts in the Denver Metropolitan area as well as Denver International Airport.

Average traffic volumes over the period were 92% of pre-Covid levels and were 6% higher than in the first half of FY23. This was marginally above HICL's valuation assumption and reflective of continued growth in Denver International Airport passenger numbers[2], which over the six months to September 2023 were c.10% greater than in the same period in 2022. Traffic volumes remain on track to reach pre-Covid levels by June 2025 which is consistent with HICL's 30 September 2023 valuation projection.

Toll revenue over the period slightly exceeded HICL's expectation, largely due to steadily increasing traffic volumes and an inflation-linked toll rate increase implemented in May 2023. The management team retains the ability to approve further toll rate increases in line with the higher of inflation or GDP growth, which is a key strategic benefit in the current macroeconomic environment. As a result of its long concession life, Northwest Parkway has periodic refinancing events, with the next expected in 2028.

1 Based on revenue between 1 April 2023 and 16 September 2023 compared with revenue between 1 April 2022 and 17 September 2022
2 Passenger Traffic Reports, Denver International Airport

PPP assets % of portfolio: 57.0%

HICL's PPP assets provide essential public facilities. During the period, InfraRed further improved the composition of the PPP portfolio and worked collaboratively with clients and other key stakeholders to preserve and enhance value for HICL.

These projects continued to perform in line with expectations over the period, benefiting from contracted and inflation-linked revenue streams as well as predominantly fixed costs, including long-term fixed-rate debt.

HICL made significant progress in improving the composition of its PPP portfolio with the execution of targeted disposals that enhanced key portfolio metrics. PPPs accounted for nearly 60% of these disposals and notably reduced the Company's exposure to the UK healthcare sector. These PPP transactions improved HICL's key metrics as well as overall portfolio diversification.

InfraRed's focus on the active management of facility condition remains a key asset management priority. Evidence of this commitment includes progress on constructing a temporary ward at Pinderfields and Pontefract Hospitals (3.6% of portfolio), which will enable improvement works to begin in the main hospital building and is expected to be completed imminently. At Southmead Hospital (3.7% of portfolio), InfraRed also oversaw the completion of works to turn administrative areas into clinical accommodation to relieve pressures on the demand for patient beds, which was well received by the NHS Trust.

InfraRed also continues to enhance value for HICL's shareholders by progressing assets through their construction phases. Significant construction progress was made in the period at Blankenburg Tunnel with both tunnel sections now fully immersed and works expected to complete in Summer 2024. In the context of high inflation, exacerbated by the war in Ukraine, InfraRed worked collaboratively with all parties to coordinate an agreement that will mitigate the financial impact on the construction contractor and therefore reduce the Company's residual risk exposure.

Valuation of the Portfolio

Valuation and discount rates

InfraRed, in its capacity as Investment Manager, is responsible for preparing the valuation of HICL's investment portfolio for the Directors' approval each reporting period. This investment valuation is called the Directors' Valuation. The Directors' Valuation, which is an Alternative Performance Measure ("APM"), comprises the fair market valuation of the investment portfolio as well as the future investments committed to by the Company at the reporting period end. Further detail on the Company's APMs, including a reconciliation to the IFRS financial statements, is shown on pages 20 to 22.

HICL continues to utilise a third-party expert to form an opinion as to the appropriateness of the Directors' Valuation. The valuation methodology is unchanged from the previous reporting periods and additional information on the valuation process can be found on page 158 of the Annual Report 2023.

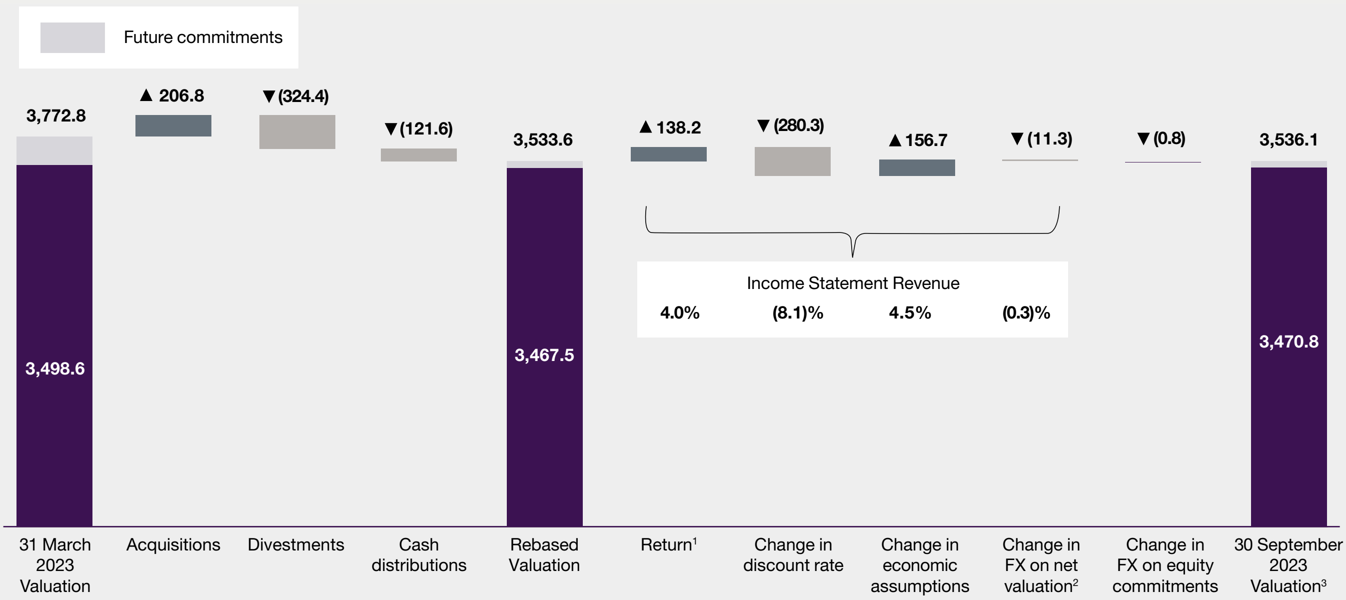
The Group's investments are predominantly unquoted and are therefore valued using a discounted cash flow analysis of the forecast investment cash flows from each project. The exception to this is the listed senior debt in the A13 Road project which is valued using the quoted market price of the bonds.

There is a secondary market for infrastructure investments and, where appropriate and publicly available, data points are taken into consideration. The Directors' Valuation is a sum-of-the-parts valuation, and no further adjustment is made to reflect the size, scarcity and diversification of the overall portfolio.

At 30 September 2023, the Directors' Valuation of the portfolio was £3,536.1m (31 March 2023: £3,772.8m). The Directors' Valuation includes £65.3m (31 March 2023: £274.2m) of future investment commitments in respect of the B247 road project (Germany) and the Blankenburg Tunnel (Netherlands).

A breakdown of the movement in the Directors' Valuation is shown in the chart below.

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



The valuation blocks above have been split into investments at fair value and future commitments. The percentage movements in the portfolio in the period shown in the chart above have been calculated on the rebased valuation of £3,467.5m to reflect the returns on the capital employed in the period.

1 Return comprises the unwinding of the discount rate and project portfolio outperformance including actual inflation
2 FX movement net of hedging is loss of £(3.4)m
3 £3,536.1m reconciles, on an Investment Basis, to £3,470.8m investments at fair value through £65.3m of future commitments

Valuation of the Portfolio continued

Acquisitions

The acquisitions, which completed in the period, represent the Hornsea II OFTO and Altitude Infra.

