HICL Infrastructure

HICL Infrastructure PLC Interim Report 2020

Delivering Real Value.

PSBP NE Batch – Laurence Jackson, UK

Contents

Front cover image: Irish Grouped Schools, Ireland

2020 Highlights

154.0p

NAV per share[1]

Up 1.7p from 152.3p at 31 March 2020

7.8%

Annualised Shareholder Return

Based on interim dividends paid plus uplift in NAV per share in the period (5.7% at 30 September 2019)

0.83x

Dividend cash cover

1.05x at 30 September 2019

8.25p

New Dividend Guidance[2] for 2022

Reaffirmed Dividend Guidance[2] 8.25p for 2021

MARKET SEGMENT

September 2020

March 2020

	Sep 2020	Mar 2020
▲ PPP projects	72%	72%
▲ Demand-based assets	19%	20%
▲ Regulated assets	9%	8%

GEOGRAPHIC LOCATION

September 2020

March 2020

	Sep 2020	Mar 2020
▲ UK	74%	76%
▲ EU	19%	17%
▲ North America	7%	7%

Top ten investments

Differentiated Investment Proposition

LOW SINGLE ASSET CONCENTRATION RISK

45%

Ten largest assets as a proportion of the portfolio as at 30 September 2020

STRONG INFLATION CORRELATION

0.8

Correlation of portfolio returns to inflation[3] as at 30 September 2020

GOOD CASH FLOW LONGEVITY

27.8 years

Weighted average asset life as at 30 September 2020

[1] Net Asset Value
[2] Expressed in pence per Ordinary Share for the financial year ending 31 March. This is a target only and not a profit forecast. There can be no assurance that this target will be met
[3] If outturn inflation was 1% p.a. higher than the valuation assumption in each and every forecast period, the expected return from the portfolio (before Corporate Group expenses) would increase by 0.8%

Committed to continued sustainability leadership

"I am proud that HICL has become an official TCFD Supporter, confirming our commitment to acting on climate change and to consistent and meaningful climate-related financial disclosures"

Ian Russell CBE, Chairman, HICL Infrastructure PLC

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Business model delivers value for all stakeholders

Active management

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

Outperformance

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

Resilience

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

Operational highlights

High Speed 1
Covid Cleaning Robots

- ▲ State-of-the-art cleaning robots have been introduced at St Pancras International station
- ▲ The robots use UV-C light rays to deliver fast and chemical-free disinfection to better protect public health

3 GOOD HEALTH AND WELL-BEING

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A63 Motorway
Innovation Award Winner

- ▲ Developed a virtual reality training programme to teach road safety patrollers
- ▲ Winner of the Private Sector Innovation award from the International Bridge, Tunnel and Turnpike Association

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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Affinity Water
Protecting Rare UK Chalk Streams

- ▲ Voluntarily turned off a major groundwater abstraction site at The River Chess, protecting the rare chalk stream habitat
- ▲ Action highly praised by Ofwat, local stakeholders and the Environment Agency

14 LIFE BELOW WATER

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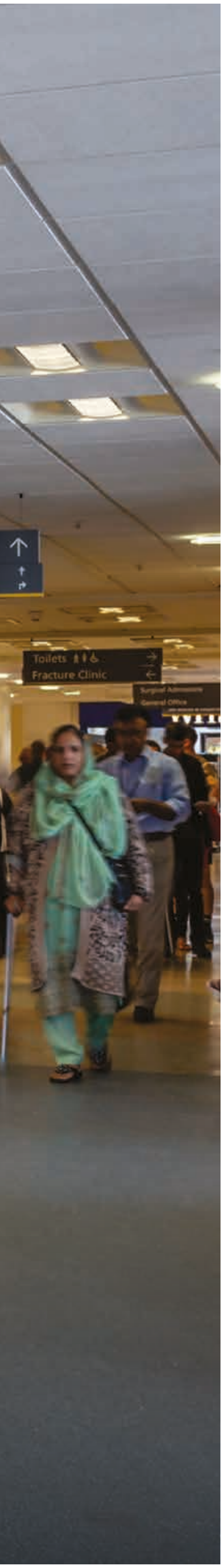
Blackburn Hospital, UK



01 Overview

1.1
Chairman's Statement

Ian Russell, CBE
Chairman

The Company's delivery of long-term, sustainable income to shareholders is inextricably linked to HICL's responsible stewardship of its portfolio of core infrastructure assets.

I am pleased to report a solid performance in the six months to 30 September 2020. The Company's Net Asset Value ("NAV") increased in the period, demonstrating the resilience of the underlying portfolio during the current macro-uncertainty. This resilience is built on our considered approach to portfolio diversification across sector, revenue model, counterparty and geography.

Operationally, HICL's PPPs and regulated investments have performed in line with expectations. The Company's demand-based assets with GDP-correlated returns, however, do continue to be impacted by reduced economic activity and government policies to manage the Covid-19 pandemic (see Section 2.2 – Valuation of the Portfolio for the details at asset level).

Financial Performance

The Company has delivered a solid Total Shareholder Return[1] on an annualised basis of 7.8% (September 2019: 5.7%).

The Net Asset Value ("NAV") of 154.0p per share (March 2020: 152.3p) represents growth of 1.7p per share in the six-month period. This growth has been enabled not only by the robust performance of the underlying portfolio, but supported by sustained institutional demand for the asset class benefiting valuations.

These factors have more than offset the impact of Covid-19 on forecast macro-economic assumptions. Interest rate assumptions across all of the Company's jurisdictions have further reduced in response to market expectations for 'lower for even longer' government bond yields.

(See Section 2.2 – Valuation of the Portfolio for details on the factors influencing the Directors' Valuation and the discount rate.)

HICL's balance sheet remains robust and was bolstered with an accretive £120m capital raising in the period. The Company has a strong liquidity position with the £400m Revolving Credit Facility ("RCF")[2]. This was enhanced after the period end with the addition of an innovative £60m Letter of Credit facility, which enables greater flexibility in the Company's funding arrangements for in-construction investment opportunities.

[1] On a Net Asset Value ("NAV") plus dividends paid basis
[2] As at the balance sheet date £13m cash drawn and £81m for letters of credit

Dividend Guidance
The Directors believe that shareholders value the visibility the Board provides on the Company's target dividends. In these uncertain times, this communication and transparency is particularly important, and we are pleased to affirm that HICL remains on track to deliver the target dividend guidance for the financial year ending 31 March 2021 of 8.25p per share, as announced in May 2020.

The visibility of forecast cash generation from the Company's portfolio means that the Board can confirm it is extending HICL's dividend guidance for a further year.

"The Board can confirm it is extending HICL's dividend guidance for a further year"

The Board has taken the view that a continuation of the current level of dividend is both prudent and sustainable in the current environment. In line with HICL's dividend policy, the Company is targeting a dividend of 8.25p per share for the year ending 31 March 2022, which is expected to be cash-covered.

Capital Raising
The continued institutional demand for core infrastructure investment was resoundingly demonstrated in July 2020 when HICL raised £120m from investors by way of tap issuance. The offer was supported strongly by existing and new investors, and applications consequently were scaled back.

"Core infrastructure's steady and predictable yield remains important to institutional investors in the current environment"

The level of demand demonstrates that core infrastructure's steady and predictable yield remains important to institutional investors in the current environment and represents an endorsement of the Company's strategy.

Business Model In Action
HICL's business model supports delivery of the investment proposition and is centred around three pillars: Value Preservation; Value Enhancement; and Accretive Investment. These elements are inter-dependent, enabling both the long-term provision of essential infrastructure for society and a long-term stable income stream for shareholders.