Divestments

During the period, the Group entered into agreements to divest its total equity interest in seven assets (Bradford Schools Phase 1 & Phase 2, Queens (Romford) Hospital, Oxford John Radcliffe Hospital, Priority Schools NE Batch, South Ayrshire Schools and Sheffield Student Accommodation).

The Company also agreed to dispose part of its investments in Northwest Parkway (where the Company sold 10% of its 33% equity interest, retaining a 23% holding) and the Hornsea II OFTO (where the Company sold 50% of its equity interest).

The total consideration of all these divestments is £324.4m.

Rebased Valuation

The Rebased Valuation is defined as the Investment Basis valuation as at the start of the period adjusted for Acquisitions, Disposals and Cash Distributions. The rebased portfolio of £3,467.5m delivered Income Statement revenue totalling 0.1% in the period (September 2022: 4.7%).

Return from the Portfolio

The return from the underlying portfolio of £138.2m (September 2022: £198.7m) represents a 4.0% (September 2022: 6.3%) increase in the rebased value of the portfolio in the period, or 8.2% annualised, versus the discount rate, or expected annualised return, of 7.2% at the start of the year. A significant proportion of outperformance included actual inflation, over and above the base case assumption at 31 March 2023. The benefit of actual inflation was offset by the costs of pursuing parties for defect rectification, updates to the lifecycle cost and updated business plan submissions for Affinity. The return is stated before changes to discount rates and macroeconomic assumptions.

Discount rates

The weighted average discount rate at 30 September 2023 was increased by 0.8% to 8.0% (31 March 2023: 7.2%) as a result of increases in discount rates in all jurisdictions, driven by increases in long-term government bond yields.

The Investment Manager uses multiple data points when assessing the discount rate. These include transactional data points, in the Company's target markets and in other sectors and geographies it operates in, as well as government bond yields and the implied equity risk premium.

Overall, there was an increase in the transactional activity within the core infrastructure sector in the period. This reflects signs of converging views between buyers and sellers over asset pricing, driven by medium-term interest rate expectations. Buyers with capital, predominantly unlisted participants, continue to be able to transact in the market.

Through InfraRed's network and track record in disposing of core infrastructure, HICL has announced or completed several asset sales, which have provided valuable data points to influence HICL's discount rates. All of the disposals were at or above their valuation at 31 March 2023 and they cover a range of sectors, participants (buy-side) and geographies.

Against this backdrop of directly relevant transaction activity, the average 20-30 year UK bond yields increased by 120 basis points in the period and rates in the rest of the jurisdictions HICL invests in have increased by 80–110 basis points. Although the equity risk premium offers some protection against rising government bond yields, and the transactions noted above have been announced at or marginally above NAV, the Investment Manager has opted to raise the discount rates to ensure an adequate risk premium (which the Manager deems to be around 3%) is maintained going forward.

The weighted average discount rate has therefore increased by 80 basis points to 8.0% (31 March 2023: 7.2%) and the risk premium is now 3.3% (31 March 2023: 3.5%). The weighted average discount rate for the top 10 assets is 8.2% (31 March 2023: 7.3%). Consistent with the movements in long-term government bond yields, the largest movement in discount rates was in the UK, followed by the US, New Zealand and Europe.

Inflation

Heightened levels of inflation have remained during the period, particularly in the UK which has experienced stickier and broader-based inflation. As such, higher inflation levels have been assumed for 2025 across all markets other than the US, noting a small forecast reduction in the Eurozone in 2024. The longer-term forecast inflation rates for the UK have been revised upwards to 2.5% from 2030 (31 March 2023: 2.0%), with no long-term changes to other jurisdictions, reflecting the difference in the nature and causes of inflation within the UK. The higher inflation assumptions are also validated by HICL's divestment activity in the period. The impact of the change in UK forecast inflation assumptions was £101.4m (excluding actual inflation impact). The implied inflation rate in the long-term (30 year) UK government bond yield is c.3.4%, which compares to the Company's long-term UK inflation forecast of 2.5%.

Valuation of the Portfolio continued

Valuation assumptions

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

		30 September 2023	31 March 2023
Inflation rates	UK (RPI and RPIx)[1]	6.50% p.a. year ending March 2024 3.50% p.a. year ending March 2025 3.25% p.a. year ending March 2030, 2.50% p.a. thereafter	5.00% p.a. year ending March 2024 2.75% p.a. to March 2030, 2.00% p.a. thereafter
	UK (CPIH)[2]	5.75% p.a. year ending March 2024 2.75% p.a. year ending March 2025, 2.50% p.a. thereafter	4.25% p.a. year ending March 2024, 2.00% p.a thereafter
	Eurozone (CPI)	4.75% p.a. year ending March 2024 2.25% p.a. year ending March 2025, 2.00% p.a. thereafter	5.00% p.a. year ending March 2024, 2.00% p.a. thereafter
	Canada (CPI)	3.00% p.a. year ending March 2024 2.25% p.a. year ending March 2025, 2.00% p.a. thereafter	3.00% p.a. year ending March 2024, 2.00% p.a. thereafter
	USA (CPI)	3.00% p.a. year ending March 2024, 2.00% p.a. thereafter	3.00% p.a. year ending March 2024, 2.00% p.a. thereafter
	New Zealand (CPI)	5.00% p.a. year ending March 2024 2.75% p.a. year ending March 2025, 2.25% p.a. thereafter	5.00% p.a. to 31 March 2024 2.50% p.a. to 31 March 2025, 2.25% p.a. thereafter
Interest rates	UK	5.00% p.a. to March 2024 4.50% p.a. to March 2025, 3.50% p.a. thereafter	3.25% p.a. to March 2025, 2.50% p.a. thereafter
	Eurozone	3.00% p.a. to March 2025, 2.25% p.a. thereafter	2.25% p.a. to March 2025, 2.00% p.a. thereafter
	Canada	3.75% p.a. to March 2025, 3.25% p.a. thereafter	3.50% p.a. to March 2025, 3.00% p.a. thereafter
	USA	4.25% p.a. to March 2025, 3.25% p.a. thereafter	4.00% p.a. to March 2025, 3.00% p.a. thereafter
	New Zealand	4.50% p.a. to March 2024, 4.25% p.a. thereafter	4.00% p.a. to March 2024, 4.25% p.a. thereafter
Foreign exchange rates	GBP / EUR	1.15	1.14
	GBP / CAD	1.66	1.67
	GBP / USD	1.22	1.23
	GBP / NZD	2.03	1.97
Tax rates	UK	25%	25%
	Eurozone	Ireland 12.5% France 25% Netherlands 25.8%	Ireland 12.5% France 25% Netherlands 25.8%
	Canada	23% and 27%	23% and 27%
	USA	21% Federal and 4.6% Colorado State	21% Federal and 4.6% Colorado State
	New Zealand	28%	28%
GDP growth	UK	2.0% p.a.	2.0% p.a.
	Eurozone	1.8% p.a.	1.8% p.a.
	USA	2.5% p.a.	2.5% p.a.