Value preservation and enhancement
As we continue to adapt to the ongoing impacts of the Covid-19 pandemic, at both a macro and a personal level, our approach to the responsible management of essential public infrastructure has been demonstrated in the Company's value preservation activities.

"Our approach to the responsible management of essential public infrastructure has been demonstrated in the Company's value preservation activities"

During the period, the focus of the Company's value preservation activities has been supporting our public sector clients through evolving patterns of use at facilities affected by Covid-19, ensuring the availability of critical public assets and continued service to local communities (asset-level examples across both healthcare and education facilities can be found in Section 2.6 – Operating & Financial Review). InfraRed has also been focused on monitoring and actively supporting management teams on those demand-based assets whose revenues are affected by the curbs on free movement associated with the pandemic in HICL's core geographies.

HICL became a Taskforce on Climate-related Financial Disclosures ("TCFD") Supporter during the period, demonstrating the Company's commitment to the TCFD reporting recommendations and to taking action against climate change as a key value preservation activity for the long term. Our commitment to the TCFD reporting recommendations is aligned to InfraRed's overall approach to sustainability, as part of our shared drive to enhance value for stakeholders and deliver long-term outperformance.

Additional asset-level examples of value preservation and enhancement activities in the period are detailed in Section 2.6 – Operating & Financial Review.

1.1
Chairman's Statement (continued)

Accretive investment

HICL's strategy is to make acquisitions when investment opportunities meet our core infrastructure criteria, improve key portfolio metrics, and deliver a sustainable return for shareholders. The targeted acquisition activity in the period demonstrates the ability of InfraRed to identify and secure sound, accretive investment opportunities for HICL.

HICL's Investment Manager has made three accretive investments on behalf of HICL in the period: in the transmission assets of the Walney Extension Offshore Wind Farm; an additional stake in the Royal School of Military Engineering PPP project; and the remaining 50% interest in the M17/M18 Gort to Tuam Road PPP (Ireland).

Taking on full ownership of the latter two investments exemplifies HICL's strategy of increasing its stakes in high-quality core infrastructure assets that deliver both essential services and long-term returns.

Outlook

We remain cautious on the macro-environment. This is reflected in the prudent approach to long-term interest rate assumptions within the Directors' Valuation, and the oversight InfraRed and the Board provide on the financial health of HICL's supply chain and other counterparties.

In the medium term, market conditions remain favourable for infrastructure investors. It is possible to foresee the potential for a further easing of political and regulatory weight on the infrastructure sector. There may be a need for economic stimulus which could precipitate further pro-infrastructure government policy and we await post-Covid-19 plans from governments in HICL's core markets. For example, we will review with interest the detail of the UK Government's "New Deal" infrastructure plan, following the publication of the National Infrastructure Strategy. With the preliminary findings of the Competition and Markets Authority ("CMA") regarding the appeal process on the UK water sector's Price Review for Asset Management Period 7, the CMA has indicated a need to strike a greater balance between improving the long-term resilience of the water network with allowing shareholders an appropriate risk/reward profile (see Section 2.1 – Investment Manager's Report for further details). We look forward to seeing the outcome of this process in the coming months.

The Company's acquisition strategy is underpinned by a consistent application of the core infrastructure framework to evaluate investment opportunities. Irrespective of sector, HICL seeks out investments that support the delivery of essential services for communities and deliver high-quality cash flows from a protected market position. InfraRed therefore continues to pursue pipeline opportunities for HICL in its existing sectors which include: European greenfield PPPs; selected regulated asset opportunities; and further incremental investments in assets where HICL currently owns less than 100%. Within sectors that support the modern economy there are also attractive opportunities in the pipeline, for example within essential communications infrastructure such as fibre networks, and those that support the transition to a low carbon economy, for example electricity metering (see Section 2.1 – Investment Manager's Report for further details).

Whilst we all continue to adapt to unfamiliar and uncertain times, the Board is resolutely confident that HICL's strategy, portfolio and business model will continue to deliver successfully for all stakeholders.

Ian Russell
Chairman
24 November 2020

Barnet Hospital, UK

Wooldale Centre for Learning, UK

02 Strategic Report

2.1
Investment Manager’s Report

Harry Seekings
Head of Infrastructure, InfraRed
Harry leads the InfraRed team that manages HICL

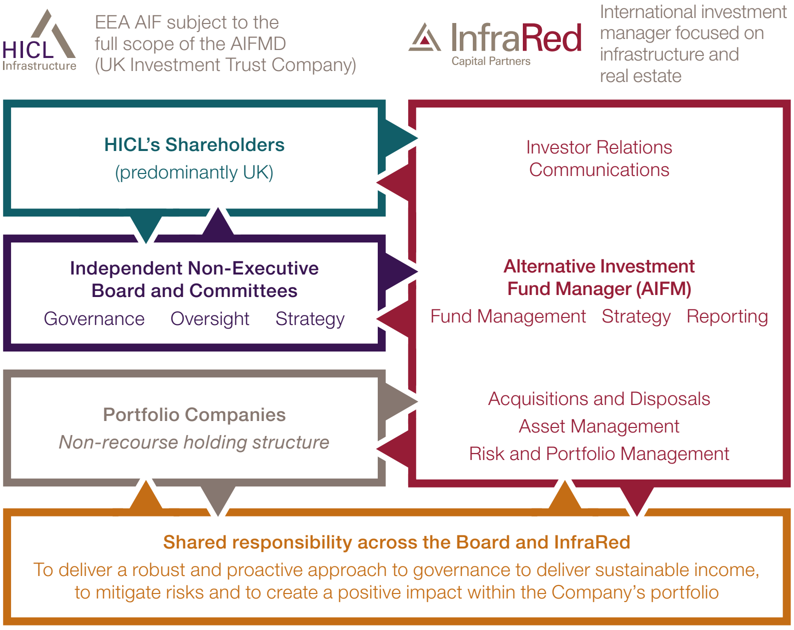
Keith Pickard
Director, Infrastructure, InfraRed
Keith is responsible for managing the financial activities carried out by InfraRed for the HICL Group

Edward Hunt
Director, Infrastructure, InfraRed
Edward works across the portfolio with particular focus on HICL’s investment strategy

Investment Manager’s Summary Of The Period

- Solid performance in the six-month period, with an increase in Net Asset Value (“NAV”) of +1.7p per share. Expectations of further macro-economic headwinds were more than offset by the strong underlying performance of the portfolio, accretive acquisitions and the increased relative attractiveness of the asset class, favouring valuations.
- Operationally, the Company’s PPP and regulated investments remained steady. The subset of assets with returns correlated to GDP continued to be impacted by Covid-19 to varying degrees, though asset-level liquidity remains sound.
- Institutional demand for the stable, predictable returns and income derived from core infrastructure investment remains strong and supported the Company’s successful equity issuance of £120m in July 2020.
- InfraRed continues to execute the Company’s acquisition strategy with three investments in the period. These were accretive to key portfolio metrics and further enhance the value proposition for shareholders.
- While we remain cautious on the macro-environment, we are optimistic about the prospects for the Company to continue to implement its strategy to the benefit of shareholders and wider stakeholders.

Investment Manager’s relationship with the Company



Operational Highlights

The underlying performance of the portfolio has been solid in the year delivering an annualised portfolio return of 7.5% (3.7% for the period), slightly ahead of the Company's expected return of 7.2% as at 31 March 2020.

PPP projects

Public-private partnerships ("PPPs") represented 72% of the portfolio by value, as at 30 September 2020. These are long-term contracts between the public and private sectors to facilitate the delivery of essential public infrastructure.

Accretive acquisition is a key tenet of the Company's business model and an important driver of outperformance over the long term. Two PPP acquisitions were announced in the period:

- ▲ In June 2020, HICL acquired an incremental 74% risk capital in the project company that supports the Royal School of Military Engineering in the UK. The asset has been operational since 2015 and delivers availability-based revenues. The acquisition takes HICL's interest to 100%.
- ▲ In August 2020, the Company acquired the remaining 50% risk capital in the project company responsible for the M17/M18 Gort to Tuam Road PPP in the Republic of Ireland. The asset is operational and benefits from availability-based revenues.

These incremental acquisitions represent a proprietary source of deal flow for the Company, acquired via bilateral, off-market arrangements, and on assets with which InfraRed is highly familiar. This attractive risk/reward dynamic is accretive to HICL's key portfolio metrics.

Demand-based assets

Investments where asset revenues are linked to demand accounted for 19% of the portfolio by value, as at 30 September 2020.

The Company's demand-based assets with GDP-correlated returns (18% of portfolio value as at 30 September 2020) continue to be impacted by reduced traffic, resulting from the continuation of widespread government pandemic management policies and associated reduced economic activity across markets. The traffic recovery on these assets has been reforecast as at 30 September 2020 with the benefit of over six months of experience of asset performance through the Covid-19 pandemic.

The Company's two toll road investments performed above or in line with InfraRed's revenue forecasts for the financial year, albeit we are seeing a divergence in their respective recovery trajectories.

The A63 Motorway in France (6% of portfolio value as at 30 September 2020) has recovered significantly ahead of our forecast assumptions at 31 March 2020, underpinned by strong usage from heavy goods vehicles utilising the strategic, transnational trading corridor of which the A63 is a component part.

The Northwest Parkway ("NWP") in Colorado, USA (5% of portfolio value as at 30 September 2020) is subject to continued restrictions due to state- and local-level Covid-19 movement policies, as well as greater exposure to commuter traffic and airport activity. It is expected to take a more protracted path to recovery than forecast at the time of the 31 March 2020 valuation.

The performance of High Speed 1 ("HS1") in the UK (5% of portfolio value as at 30 September 2020) remained steady over the period, underpinned by contracted track access revenues. Income from retail units and car parking (together c.16% of pre-Covid-19 revenues) continued at significantly reduced levels, impacted by lower passenger numbers, albeit marginally above forecast. Eurostar services (32% of track access revenue to 31 March 2020) recovered steadily over the summer before being impacted significantly by the UK quarantine policy on arrivals from France: international train paths remain at depressed levels. Domestic services (68% of track access revenue to 31 March 2020) continue to run on a full timetable, with bookings in place to May 2021.

Further details on the actual performance to date and the valuation approach for the A63, NWP and HS1 are set out in Section 2.2 – Valuation of the Portfolio.

We continue to closely monitor the financial resilience of both NWP and HS1 and support the respective management teams in their engagement with lenders and collaboration around potential technical default provisions in the debt structures. Both assets continue to have sufficient liquidity to service debt under a range of plausible downside scenarios through 2021 and, in the case of NWP, through to 2023.

Regulated assets

Regulated assets, comprising both the Offshore Transmission assets ("OFTOs") and HICL's investment in Affinity Water, accounted for 9% of the portfolio by value, as at 30 September 2020.

The completion in the period of the acquisition of an interest in the transmission assets associated with the Walney Extension Offshore Wind Farm ("Walney OFTO") was accretive and brought further diversification to HICL's regulated assets. As with HICL's other three investments in this sector, the Walney OFTO is a clear example of the way in which the broader energy transition theme actively shapes the core infrastructure investment landscape. The asset is fully operational and benefits from long-term availability-based revenue.

During the period, the UK's Competition and Markets Authority ("CMA") delivered its interim findings in relation to those water companies that appealed Ofwat's PR19 Final Determination. The CMA's provisional assessment of the appropriate methodology to determine the weighted-average cost of capital ("WACC") applicable to these companies has a read-across to the wider sector, including Affinity Water (7% of portfolio value at 30 September 2020), from AMP8 onwards (2025+). Should the CMA carry this through to its Final Determination, expected now in February 2021, it is expected that this would result in an uplift in the valuation of HICL's investment in Affinity Water. Approximately 20% of this potential upside has been recognised in the valuation at 30 September 2020.

Financial Highlights

Net Asset Value ("NAV") per share has increased by 1.7p to 154.0p at 30 September 2020 (March 2020: 152.3p). We continue to be mindful of the far-reaching impacts of Covid-19 across HICL's core markets and the challenging economic landscape going forward. This is reflected in further value reductions from lower GDP and interest rate assumptions across the portfolio. However, these were more than offset by the strong underlying return of HICL's diversified portfolio, accretive investments and stronger asset valuations driven by the increased relative attractiveness to investors of the core infrastructure sector.

Cash flow receipts on an Investment Basis were £82.6m (2019: £95.2m). After finance and operating costs, net operating cash flows on an Investment Basis were £65.1m (2019: £76.5m), which covered the interim dividends paid in the period 0.83 times (2019: 1.05 times), in line with guidance given in the Company's 2020 Annual Report. A reconciliation between the IFRS Basis and Investment Basis can be found in Section 2.6 – Operating & Financial Review.

HICL uses the Association of Investment Companies ("AIC") methodology to assess the ongoing charges percentage, which for the period was 1.08% (2019: 1.09%).

Funding and Capital

HICL's financial position remains robust and was enhanced in the period. As at 30 September 2020, HICL has a solid balance sheet with only £13m of drawings on its Revolving Credit Facility ("RCF").

Strong support for the Company's shares enabled HICL to successfully raise equity capital by way of tap issuance in July 2020. Significant appetite from new and existing institutional investors led to a material scale-back of orders. This reflects the continued institutional demand for the attributes of core infrastructure and an endorsement for InfraRed's disciplined approach to making further investments on behalf of the Company. The capital raised was used to pay down the drawings on the RCF arising from the three acquisitions in the period.

After the end of the period, InfraRed structured a discrete, longer-dated Letter of Credit Facility ("LCF") to better support the Company's existing deferred commitment to the Blankenburg Connection PPP which is in construction (c. 2% of portfolio value). The facility is initially sized at £60m with the maturity more appropriately matched to the tenor of the commitments, effectively restoring the capacity of HICL's RCF for shorter-term deployment.

Dividend Guidance

The Investment Manager continues to closely monitor actual and forecast cash generation from the portfolio over this Covid-19-affected period. The current forecast cash position and the progress towards recovery of the GDP-correlated demand assets have been carefully considered. Our advice to the Board, to maintain the target dividend for the year to 31 March 2022 at the same level as the current financial year, was given in light of the prevailing uncertainties in macro-economic conditions and the protracted recoveries forecast on NWP and HS1, balanced with the stable and predictable cash flows being generated by HICL's diversified portfolio. Based on current forecasts, we expect the dividend for the financial year ending 31 March 2022 to be fully cash covered.

Sustainability

HICL and InfraRed have continued to actively progress our collective sustainability agenda, working through the portfolio and ensuring that the sustainability strategy is yielding results across environmental, social and governance dimensions. More detail can be found in Section 2.6 – Operating & Financial Review. As an example of HICL's commitment to sustainability in the context of its investment returns, the Company continued its work on the Task Force on Climate-related Financial Disclosures ("TCFD"), in particular the roll-out of a climate impact assessment across HICL's portfolio that will be completed in line with HICL's 2021 year-end reporting. This initiative will support a step-change in the ability of the Company to embrace the full remit of the TCFD reporting framework as well as providing valuable information for the effective management of investments into the future. We expect this initiative to benefit all stakeholders and we look forward to collaborating with our public sector clients on the specific initiatives that will follow this important diagnostic exercise.