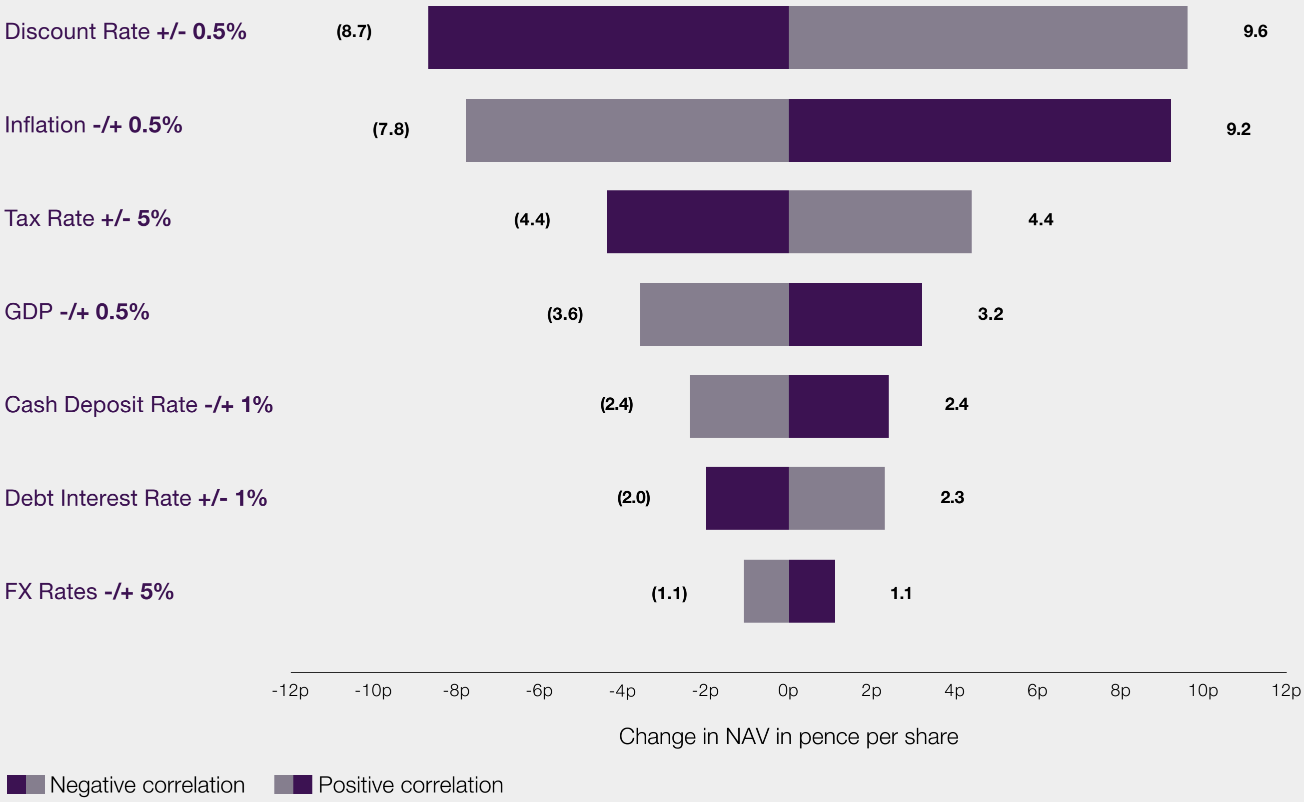
1 Retail Price Index and Retail Price Index excluding Mortgage Interest Payments
2 Consumer Prices Index including owner-occupiers' housing costs; used in the valuation of Affinity Water

Valuation of the Portfolio continued

Valuation sensitivities

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

Valuation sensitivities – impact in pence per share



1 NAV per share based on 2,031m Ordinary Shares as at 30 September 2023 (31 March 2023: 2,031m shares)
2 Sensitivities for inflation, interest rates and tax rates are based on the 35 largest investments extrapolated for the whole portfolio
3 Foreign exchange rate sensitivity is net of Group hedging as at 30 September 2023

Valuation of the Portfolio continued

Discount rate sensitivity

The weighted average discount rate that is applied to each portfolio company's forecast cash flows, for the purposes of valuing the portfolio, is the single most important judgement and variable. The impact of a 0.5% change in the discount rate on the Directors' Valuation and the NAV per share is shown above.

Inflation rate sensitivity

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

The portfolio's inflation correlation at 30 September 2023 was positive at 0.8x (31 March 2023: 0.8x) such that should inflation be 1% p.a. higher than the valuation assumption for all future periods the expected return from the portfolio would increase from 8.0% to 8.8%.

In the UK, RPI was recorded at 3.3% in the six-month period to August 2023 (6.7% annualised). The portfolio valuation assumes UK RPI inflation of 6.5% for the year ending March 2024, 3.5% to March 2025, 3.25% to March 2030 and 2.50% thereafter (with CPI at 2.50% post 2030). HM Treasury provides a forecast using over 20 different sources with the median RPI estimate at 6.7%.

Gross Domestic Product ("GDP") growth rate sensitivity

At 30 September 2023, the portfolio had five investments which are considered sensitive to GDP, comprising 16% of the portfolio value (18% at 31 March 2023), namely the A63, M1-A1 Road, RMG Roads, NWP and High Speed 1. At times of higher economic activity there will be greater traffic volumes using these roads and railways, generating increased revenues for the projects compared to periods of lower economic activity and therefore we assess these as GDP sensitive investments.

If outturn GDP growth was 0.5% p.a. lower for all future periods than those in the valuation assumptions set out on page 13, the expected return from the portfolio (before Group expenses) would decrease 0.2% from 8.0% to 7.8% (31 March 2023: 0.2% decrease to 7.0%).

Interest rate sensitivity

Each of the portfolio company's interest expense is fixed, either through fixed-rate bonds or bank debt which is hedged for the life of the project with an interest rate swap or linked to inflation through index-linked bonds. However, there are six investments – Affinity Water (UK), Altitude Infra (France), Fortysouth (NZ), Northwest Parkway (USA), TNT (USA) and XLT (UK) which have refinancing requirements, exposing these investments to interest rate risk. The average gearing of the assets is lower than the portfolio as a whole, at 49% (31 March 2023: 45%). As set out on page 14, were interest rates to be 1.0% higher in all future valuation periods, the expected return from the portfolio would decrease by 0.1% as a result of higher financing costs, before accounting for the offsetting positive impact of higher interest rates on cash balances.

At 30 September 2023, cash deposits for the portfolio were earning interest at a rate of 4.24% p.a. on average (31 March 2023: 3.0%).

Corporation tax rate sensitivity

The profits of each portfolio company are subject to corporation tax in the country where the project is located. The sensitivity is based upon a 5% movement in tax rates in all jurisdictions.

The UK Corporation Tax assumption for the portfolio valuation is 25%.

Foreign exchange rates sensitivity

37% (31 March 2023: 36%) of the portfolio (by Directors' value), has exposure to foreign exchange rates.
The sensitivity shows, post-hedging, the impact of GBP appreciating or depreciating against these currencies by +/- 5%.