InfraRed has been, since 2011, a signatory of the Principles for Responsible Investment ("PRI") and is represented on the Infrastructure Advisory Committee of PRI. In the period, the infrastructure business line achieved an A+ rating for its 2020 assessment, for the sixth successive year.

Key Risks

Each quarter the Board's Risk Committee reviews the risk appetite of the Company. This includes an assessment of emerging risks, supported by comprehensive portfolio stress testing and associated mitigation strategies provided by InfraRed. Risks are reviewed and steps are taken to reduce the impact on stakeholders, including the Company's shareholders.

The key risks and the strategies employed by InfraRed to manage and mitigate those risks have not changed materially from those set out in detail in Section 3.7 of HICL's 2020 Annual Report, which is available on the Company's website.

Political and regulatory risk

Politics and regulation are key underlying risks that are inherent in infrastructure investment. As a trusted steward of essential public assets, HICL seeks to contribute to the discussion on infrastructure ownership not only through its participation and submissions to various industry participants (for example Global Infrastructure Investor Association and the Department for

Business, Energy and Industrial Strategy, in the period) but also through its considered management of critical infrastructure to the benefit of all stakeholders.

We are cognisant of the increased risk of higher corporation tax rates with public finances under intense pressure across all the geographies represented in HICL's portfolio. We also note that on 25 November 2020, the UK Government is due to publish its response to the UKSA's proposed reform of RPI to potentially align it to CPIH. This could result in a material reduction in the level of RPI from 2025 or 2030. See Section 2.2 – Valuation of the Portfolio for the portfolio's sensitivity to changes in corporation tax and inflation rates.

Covid-19 and changes in GDP forecasts

The temporary and sporadic imposition of lockdown conditions across HICL's core markets in response to Covid-19, for example those adopted post-period-end in France and the UK, is likely to disrupt short-term demand for HICL's GDP-correlated demand-based assets (18% at 30 September 2020), though this interim volatility is expected to be immaterial in the context of the assets' valuation. The ongoing impact of the pandemic on economic activity does, however, have the potential to further impact long-term traffic forecasts for this subset of the portfolio. Further deterioration in macro-economic conditions, including GDP, would decrease net asset value. See Section 2.2 – Valuation of the Portfolio for the portfolio's sensitivity to GDP.

Brexit

Uncertainty around the conclusion of the UK's Brexit negotiations remains a risk for the Company. While there is a range of possible outcomes, a disorderly exit could reasonably lead to a worsening macro-economic environment. We are mindful of the risks that revised international trading terms pose to inflation and note that the correlation of portfolio returns to inflation remains at 0.8x. HICL's foreign exchange policy is designed to dampen the volatility that may arise from foreign exchange movements, an important consideration in the context of Brexit.

At a practical level, InfraRed's asset managers continue to work with portfolio company management teams on Brexit resilience. A minor subset of portfolio assets, such as HS1, has direct exposure to a disorderly Brexit and these have continuity plans in place.

Counterparty Risk

HICL's strong performance to date has been built on its many successful partnerships with customers and clients, lenders, co-shareholders and across the Company's supply chain. Regular and proactive engagement with these counterparties is more fundamental than ever in the current period of market stress and disruption. Additionally, InfraRed's in-house credit team actively monitors and reports on the financial strength of HICL's counterparty relationships.

In the course of carrying out necessary works at projects constructed by the now-liquidated Carillion, a further requirement for defect remediation was identified at one healthcare asset in the portfolio. HICL is committed to carrying out these important fire safety improvements at the facility and will make a further investment in the company to support this. The remediation costs are reflected in the Directors' Valuation.

As is to be expected within a large portfolio of real assets, a subset of assets continues to undergo the investigation and remediation of identified construction defects, including taking action to ensure that subcontractors progress necessary works in a timely and responsible manner. Where equity cash flows are being impacted by these remedial activities, there is uncertainty around the timing of the assumed recommencement of distributions. Care has been taken to reflect this uncertainty in both cash flow forecasts and the Directors' Valuation.

Market and Outlook

Looking to the future, we remain focused on working in close partnership with our public sector clients to ensure availability and continued service delivery from essential infrastructure assets that are being managed in a challenging operating environment. It is likely in the current climate that asset operation will continue to face challenges over the next six months. Accordingly, an active asset management strategy, focused on asset-level readiness and continuity, remains fundamental. Further focus will be applied to a number of the Company's demand-based assets as they face a more protracted path to recovery and require even greater collaboration from all asset stakeholders.

Despite these challenges, the predictable long-term yields from core infrastructure remain highly attractive to institutional investors. Activity in the sector has resumed with a number of transactions having completed during the period and with valuations at historically high levels. Looking forward, the sector continues to benefit from strong fundamentals. These are derived not only from the anticipated infrastructure spending associated with governmental responses to the pandemic but also as a result of the powerful macro-trends that continue to shape the requirements of the infrastructure of tomorrow.

In this context, InfraRed continues to execute its acquisition strategy for HICL with care, maintaining pricing discipline as a priority. InfraRed has cultivated a high-quality pipeline of core infrastructure assets for HICL and is progressing a number of transactions on behalf of the Company into the second half of the financial year. We are seeing continued pipeline across segments within HICL's existing portfolio as well as in those sectors that support the modern economy, in particular across communications (e.g. fibre) and the energy transition to a low carbon economy (e.g. meters, distribution). On page 16 we have provided further detail on these salient core infrastructure themes, including the attributes and strategic fit for HICL.

This opportunity set, combined with enduring institutional demand for the stable, predictable cash flows available from core infrastructure investment, continues to provide a supportive platform for a nimble, well-capitalised company, such as HICL, to pursue its strategy.

Case Study: Core Infrastructure Pipeline Evolution

As society continues to be shaped and influenced by the powerful mega-trends set out on the map below, so too will its infrastructure requirements. Increasingly the infrastructure market will evolve in line with these themes, creating a subset of attractive core infrastructure investment opportunities across the 'modern economy'.

DEMOGRAPHIC CHANGE
- Ageing population
- Environmental & social advocacy
- Sharing economy, including data
- Leisure
- Mobility

ENVIRONMENTAL CHANGE
- Environmental surveillance
- Water scarcity
- Waste management and recycling
- Food security
- Flood defence

GEOPOLITICAL LANDSCAPE
- Security
- Shifting trade patterns

TECHNOLOGICAL DISRUPTION
- Tech penetration of incumbent real assets

PIPELINE OF THE FUTURE

CONNECTIVITY & DIGITISATION
- Increasing information traffic
- Requirement for searchable data
- Data storage
- Fibre optics and wireless broadband

LOWER CARBON ECONOMY
- Energy enabling infrastructure
- Electrification of transport
- Fuel replacement infrastructure
- 'Districtification' of utilities

URBANISATION
- Smart transportation
- Existing asset enhancement
- Asset congestion
- Urban sprawl

Though the infrastructure market is evolving, InfraRed's due diligence approach remains a constant. A robust, clearly defined core infrastructure framework to evaluate opportunities remains crucial and constantly seeks:

Cash flow quality	Stable revenues	Lower operational gearing/complexity
Market positioning	Monopolistic characteristics	High barriers to entry
Criticality	Essential assets	

Key examples:

Trend: **Connectivity & Digitisation**
Sector: **Telecommunications**
Core infrastructure: **Fibre**

Core infrastructure attributes

Core infrastructure opportunities in the sector benefit from:

- Capital-intensive assets with long asset lives
- Defensive positioning through regional monopolistic rights and/or contracting with strong corporate counterparties
- Non-discretionary underlying demand, not GDP-linked
- State-backed roll-outs with subsidies in some markets, creating high barriers to entry
- Essential service to deliver transformation to a digital economy and flexible work practices

InfraRed sector insight

The fibre sub-sector has matured over time: initial opportunities in this sub-sector presented as higher risk/return given roll-out risks and the need to build market share quickly in a competitive environment. With the technology now established and widespread government support, core infrastructure opportunities are available in specific markets. InfraRed has been involved in the fibre sub-sector for over four years across its unlisted capital gain fund strategies with a recent acquisition in fibre to the home in Germany in 2020.

Trend: **Lower Carbon Economy**
Sector: **Energy Enabling**
Core infrastructure: **Smart Meters**

Core infrastructure attributes

Core infrastructure opportunities in the sector benefit from:

- Capital intensive assets with long-asset lives
- Defensive positioning through contracting and entrenched positioning within distribution value chain
- Non-discretionary underlying demand benefiting from supportive government policy in key markets
- Termination arrangements creating barriers to entry

InfraRed sector insight

An increasingly powerful trend for over a decade. Initial opportunities centred on power generation where commodity price risk was a key feature. Over time the opportunity set has broadened to include an array of energy supporting infrastructure, several of which have clear core infrastructure characteristics. InfraRed has a deep understanding of this trend dating back to 2006, including investments in renewable energy, peaking and ancillary services, storage and transmission. InfraRed has explored opportunities in last mile distribution including meters for over 10 years. Note: renewable energy generation and assets with commodity price risk fall outside HICL's Acquisition Strategy.

Miles Platting, UK

2.2
Valuation of the Portfolio

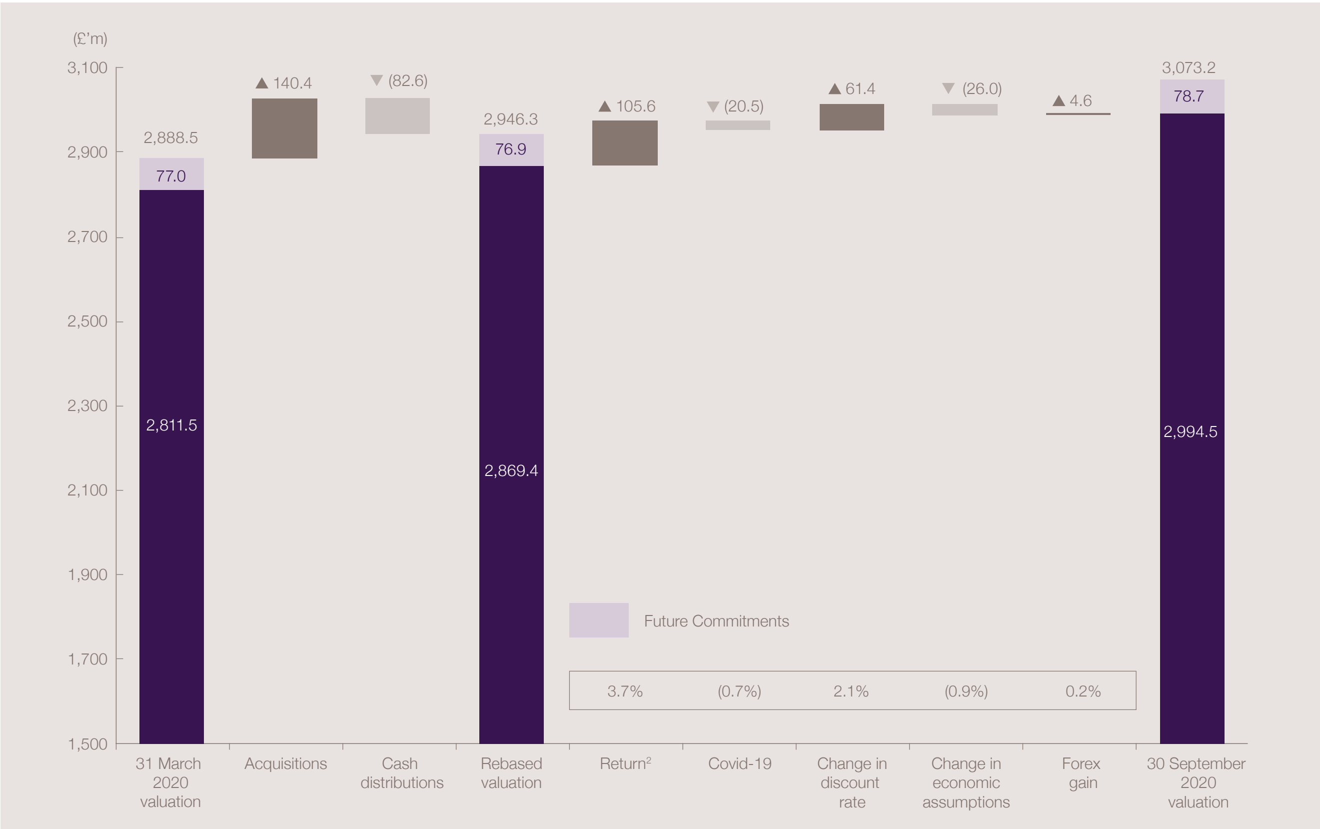
Valuation and Discount Rates

InfraRed, in its capacity as Investment Manager to HICL, is responsible for preparing the fair market valuation of the Company's investment portfolio on a six-monthly basis at 31 March and 30 September each year, which is presented to the Directors for their approval and adoption. The Directors are ultimately responsible for the valuation (the Directors' Valuation) and therefore, in addition to InfraRed's advice which is considered by the auditors as part of their review work, the Board also receives an independent expert report and opinion from a third party on the valuation prepared by InfraRed. The assumptions used and the key sensitivities are published with the Directors' Valuation.

The Group's investments are predominantly non-market traded investments, hence they are valued using a discounted cash flow analysis of the forecast investment cash flows from each portfolio company. The exception to this is the listed senior debt in the A13 Road project which is valued at the quoted market price for the bonds. The valuation assumes a sum-of-the-parts valuation and does not include any value attributable to matters such as the size, scarcity and diversification of the portfolio. This valuation methodology is the same as that used at the time of HICL Guernsey's[1] IPO in 2006 and in each subsequent six-month reporting period (further details can be found in the HICL Infrastructure PLC's March 2019 Prospectus, available from the Company's website).

The Directors' Valuation of the portfolio on an Investment Basis at 30 September 2020 was £3,073.2m, compared to £2,888.5m at 31 March 2020 (up 6.4%). A reconciliation between the Directors' Valuation at 30 September 2020 and that shown in the financial statements is given in Note 10 to the financial statements. The Directors' Valuation includes £78.7m of future investment commitments in respect of Blankenburg Connection (Netherlands) and the Paris-Sud University (France).

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



[1] On 1 April 2019, as detailed in HICL UK's Prospectus dated 4 March 2019, HICL Guernsey transferred its investment business to HICL Infrastructure PLC, HICL Guernsey was placed into voluntary liquidation and HICL Infrastructure PLC's shares were listed on the London Stock Exchange

[2] "Return" comprises the unwinding of the discount rate and net portfolio outperformance, excluding the impact of Covid-19, changes in discount rates, economic assumptions and FX rates

Rebased Net Valuation

Valuation blocks (purple) have been split into investments at fair value[1] and future commitments. The percentage movements have been calculated on investments at fair value of £2,869.4m as this reflects the returns on the capital employed in the period.