Key Performance Indicators

The Board has identified metrics to measure clearly the Company's performance against its strategic objectives. The results for the six months ended 30 September 2023 are set out below:

KPI	Measure	Objective	Commentary	30 September 2023	30 September 2022
Dividends	Aggregate interim dividends declared per share in the period	An annual distribution of at least that achieved in the prior year	**Achieved**	4.13p	4.13p
Total Shareholder Return	NAV growth and dividends paid per share since IPO	A long-term IRR target of 7% to 8% as set out at IPO[1]	**Achieved**	8.7% p.a.	9.0% p.a.
Cash-covered Dividends	Operational cash flow / dividends paid to shareholders	Dividend payments are covered by cash received from the portfolio	**Achieved**	1.35x / 1.05x[2] Including / excluding profits on disposal	1.58x / 1.03x[2]
Positive Inflation Correlation	Changes in the expected portfolio return for 1% p.a. inflation change for each and every future period	Maintain positive correlation with a correlation of at least 0.5x	**Achieved**	0.8x	0.8x
Competitive Cost Proposition	Annualised ongoing charges / average undiluted NAV[3]	Efficient gross (portfolio level) to net (investor level) returns, with the intention to reduce ongoing charges where possible. Maintain within the range for FTSE 250 listed infrastructure peers	**Achieved**	1.11%	1.05%

1 Set by reference to the issue price of 100p/share, at the time of HICL's IPO in February 2006
2 Including profits on disposals versus original acquisition cost of £25.2m (September 2022: £45.5m). Excluding this, dividend cash cover would have been 1.05x (September 2022: 1.03x)
3 Calculated in accordance with Association of Investment Companies guidelines. Ongoing charges excluding non-recurring items such as acquisition costs

Financial Review

HICL prepares its financial information in accordance with UK-adopted international accounting standards ("IFRS"). Consistent with the 2023 Annual Report, the Company's financial performance is reported under the non-UK-adopted international accounting standards Investment Basis which consolidates the results of the Company, together with HICL Infrastructure 2 s.a.r.l. ("Luxco") and Infrastructure Investments Limited Partnership ("IILP"), referred to as the "Group" throughout the Financial Review.

Total return, which is defined as total comprehensive income for the year, net assets or NAV, and EPS, are the same under IFRS and the Investment Basis. The Board and the Investment Manager manage the Company on an Investment Basis, which is an APM and is reconciled on page 20. Reconciliation of the Investment Basis financial statements to the IFRS statements is provided from page 21.

Summary income statement

Investment Basis £m	**Six Months to 30 September 2023**	Six Months to 30 September 2022
Dividend income	53.9	141.5
Interest income	64.0	59.7
Fair value movement	(108.9)	(116.4)
Foreign exchange movement on investments	(11.3)	65.3
Gain / (loss) on foreign exchange derivatives	7.9	(27.0)
Other income	5.3	2.7
Total investment income	**10.9**	**125.8**
Expenses and finance costs	(38.5)	(23.2)
(Loss) / profit before tax	**(27.6)**	**102.6**
Tax	–	–
Total return	**(27.6)**	**102.6**
(Loss) / earnings per share	**(1.4p)**	**5.2p**

Total investment income decreased by 91% to £10.9m in the six months to 30 September 2023 (September 2022: £125.8m). The decrease in total investment income is driven by the reduction in dividend income to £53.9m (30 September 2022: £141.5m), which is mainly due to the £85.0m receipt from the sale of Queen Alexandra Hospital in 2022, in addition to net FX movements. The fair value movement is £(108.9)m (30 September 2022: £116.4m), which resulted from a 0.8% increase in the Company's weighted average discount rate to 8.0% (31 March 2023: 7.2%). The increase in the discount rate was partially offset by the positive impact of higher than forecast inflation on actual and forecast valuations. Further detail on the valuation movements is given in the Valuation of the Portfolio section on page 11.

Other income represents project directors' fees charged to project companies and other financing fees charged across the Group. The increase is due to higher interest receipts on the early repayment of subordinated debt, as well as higher directors' fees received.

The hedging policy targets NAV per share volatility of no more than 2% for a 10% movement in foreign exchange rates. During the period, the net impact of foreign exchange movements was a £3.4m loss (September 2022: £38.3m gain), which represents less than 1% of the closing NAV (September 2022: 1.1%). This follows a (1)% movement in weighted average FX rates in the period.

The below table shows the impact of hedging on non-Sterling assets:

Foreign exchange hedging £m	Rate as at 30 September 2023	Non-UK assets	FX hedge	FX hedge as % of non-UK assets %	1% sensitivity to movement in FX rates[1]
Euro	1.15	616	446	72%	1.7
USA	1.22	340	191	56%	1.5
Canada	1.66	55	18	33%	0.4
New Zealand	2.03	218	109	50%	1.1
Total		**1,229**	**764**	**62%**	**4.7**

1 Sensitivity impact is net of derivatives

Expenses and finance costs

Investment Basis £m	**Six months to 30 September 2023**	Six months to 30 September 2022
Finance costs	18.0	3.6
Investment Manager fees	17.2	15.7
Directors' fees & expenses	0.3	0.3
Acquisition bid costs	(0.2)	1.1
Professional fees	3.2	2.5
Expenses and finance costs	**38.5**	**23.2**

Finance costs increased to £18.0m (September 2022: £3.6m) principally due to higher absolute borrowing levels and interest rates. The average total borrowing in the six-month period was £496.5m (six months to September 2022: £36.3m), while the average all-in interest rate was 6.2% (six months to September 2022: 2.5%).

The Investment Manager fees were £17.2m (September 2022: £15.7m). The increase was due to the uplift in the Directors' Valuation, calculated in line with the Investment Manager fee agreement as detailed on page 33.

Financial Review continued

Ongoing Charges Ratio ("OCR")

The OCR is calculated in line with the Association of Investment Companies' ("AIC") guidance. It is defined as the annualised ongoing charges (which exclude acquisition costs and other non-recurring items) divided by the average published undiluted net asset value of £3,308.7m in the period (September 2022: £3,168.9m).

The OCR for the period is 1.11% (September 2022: 1.05%). The increase in the OCR is principally due to the higher management fee, driven by the higher Gross Asset Value. The Company is focused on reducing outstanding debt and the remaining disposals, totalling £259.3m announced at the end of the period, will enable the repayment of debt and reduce the OCR.

Summary Balance Sheet and NAV

Investment Basis £m	30 September 2023	31 March 2023
Investments at fair value (net of commitments)	3,470.8	3,498.6
Net other assets / (liabilities)	264.5	(1.0)
Net debt	(496.8)	(147.6)
Net assets	**3,238.5**	**3,350.0**
NAV per share (before dividend)	159.4p	164.9p
NAV per share (post dividend)	157.3p	162.8p

Investments at fair value were broadly stable at £3,470.8m (31 March 2023: £3,498.6m), albeit several items offset each other in the period. The Group announced £324.4m of disposals and increased the weighted average discount rate by 0.8% to 8.0% (31 March 2023: 7.2%). These two items were offset by acquisitions of £207.5m and updates to forecast interest rate and inflation assumptions. Further detail on the movement in Investments at fair value, which are net of commitments and therefore not in the Directors' Valuation, including detail on the assets acquired and disposed is given in the Valuation of the Portfolio section on page 11.

Net other assets increased to £264.5m (31 March 2023: £1.0m liabilities), primarily representing the expected proceeds for announced disposals of £259.3m, in addition to the fair value of FX forwards.

An analysis of the movements in Net debt is shown in the cash flow section below. The increase relative to 31 March 2023 is principally driven by the borrowings on the Revolving Credit Facility ("RCF") to fund the acquisitions that completed in the period. In May 2023, the Company's corporate subsidiary, IILP, issued £150m of Private Placement loan notes. The notes were issued in two tranches; £100m expiring in 2033 and £50m expiring in 2035. The weighted average interest rate is 5.80% (5.75% after hedging).

NAV per share was 159.4p (31 March 2023: 164.9p) before the 2.06p second quarterly distribution. NAV per share decreased by 5.5p, reflecting a loss per share of 1.4p in addition to 4.1p distributions in the six-month period to 30 September 2023.