Valuation Movements During The Period To 30 September 2020 (£m)

	£m	£m	% Change
Directors' Valuation at 31 March 2020		**2,888.5**	
Acquisitions	140.4		
Cash distributions	(82.6)		
		57.8	
Less future commitments		(76.9)	
Rebased valuation of the portfolio		**2,869.4**	
Return[2] from the portfolio	105.6		3.7%
Covid-19	(20.5)		(0.7%)
Change in discount rate	61.4		2.1%
Economic assumptions	(26.0)		(0.9%)
FX movement on non-UK investments	4.6		0.2%
		125.1	4.4%
Future commitments		78.7	
Directors' Valuation at 30 September 2020[3]		**3,073.2**	

Allowing for the investments during the period, and investment receipts of £82.6m, the rebased valuation was £2,869.4m. The growth in the valuation of the portfolio excluding future commitments at 30 September 2020 over the rebased value was 4.4%.

The increase arises from a £105.6m return from the portfolio, a reduction of £20.5m on assets affected by Covid-19, a £61.4m increase from a reduction in reference discount rates in all jurisdictions, a £26.0m decrease from lower long-term interest rates in all jurisdictions, an increase in tax rates in the Netherlands and a £4.6m (pre-hedging) increase from a change in foreign exchange rates.

Return From The Portfolio

The return from the portfolio of £105.6m (2019: £113.2m) represents a 3.7% (2019: 4.1%) increase in the rebased value of the portfolio over the six-month period.

Incremental value was generated from operational outperformance across various cost saving and efficiency initiatives. Further detail on these factors is outlined in Section 2.6 – Operating & Financial Review.

Covid-19

HICL has six demand-based assets in the portfolio representing 19% of the portfolio value at 30 September 2020. During the period, the Covid-19 pandemic has resulted in reduced usage of these facilities through lockdown measures applied in each jurisdiction, impacting on revenues. Four of these demand-based assets, namely High Speed 1, A63 (France), Northwest Parkway (USA) and M1-A1, are sensitive to GDP. Furthermore, Affinity Water, the regulated water company, has seen a small impact which includes the increase of bad debts. For the demand-based assets, the impact has been assessed, and adjustments made in three areas: short-term traffic reduction, longer-term recovery and discount rates, using a variety of information sources including actual traffic figures, management assessments, consensus GDP forecasts and sensitivity analysis. GDP forecasts in the relevant jurisdictions have declined since year end while the expected duration of short-term traffic reduction has lengthened. This has resulted in a reduction in valuation of £20.5m. The Investment Manager continues to work closely with management teams to monitor and manage the situation. More information on the affected assets is included in Section 2.6 – Operating & Financial Review.

[1] On an Investment Basis
[2] "Return" comprises the unwinding of the discount rate and net portfolio outperformance, excluding the impact of Covid-19, changes in discount rates, economic assumptions and FX rates
[3] A reconciliation between the Directors' Valuation and the financial statements is given in Note 10 to the financial statements

2.2 Valuation of the Portfolio (continued)

Discount Rates

Fair value for each unlisted investment is derived from the present value of the investment's expected future cash flows, using reasonable assumptions and forecasts, and an appropriate discount rate. Judgment is exercised in assessing the expected future cash flows from each investment based on the detailed concession life financial models produced by each portfolio company, as amended to reflect known or expected changes to future cash flows.

The main method for determining the appropriate discount rate used for valuing each investment is based on the Investment Manager's knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers knowledgeable in these markets and publicly available information on relevant transactions. The Board discusses the proposed discount rates with the independent third-party valuation expert to ensure that the valuation of the Group's portfolio is appropriate.

The weighted average discount rate at 30 September 2020 is 7.0%, down from 7.2% at 31 March 2020. This reflects the reduction in reference discount rates in all jurisdictions, data implied by transactional activity as well as decreases in long-term government bond yields.

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

	30 September 2020				
Country	Long-term government bond yield	Risk premium	Discount rate	**31 March 2020 Discount rate**	**Movement**
UK	0.8%	6.2%	7.0%	7.1%	(0.1%)
Eurozone	0.1%	6.9%	7.0%	7.2%	(0.2%)
North America	1.0%	6.7%	7.7%	8.0%	(0.3%)
Portfolio	**0.6%**	**6.4%**	**7.0%**	**7.2%**	**(0.2%)**

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

Valuation Assumptions

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

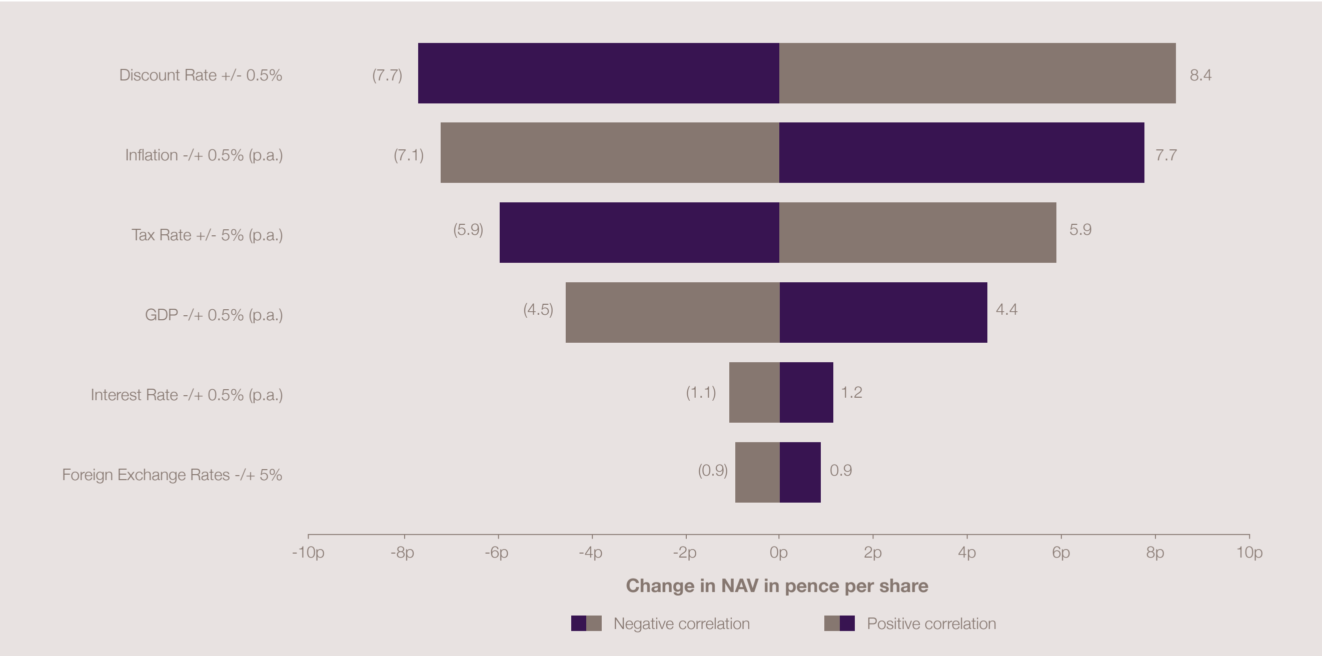
		30 September 2020	31 March 2020
Inflation Rates	UK (RPI and RPIx)[1] UK (CPIH)[2]	2.75% p.a. 2.0% p.a.	2.75% p.a. 2.0% p.a.
	Eurozone (CPI)	2.0% p.a.	2.0% p.a.
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	USA (CPI)	2.0% p.a.	2.0% p.a.
Interest Rates	UK	0.25% p.a. to March 2023, 1.0% p.a. thereafter	0.5% p.a. to March 2023, 1.5% p.a. thereafter
	Eurozone	0.0% p.a. to March 2023, 0.5% p.a. thereafter	0.0% p.a. to March 2023, 1.0% p.a. thereafter
	Canada	0.5% p.a. to March 2023, 1.5% p.a. thereafter	1.0% p.a. to March 2023, 2.25% p.a. thereafter
	USA	0.5% p.a. to March 2023, 1.5% p.a. thereafter	1.0% p.a. to March 2023, 2.25% p.a. thereafter
Foreign Exchange Rates	CAD / GBP	0.58	0.57
	EUR / GBP	0.91	0.89
	USD / GBP	0.77	0.81
Tax Rates	UK	19%	19%
	Eurozone	Ireland 12.5% France 25% – 33.3% Netherlands 25%	Ireland 12.5% France 25% – 33.3% Netherlands 21.7% – 25%
	USA	21% Federal & 4.6% Colorado State	21% Federal & 4.6% Colorado State
	Canada	26% and 27%	26% and 27%
GDP Growth Rates	UK	(10.0%) in 2020, 6.5% in 2021, 2.5% in 2022, 2.0% p.a. thereafter	(5.5%) in 2020, 4.0% in 2021, 2.0% p.a. thereafter
	Eurozone	(10.0%) in 2020, 7.0% in 2021, 3.0% in 2022, 1.8% p.a. thereafter	(5.0%) in 2020, 4.0% in 2021, 1.8% p.a. thereafter
	USA	(5%) in 2020, 4.0% in 2021, 3.0% in 2022, 2.5% p.a. thereafter	(3.5%) in 2020, 3.0% in 2021, 2.5% p.a. thereafter