Summary cash flow

Investment Basis £m	Six months to 30 September 2023	Six months to 30 September 2022
Cash from investments	121.6	105.4
Operating costs	(21.1)	(19.4)
Finance costs	(12.3)	(1.7)
Net cash inflow before capital movements	**88.2**	**84.3**
Cost of new investments	(415.5)	(126.7)
Investment disposal proceeds	66.3	96.8
Share capital raised, net of costs	–	158.0
Net cash flow from derivatives	(1.8)	(3.4)
Debt arrangement fees paid	(2.4)	(1.9)
Dividends paid	(83.9)	(81.9)
Movement in the period	**(349.1)**	**125.2**
Net debt at start of period	(147.6)	(46.2)
Foreign exchange on cash	(0.1)	0.2
Net (debt) / cash at end of period	**(496.8)**	**79.2**

The Group ended the period with net debt of £496.8m (30 September 2022: £79.2m net cash). This is made up of drawings on the RCF of £370.6m (30 September 2022: £nil), the Private Placement of £150.0m (30 September 2022: £nil) net of cash of £23.8m (30 September 2022: £79.2m).

Debt arrangement fees increased to £2.4m (30 September 2022: £1.9m) as fees were paid on the Company's renegotiated £650m RCF, which was announced on 20 March 2023. Fees were also paid on the renegotiated €111.5m Letter of Credit Facility ("LCF") and the £150m Private Placement.

Dividends of £83.9m (September 2022: £81.9m) were paid in the period. Dividend cash cover excluding disposals increased marginally to 1.05x (September 2022: 1.03x). Including profit on disposals of £25.2m, the dividend cash cover is 1.35x (September 2022: including profit on disposals of £45.5m, cash cover was 1.58x).

Financial Review continued

Group drawings and gearing levels

As at 30 September 2023, the Group had cash drawings on its RCF of £370.6m (31 March 2023: £219.4m) and drawings of £15.6m by way of letters of credit (31 March 2023: £15.7m). In addition, the Group had drawings by way of letter of credit on its LCF facility of €100.1m (31 March 2023: €67.3m), with the increase due to the acquisition of the Hornsea II OFTO, and had issued loan notes of £150.0m via a Private Placement. As a result, the Group has £287.6m of liquidity as at 30 September 2023, comprised of £263.8m headroom on the RCF and £23.8m of cash on an Investment Basis.

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

	30 September 2023 £m	31 March 2023 £m
Loans and borrowings		
Bank borrowings	370.6	219.4
Letters of credit	102.3	74.8
Private Placement	150.0	–
	622.9	**294.2**
Adjusted Gross Asset Value		
Directors' Valuation	3,536.1	3,772.8
Announced disposals	259.3	–
Cash and cash equivalents	23.8	71.8
	3,819.2	**3,844.6**
Borrowing ratio	**16.3%**	7.7%

Capital management

From time to time the Company may issue its own shares to the market; the timing of these issuances depends on market prices.

Should the Ordinary Shares continue to trade at a discount to the Net Asset Value and there are sufficient funds to transact, at the sole discretion of the Directors, the Company may:

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

As noted above, in May 2023, IILP issued £150.0m of Private Placement loan notes, which diversified the Company's long-term capital. There were no other changes to HICL's approach to capital management during the period.

Financial Review continued

Alternative Performance Measures ("APMs")

The Directors assess the Company's performance using a variety of APMs that are not specifically defined under IFRS, which provide additional information to investors as to how the Company is managed and assessed. The APMs may not be directly comparable with those used by other companies and therefore the Directors wish to draw users' attention to GAAP measures in the financial statements from page 25 onwards. The Directors' Investment Basis is itself an APM.

The explanation and rationale for the Investment Basis is shown on page 17 and its reconciliation to IFRS is shown from page 21. The table below defines the Company's APMs.

APM	Purpose	30 September 2023 Investment Basis	Calculation	Reconciliation to IFRS
Annualised Return from the Portfolio	A measure of underlying portfolio performance within a given year	**8.2%**	£138.2m rebased return divided by £3,467.5m rebased valuation as shown on the Valuation Report on page 11 compounded for a year	The calculation uses figures which are reconciled to the Investment Basis on page 22 which, in turn, is reconciled to IFRS in the Reconciliation of Investment Basis to IFRS section below
Directors' Valuation	A measure of the size of the investment portfolio including the value of contracted future investments committed by the Company	**£3,536.1m**	£3,470.8m investments at fair value plus £65.3m contracted commitments	The calculation uses portfolio assets shown in the reconciliation in the 'Reconciliation of Investment Basis to IFRS' section below
Distributable cash	A measure of cash received from underlying projects in the year	**£113.4m**	Calculated as net cash inflow before capital movements shown in the 'Investment Basis Summary Cash Flow' plus £25.2m profit on original cost of partial disposal of Northwest Parkway	The calculation uses distributions received from investments plus profit on disposal
Dividend cash cover	A measure of cash received from underlying projects in the period enabling distributions to shareholders	**1.35x**[1]	£88.2m distributable cash received in addition to £25.2m profit on partial disposal of Northwest Parkway divided by £83.9m dividend for the period	The calculation uses the dividend paid in the 'Statement of Changes in Equity' divided by distributable cash
Cash investments	Identifying new opportunities in which to invest capital is a driver of the Company's ability to deliver attractive returns	**£415.5m**	£415.5m Investment Basis cash paid to acquire investments in the period	The equivalent balance under IFRS is shown in the 'Reconciliation of Statement of Cash Flows'
Cash proceeds	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities	**£66.3m**	£66.3m cash received into IILP, directly or indirectly, from the disposal of investments in the period	The equivalent balance under IFRS is shown in the 'Reconciliation of Statement of Cash Flows'
Net (debt) / cash	A measure of the available liquid cash to invest in the business offset by the Group's borrowings. This is an indicator of the financial risk in the Group's Statement of Financial Position	**£(496.8)m**	£23.8m cash and cash equivalents less £520.6m loans and borrowings	The equivalent balance under IFRS and the reconciliation to the Investment Basis is shown in the Reconciliation of Statement of Financial Position
Gearing	A measure of debt as a percentage of gross assets	**16.3%**	£622.9m debt (including letters of credit) divided by adjusted Gross Asset Value of £3,819.2m. Adjusted Gross Asset Value is the Directors' valuation plus announced disposals plus cash and cash equivalents	The equivalent balance under IFRS and the reconciliation to the Investment Basis is shown in the Reconciliation of Statement of Financial Position. Noting that the calculation includes letters of credit (£102.3m) and commitments (£65.3m) which are not included in the IFRS Statement of Financial Position

1 The calculation includes total profit on disposal of £25.2m. Excluding this, dividend cash cover is 1.05x

Financial Review continued

Reconciliation of Investment Basis to IFRS

Reconciliation of Statement of Comprehensive Income

£m	Six months to 30 September 2023 Investment Basis	Six months to 30 September 2023 Consolidation adjustments	Six months to 30 September 2023 IFRS Basis	Six months to 30 September 2022 Investment Basis	Six months to 30 September 2022 Consolidation adjustments	Six months to 30 September 2022 IFRS Basis
Dividends received	53.9	(11.9)	42.0	141.5	(141.5)	–
Interest received	64.0	(19.3)	44.7	59.7	(3.0)	56.7
Net (loss) / gain on revaluation of investments	(108.9)	(2.5)	(111.4)	(116.4)	164.2	47.8
Foreign exchange movement on investments	(11.3)	11.3	–	65.3	(65.3)	–
Gain / (loss) on foreign exchange derivatives	7.9	(7.9)	–	(27.0)	27.0	–
Other Income	5.3	(5.3)	–	2.7	(2.7)	–
Total investment income[1]	**10.9**	**(35.6)**	**(24.7)**	**125.8**	**(21.3)**	**104.5**
Management fee	(17.2)	17.2	–	(15.7)	15.7	–
Finance costs	(18.0)	18.0	–	(3.6)	3.6	–
Other fund expenses[2]	(3.3)	0.4	(2.9)	(3.9)	2.0	(1.9)
Total expenses	**(38.5)**	**35.6**	**(2.9)**	(23.2)	**21.3**	**(1.9)**
(Loss) / profit before tax	**(27.6)**	**–**	**(27.6)**	**102.6**	**–**	**102.6**
Tax	–	–	–	–	–	–
(Loss) / earnings for the period	**(27.6)**	**–**	**(27.6)**	**102.6**	**–**	**102.6**
(Loss) / earnings per share	**(1.4)p**	**–**	**(1.4)p**	**5.2p**	**–**	**5.2p**