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

2.2
Valuation of the Portfolio (continued)

Valuation Sensitivities

The portfolio's valuation is sensitive to each of the macro-economic assumptions listed above. 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]. The sensitivities are also contained in Note 3 to the interim financial statements.



Discount Rate Sensitivity

Whilst not a macro-economic assumption, 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

PPP projects in the portfolio have contractual income streams derived 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") while non-UK projects use Consumer Prices Index ("CPI"), and 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 have similar indexation arrangements.

[1] NAV per share based on 1,937m Ordinary Shares as at 30 September 2020
[2] Sensitivities for inflation, interest rates and tax rates are passed on the 35 largest investments extrapolated for the whole portfolio
[3] Foreign exchange rate sensitivity is net of Corporate Group hedging at 30 September 2020

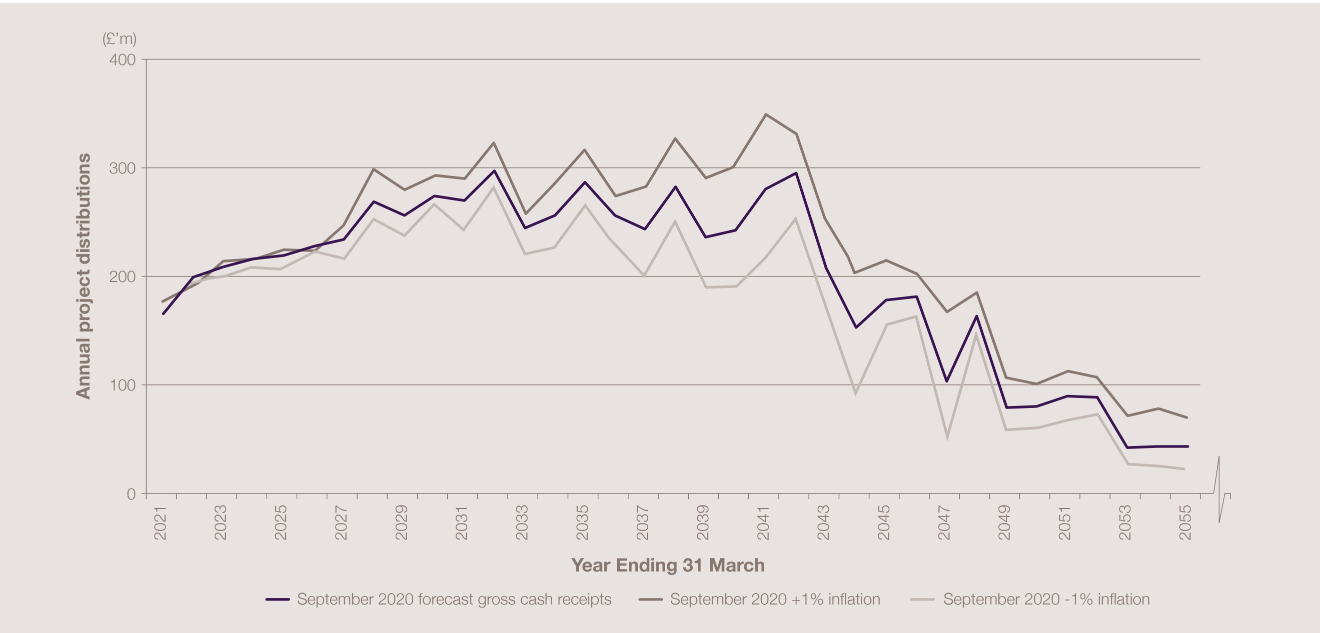
On the demand-based assets the concession agreement usually prescribes how user fees are set, which is generally rebased annually for inflation. Similarly, for PPP projects in the UK this is typically RPI, while non-UK projects use CPI. On Affinity Water, one of the Company's regulated assets, revenues are regulated by Ofwat in a five-yearly cycle with the pricing of water bills set with the aim of providing an agreed return for equity that is constant in real terms for the five-year period by reference to RPI currently and CPIH (Consumer Prices Index including owner occupiers' housing costs) in the next regulatory period.

The chart shows that the Directors' Valuation and NAV per share are both positively correlated to inflation. The portfolio's inflation correlation at 30 September 2020 was 0.8 (March 2020: 0.8) 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 by 0.8% from 7.0% to 7.8%.

In the UK, RPI is 1.1% and the RPIx is 1.4% for the year ended 30 September 2020. The September 2020 forecasts for RPI out to December 2021 range from 1.0% to 4.9% from 27 independent forecasters as compiled by HM Treasury, with an average forecast of 2.8%. The 25-year RPI swap rate at 30 September 2020 was 3.1%. The portfolio valuation assumes UK inflation of 2.75% per annum for both RPI and RPIx, the same assumption as for the comparative period.

On 25 November 2020, the UK Government is due to publish its response to the UKSA's proposed reform of RPI to potentially align it to CPIH. This could result in a material reduction in the level of RPI from 2025 or 2030. The historical difference between RPI and CPIH has averaged 0.8% – 0.9%. The current 25-year RPI swap rate at 20 November 2020 was 3.1%, 0.3% above HICL's UK RPI forecast assumption of 2.75%. However we do estimate that the potential impact to NAV of a full alignment of RPI to CPIH in 2025 absent any compensation from clients could be 3.1p/share.