1 Total income shown in the IFRS accounts only relates to HICL and not those portfolio companies held through Investment Entity subsidiaries. The consolidation adjustments represent the results recorded in the Corporate Subsidiaries

2 Other fund expenses comprise audit, valuation and other professional fees

Financial Review continued

Reconciliation of Statement of Financial Position

£m	30 September 2023 Investment Basis	30 September 2023 Consolidation adjustments	30 September 2023 IFRS Basis	31 March 2023 Investment Basis	31 March 2023 Consolidation adjustments	31 March 2023 IFRS Basis
Investments at Fair Value	**3,470.8**	**(232.5)**	**3,238.3**	3,498.6	(148.9)	3,349.7
Trade and other receivables	**267.0**	**(266.7)**	**0.3**	18.7	(18.3)	0.4
Other financial assets	**15.9**	**(15.9)**	**–**	8.5	(8.5)	–
Trade and other payables	**(14.8)**	**13.8**	**(1.0)**	(22.3)	21.2	(1.1)
Other current financial liabilities	**(3.6)**	**3.6**	**–**	(5.9)	5.9	–
Cash and cash equivalents	**23.8**	**(22.9)**	**0.9**	71.8	(70.8)	1.0
Loans and borrowings	**(520.6)**	**520.6**	**–**	(219.4)	219.4	–
Net assets attributable to Ordinary Shares	**3,238.5**	**–**	**3,238.5**	3,350.0	–	3,350.0
NAV per share (before dividend)	**159.4p**	**–**	**159.4p**	164.9p	–	164.9p
NAV per share (post dividend)	**157.3p**	**–**	**157.3p**	162.8p	–	162.8p

Note:
The Investment Basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately.

Reconciliation of Statement of Cash Flows

£m	Six months to 30 September 2023 Investment Basis	Six months to 30 September 2023 Consolidation adjustments	Six months to 30 September 2023 IFRS Basis	Six months to 30 September 2022 Investment Basis	Six months to 30 September 2022 Consolidation adjustments	Six months to 30 September 2022 IFRS Basis
Portfolio income from investments	**121.6**	**(34.9)**	**86.7**	105.4	(21.9)	83.5
Operating expenses paid	**(21.1)**	**18.2**	**(2.9)**	(19.4)	17.5	(1.9)
Finance costs	**(12.3)**	**12.3**	**–**	(1.7)	1.7	–
Net cash inflow before capital movements	**88.2**	**(4.4)**	**83.8**	**84.3**	**(2.7)**	**81.6**
Purchase of investments	**(415.5)**	**415.5**	**–**	(126.7)	(31.2)	(157.9)
Proceeds from investments	**66.3**	**(66.3)**	**–**	96.8	(96.8)	–
Share capital raised net of costs	**–**	**–**	**–**	158.0	–	158.0
Net cash flow from derivatives	**(1.8)**	**1.8**	**–**	(3.4)	3.4	–
Debt arrangement fees paid	**(2.4)**	**2.4**	**–**	(1.9)	1.9	–
Dividends paid	**(83.9)**	**–**	**(83.9)**	(81.9)	–	(81.9)
Movement in the period	**(349.1)**	**349.0**	**(0.1)**	125.2	(125.4)	(0.2)
Net (debt) at start of period	**(147.6)**	**148.6**	**1.0**	(46.2)	47.4	1.2
Foreign exchange on cash	**(0.1)**	**0.1**	**–**	0.2	(0.2)	–
Net (debt) / cash at end of period	**(496.8)**	**497.7**	**0.9**	**79.2**	**(78.2)**	**1.0**

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

Directors' Statement of Responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as adopted by the United Kingdom; and
- the interim management report, comprising the Chair's Statement, Investment Manager's Report and Financial Results, includes a fair review of the information required by:

  a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Mike Bane
Chair
21 November 2023

Independent Review Report to HICL Infrastructure PLC

Conclusion

We have been engaged by HICL Infrastructure PLC ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises the Condensed Unaudited Statement of Comprehensive Income, the Condensed Unaudited Statement of Financial Position, the Condensed Unaudited Statement of Changes in Shareholders' Equity, the Condensed Unaudited Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the Directors have inappropriately adopted the going concern basis of accounting, or that the Directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Company to cease to continue as a going concern, and the above conclusions are not a guarantee that the Company will continue in operation.

Directors' responsibilities

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

As disclosed in the 'Basis of preparation and accounting policies', the annual financial statements of the Company are prepared in accordance with UK-adopted international accounting standards.

The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Fang Fang Zhou
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E14 5GL
21 November 2023

Condensed Unaudited Statement of Comprehensive Income

For the six months ended 30 September 2023

	Note	**For the six months ended 30 September 2023 £m**	For the six months ended 30 September 2022 £m
Dividends received		**42.0**	–
Interest received		**44.7**	56.7
Net (loss) / gain on revaluation of investment in Investment Entity subsidiary		**(111.4)**	47.8
Total investment (loss) / income		**(24.7)**	**104.5**
Company expenses		**(2.9)**	(1.9)
(Loss) / profit before tax		**(27.6)**	**102.6**
(Loss) / profit for the period	4	**(27.6)**	**102.6**
(Loss) / earnings per share – basic and diluted (pence)	4	**(1.4)**	**5.2**

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

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

Condensed Unaudited Statement of Financial Position

As at 30 September 2023

	Note	Unaudited 30 September 2023 £m	Audited 31 March 2023 £m
Non-current assets			
Investment in Investment Entity subsidiary	6	**3,238.3**	3,349.7
Total non-current assets		**3,238.3**	**3,349.7**
Current assets			
Trade and other receivables		**0.3**	0.4
Cash and cash equivalents		**0.9**	1.0
Total current assets		**1.2**	**1.4**
Total assets		**3,239.5**	**3,351.1**
Current liabilities			
Trade and other payables		**(1.0)**	(1.1)
Total current liabilities		**(1.0)**	**(1.1)**
Total liabilities		**(1.0)**	**(1.1)**
Net assets		**3,238.5**	**3,350.0**
Equity			
Share capital		**0.2**	0.2
Share premium		**1,213.3**	1,213.3
Revenue reserve		**1,992.8**	1,992.9
Capital reserve		**32.2**	143.6
Total equity		**3,238.5**	**3,350.0**
Net assets per Ordinary Share (pence)		**159.4**	**164.9**

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

The financial statements were approved and authorised for issue by the Board of Directors on 21 November 2023, and signed on its behalf by:

M Bane
Director

R Akushie
Director

Company registered number: 11738373

Condensed Unaudited Statement of Changes in Shareholders' Equity

For the six months ended 30 September 2023

	Note	Share capital £m	Share premium £m	Revenue reserve £m	Capital reserve £m	Total shareholders' equity £m
Shareholders' equity as at 31 March 2023		**0.2**	**1,213.3**	**1,992.9**	**143.6**	**3,350.0**
Profit / (loss) for the period		**–**	**–**	**83.8**	**(111.4)**	**(27.6)**
Distributions paid to the Company's shareholders	5	**–**	**–**	**(83.9)**	**–**	**(83.9)**
Shareholders' equity at 30 September 2023		**0.2**	**1,213.3**	**1,992.8**	**32.2**	**3,238.5**

For the six months ended 30 September 2022

	Note	Share capital £m	Share premium £m	Revenue reserve £m	Capital reserve £m	Total shareholders' equity £m
Shareholders' equity as at 31 March 2022		0.2	1,055.3	1,993.3	110.3	3,159.1
Profit for the period		**–**	**–**	**54.8**	**47.8**	**102.6**
Issue of share capital		–	160.0	–	–	160.0
Costs of share issue		–	(2.0)	–	–	(2.0)
Distributions paid to the Company's shareholders	5	–	–	(81.9)	–	(81.9)
Shareholders' equity at 30 September 2022		**0.2**	**1,213.3**	**1,966.2**	**158.1**	**3,337.8**

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

Condensed Unaudited Cash Flow Statement

For the six months ended 30 September 2023

	For the six months ended 30 September 2023 £m	For the six months ended 30 September 2022 £m
Cash flows from operating activities		
(Loss) / profit before tax	**(27.6)**	102.6
Adjustments for:		
Total investment loss / (income)	**24.7**	(104.5)
Operating cash flows before movements in working capital	**(2.9)**	(1.9)
Changes in working capital:		
Decrease / (increase) in receivables	**0.1**	(0.1)
(Decrease) / increase in payables	**(0.1)**	0.1
Cash flow from operations	**(2.9)**	**(1.9)**
Investment income received	**86.7**	83.5
Net cash flow from operating activities	**83.8**	**81.6**
Cash flow from investing activities		
Investment in subsidiary	**–**	(157.9)
Net cash used in investing activities	**–**	**(157.9)**
Cash flows from financing activities		
Gross proceeds from issue of share capital	**–**	160.0
Cost of share issue	**–**	(2.0)
Distributions paid to shareholders	**(83.9)**	(81.9)
Net cash from financing activities	**(83.9)**	76.1
Net (decrease) in cash and cash equivalents	**(0.1)**	(0.2)
Cash and cash equivalents at beginning of period	**1.0**	1.2
Cash and cash equivalents at end of period	**0.9**	**1.0**

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

Notes to the Condensed Unaudited Financial Statements

For the six months ended 30 September 2023

1. Reporting entity

HICL Infrastructure PLC (the "Company" or "HICL") is a public limited company incorporated, domiciled and registered in England and Wales in the United Kingdom. The interim condensed unaudited financial statements (the "interim financial statements") for the six months ended 30 September 2023 comprise the financial statements for the Company only as explained in Note 2.

The Company has two corporate subsidiaries, being HICL Infrastructure 2 s.a.r.l. ("Luxco") and Infrastructure Investments Limited Partnership ("IILP") (each a "Corporate Subsidiary" and together the "Corporate Subsidiaries"). IILP is a direct subsidiary of Luxco.

The Company and its Corporate Subsidiaries (together the "Corporate Group") invest in infrastructure projects in the United Kingdom, the Eurozone, North America and New Zealand.

2. Key accounting policies

Basis of preparation

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

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

The annual financial statements of the Company are prepared in accordance with UK-adopted international accounting standards. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the interim financial statements have been prepared applying the accounting policies, including critical estimates and judgements, that were applied in the preparation of the Company's published financial statements for the year ended 31 March 2023. These financial statements have been prepared using the accounting standards that the Directors expect to be effective for the year ending 31 March 2024.

These financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006 and should be read in conjunction with the financial statements for the year ended 31 March 2023, which were reported upon by the auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006. The 2023 Annual Report is available at www.hicl.com.

Equity and Reserves

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Manager's Report starting on page 5. The financial position of the Company, its cash flows, and liquidity position are described from page 17 in the Financial Review. In addition, Notes 2 to 17 of the 31 March 2023 financial statements include the Company'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 Directors have assessed going concern by considering areas of financial risk, the Company's access to the Revolving Credit Facility and Letter of Credit Facility (details of which are set out in the Financial Review starting on page 17) as well as considering the £150m Private Placement debt raised in May 2023 and by reviewing cash flow forecasts. The Directors also performed stress testing under severe but plausible scenarios including a 20% increase in the number of projects in a lock-up scenario. Judgement is applied in determining when the cash flows from underlying assets is assumed to be received when determining the cash flow forecast, based on the contractual nature or demand assumptions of each asset.

The Directors also considered the Company's considerable financial resources, including indirect investments in a significant number of project assets. The going concern analysis included an assessment of the potential variability in returns and cash flows from project companies including the effects of the heightened macroeconomic volatility on demand assets as well as availability assets. The Directors also noted that the financing for project companies is non-recourse to the Company.

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

Notes to the Condensed Unaudited Financial Statements continued
For the six months ended 30 September 2023

3. Geographical analysis
The tables below analyse income and net assets based on the geographical location of the Company's underlying investments.

Total investment income	UK	Eurozone	Rest of World	Total
30 September 2023	**£32.2m**	**£(4.6)m**	**£(52.3)m**	**£(24.7)m**
30 September 2022	£38.5m	£33.1m	£32.9m	£104.5m

Investment in Investment Entity subsidiary	UK	Eurozone	Rest of World	Total
30 September 2023	**£2,072.2m**	**£588.1m**	**£578.0m**	**£3,238.3m**
31 March 2023	£2,318.0m	£535.6m	£496.1m	£3,349.7m

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

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

	Six months ended 30 September 2023	Six months ended 30 September 2022
(Loss) / Profit attributable to equity holders of the Company	**£(27.6)m**	£102.6m
Weighted average number of Ordinary Shares in issue[1]	**2,031.5m**	1,977.2m
Total basic and diluted (loss) / earnings per Ordinary Share	**(1.4) pence**	**5.2 pence**

1 No new shares were issued in the period (30 September 2022: 94,674,560 new shares issued). At 30 September 2023 the Company had 2,031,488,061 shares in issue (31 March 2023: 2,031,488,061).

5. Distributions to Company shareholders

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Total distributions paid to Company shareholders in the period:		
Fourth quarterly interim dividend for the year ended 31 March 2023 of 2.07p (2022: 2.07p) per share	**42.1**	40.1
First quarterly interim dividend for the year ended 31 March 2024 of 2.06p (2023: 2.06p) per share	**41.8**	41.8
	83.9	**81.9**

The Company has elected to distribute a percentage of the dividends paid to shareholders as an interest distribution for tax purposes. Quarterly interest streaming fluctuates due to several factors, including the forecast annual effective interest received from underlying projects (which moves with acquisitions and disposals) and foreign exchange hedging gains / losses.

Notes to the Condensed Unaudited Financial Statements continued
For the six months ended 30 September 2023

6. Investment in Investment Entity subsidiary

	30 September 2023 £m	31 March 2023 £m
Opening balance	**3,349.7**	3,158.5
Additions to Investments in the period	**–**	157.9
(Loss) / gain on revaluation of investment	**(111.4)**	33.3
Carrying amount at period end	**3,238.3**	**3,349.7**

The carrying amount at year end of the investment in Investment Entity subsidiary is broken down as follows:	30 September 2023 £m	31 March 2023 £m
Equity investment in Luxembourg Corporate Subsidiary	**2,152.4**	2,152.1
Loan investment in Luxembourg Corporate Subsidiary	**1,085.9**	1,197.6
Carrying amount at period end	**3,238.3**	**3,349.7**

The Company records the fair value of its direct Corporate Subsidiary, Luxco, based on the Net Asset Value of IILP and the sundry assets and liabilities of Luxco. IILP's Net Asset Value is based on the aggregate fair value of each of the Company's investments, along with the working capital of intermediate holding companies.

The fair value of IILP's underlying investments are determined using the income approach, which discounts the expected cash flows attributable to each asset at an appropriate rate to arrive at its fair value. In determining the appropriate discount rate, regard is given to relevant long-term government bond yields, the specific risks of each investment and the evidence of recent transactions.

The fair values of the Group's financial assets and liabilities not held at fair value, are not materially different from their carrying values.

Acquisitions and disposals, via the Corporate Subsidiaries

The Group, via its Corporate Subsidiaries, completed the following acquisitions and disposals during the six months ended 30 September 2023:

Acquisition

- The acquisition of a 5.9% stake in Altitude Infra's fibre-to-the-home platform for £88.4m;
- The acquisition of a 45.75% stake in Texas Nevada Transmission LLC for £207.3m; and,
- The acquisition of a 75% stake in the Hornsea II OFTO for £119.1m.

Disposals

- The partial disposal of Northwest Parkway generated net proceeds of £66.3m.

Notes to the Condensed Unaudited Financial Statements continued
For the six months ended 30 September 2023

7. Financial Instruments
The fair value hierarchy is defined as follows:

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

				30 September 2023
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment in Investment Entity subsidiary	**–**	**–**	**3,238.3**	**3,238.3**

				31 March 2023
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment in Investment Entity subsidiary	–	–	3,349.7	3,349.7

There were no transfers between Level 1, 2 or 3 during the period. A reconciliation of the movement in Level 3 assets is disclosed in Note 6.

Level 3

Valuation methodology

Methodology	Description	Inputs	Fair value at 30 September (£m)	Sensitivity on key unobservable input	Fair value impact of sensitivities (£m) +5%/-5%
NAV	The fair value of the investment in HICL's Investment Entity subsidiary, Luxco, which is equal to its carrying value	Inputs that are not based on observable market data. The fair value of HICL's investment in Luxco is based on Luxco's holding in IILP measured at fair value	3,238.3 (March 2023: 3,349.7)	A 5% sensitivity on closing NAV chosen due to historical volatility	161.9

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

Notes to the Condensed Unaudited Financial Statements continued

For the six months ended 30 September 2023

Sensitivities

In order to give investors a meaningful sensitivity analysis, the Directors have considered how changes in macroeconomic assumptions in the underlying assets for which the Company holds an indirect interest would affect the investment that the Company has in its direct Investment Entity subsidiary, rather than the sensitivity in the Investment Entity subsidiary. Consequently, the following numbers are on the Investment Basis, with the sensitivity having the same impact on both net assets and total investment income. As further described in the Valuation of the Portfolio section on page 11.

Sensitivities	-1% p.a. change	Investment at fair value through profit or loss	+1% p.a. change
Discount rates			
30 September 2023	**£413.0m**	**£3,470.8m**	**£(337.7)m**
31 March 2023	£412.1m	£3,498.6m	£(338.2)m
Inflation rates			
30 September 2023	**£(323.1)m**	**£3,470.8m**	**£377.3m**
31 March 2023	£(352.3)m	£3,498.6m	£415.1m
Cash deposit rates			
30 September 2023	**£(51.1)m**	**£3,470.8m**	**£50.7m**
31 March 2023	£(58.8)m	£3,498.6m	£58.2m
Debt interest rates			
30 September 2023	**£47.2m**	**£3,470.8m**	**£(41.3)m**
31 March 2023	£28.7m	£3,498.6m	£(20.4)m

The Directors have considered the increase in volatility in markets and have determined that the sensitivity measure should remain at 1.0%. The sensitivity assumes that the changes are for all future periods. The increase is consistent with that shown by the Company's listed infrastructure peers and this allows for comparisons to be made. A higher sensitivity is not considered necessary as the mix of the portfolio means that the sensitivity is linear and it is possible to estimate the impact if percentage changes are in multiples of this sensitivity.

The Directors recognise that current levels of macroeconomic volatility are likely to give rise to materially greater possible ranges of values than has been the case for a number of years.

8. Related party transactions and transactions with the Investment Manager

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

The Investment Manager fees charged to the Company were £0.1m (30 September 2022: £0.1m), of which the full balance remained payable at 30 September 2023.

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

In the period to 30 September 2023, in aggregate InfraRed and the General Partner were entitled to fees and / or profit share equal to: 1.1% p.a. of the adjusted gross asset value of all investments of HICL up to £750m, 1.0% p.a. for the incremental value in excess of £750m up to £1,500m, 0.9% for the incremental value in excess of £1,500m, 0.8% for the incremental value in excess of £2,250m and 0.65% for the incremental value in excess of £3,000m.

The total Operator fees were £17.2m (30 September 2022: £15.7m), of which £8.7m (30 September 2022: £8.1m) remained payable by the Corporate Subsidiary as at 30 September 2023.

InfraRed is 80% owned by Sun Life Financial Inc. (together with its subsidiaries and joint ventures, "Sun Life"). InfraRed is a distinct business under SLC Management, the alternatives asset manager of Sun Life under a put and call framework agreed with the InfraRed owners, exercisable after four and five years respectively from 1 July 2020.

In May 2023, Sun Life subscribed for £50.0m on an arm's length basis of the Private Placement Notes issued by the Company. As at 30 September 2023, £50.0m remained outstanding and £1.0m of interest had been accrued.

The Directors of the Company, who are considered to be key management, received fees for their services. Their fees were £0.3m for the period ended 30 September 2023 (30 September 2022: £0.3m). One Director also receives fees for serving as Director of the Luxembourg subsidiaries – the annual fees are £8k (30 September 2022: £7k).

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

9. Guarantees and other commitments

As at 30 September 2023, the Company, via a Corporate Subsidiary, had £65.3m commitments for future project investments (31 March 2023: £274.2m).

10. Events after balance sheet date

There were no post-Balance Sheet events up to the date of this report.

Directors & Advisers

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Liz Barber
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Directors & Advisers continued

Company

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

Investment Manager and Operator

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

Shareholders' funds

£3.2bn as at 30 September 2023.

Market capitalisation

£2.5bn as at 30 September 2023.

Investment Manager and Operator fees

1.1% p.a. of the Adjusted Gross Asset Value[1] of the portfolio up to £750m, 1.0% from £750m up to £1.5bn, 0.9% from £1.5bn up to £2.25bn, 0.8% from £2.25bn to £3.0bn, 0.65% above £3.0bn plus £0.1m p.a. investment management fee.

No fee on new acquisitions.

No performance fee.

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

ISA, NISA, PEP and SIPP status

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

NMPI status

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

AIFMD status

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

FATCA

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

Investment Policy

HICL's Investment Policy is set out in the Strategic Report Disclosures of the Company's 2022 Annual Report and can be found in full on the website at www.hicl.com

ISIN and SEDOL

ISIN: GB00BJLP1Y77 SEDOL: BJLP1Y7

Website

www.hicl.com

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

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HICL Infrastructure

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