Cash Flow Sensitivity To Inflation



2.2
Valuation of the Portfolio (continued)

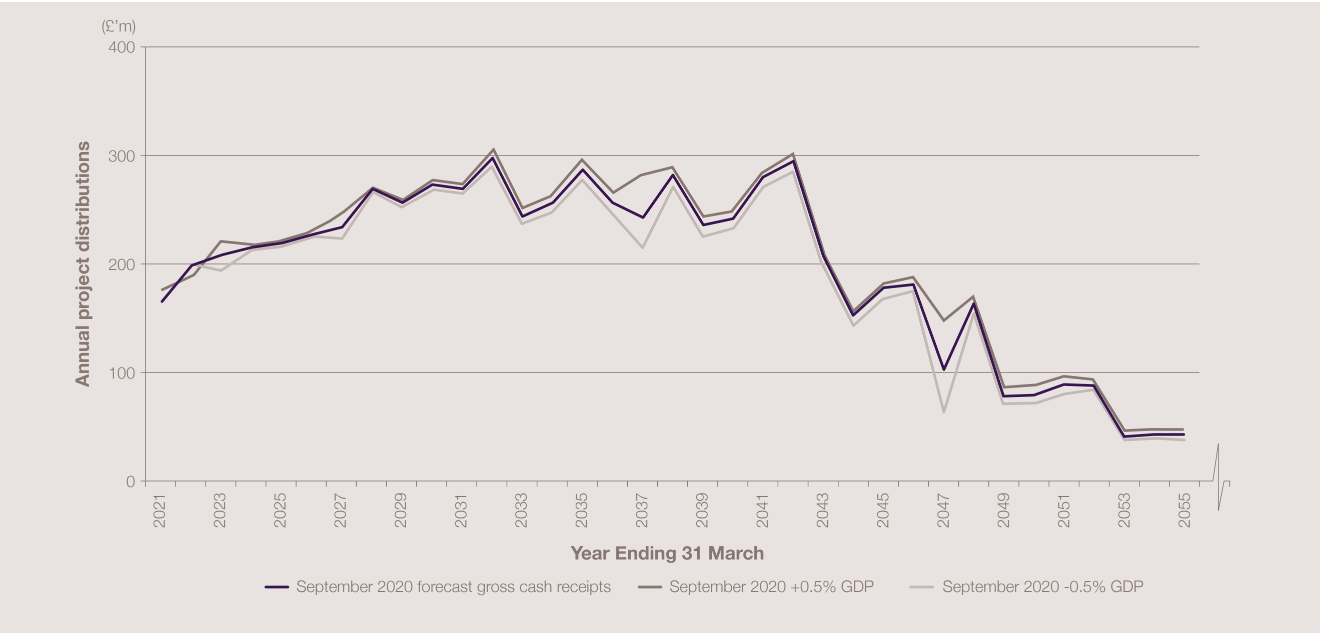
Gross Domestic Product ("GDP") Growth Rate Sensitivity

At 30 September 2020, the portfolio had four investments which are considered sensitive to GDP, namely the A63 Motorway (France), High Speed 1, M1-A1 Road and Northwest Parkway (USA). At times of higher economic activity there will be greater traffic volumes using these roads and railways, generating increased revenues for the projects than compared to periods of lower economic activity and therefore we assess these as GDP sensitive investments.

If outturn GDP growth were 0.5% p.a. lower for all future periods than those in the valuation assumptions set out on page 21 for all future periods, expected return from the portfolio (before Group expenses) would decrease by 0.2% from 7.0% to 6.8% (decrease by 0.2% to 7.0% at 31 March 2020).

In relation to the assumed Covid-19 recovery, if cumulative GDP for 2020, 2021 and 2022 is +/-1%, the impact on the expected return from the portfolio is +/-0.5p on a NAV/share basis or +/- 0.02% on portfolio return.

Cash Flow Sensitivity To GDP Growth Rates



Interest Rate Sensitivity

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

At 30 September 2020, cash deposits for the portfolio were earning interest at a rate of 0.5% per annum on average. There is a consensus that UK base rates will remain low for an extended period, with a current median forecast for UK base rates in December 2021 of 0.1% p.a.

Interest rates in all jurisdictions have reduced over the period with the general expectation that low rates will persist for an extended period as governments across the globe deal with the impact of Covid-19 on the world economy. The portfolio valuation assumes reduced deposit interest rates with UK deposit interest rates of 0.25% p.a. to March 2023 and 1.0% p.a. (March 2020: 0.5% to March 2023, 1.5% thereafter). In the Eurozone deposit interest rates 0% to March 2023 and 0.5% thereafter (March 2020: 0% to March 2023, 1.0% thereafter). The Canada and USA deposit interest rates are 0.5% to March 2023 and 1.5% thereafter (March 2020: 1.0% to March 2023, 2.25% thereafter). These lower interest rates have reduced the portfolio valuation by £22m, which is included within the £26.0m movement for changes in economic assumptions.

Corporation Tax Rate Sensitivity

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

There has been a suggestion that a future UK Government could consider raising UK corporation tax rates. To the extent there were a 5% increase in UK corporation tax rates, there would be a NAV per share reduction of 4.4p.

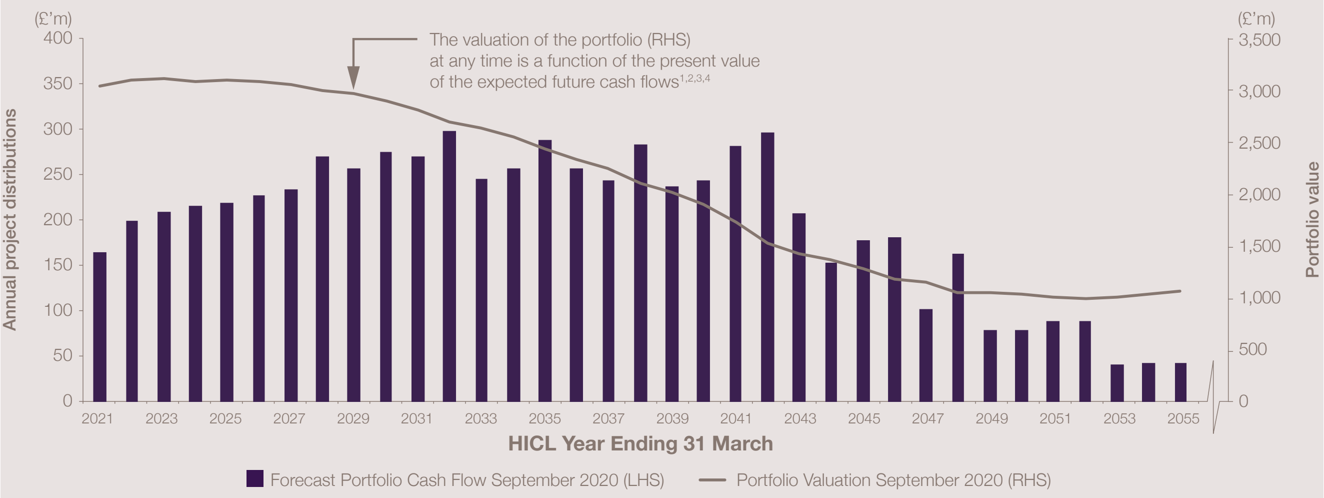
The UK corporation tax assumption for the portfolio valuation is 19%, which is unchanged from March 2020. The tax rates in the Netherlands were expected to reduce to 20.5% by 2025 but are now remaining at 25%. This change in Dutch tax rates decreased the portfolio valuation by £2.8m included within the £26.0m movement for changes in economic assumptions.

Foreign Exchange Rates Sensitivity

26% of the portfolio by value is represented by non-UK assets. These assets are valued in local currency then converted into Sterling at the period end exchange rates. The sensitivity shown on page 22 is net of the Group's foreign exchange hedges at 30 September 2020. Further detail on the Company's foreign exchange policy is outlined in Section 2.6 – the Operating & Financial Review.

Future Cash Flows[1,2,3]

The chart below shows the expected future cash flows to be received by the Group from the portfolio as at 30 September 2020 and how the portfolio valuation is expected to evolve over time using current forecasts and assumptions. The chart shows the steady long-term nature of the cash flows from the portfolio, coupled with a stable portfolio valuation in the medium term.



Based on current forecasts over the long term, the portfolio will move into a repayment phase at the point the Portfolio Valuation starts to decline, during which cash receipts from the portfolio will be paid to the Company's shareholders as capital and the portfolio valuation will reduce as projects reach the end of their concession term, assuming that the proceeds are not invested in new investments.

It is these forecast cash flows from the Group's current portfolio of investments that give the Board the confidence to set a target dividend of 8.25p per share for the year to 31 March 2022[5].

[1] The chart represents a target only and is not a profit forecast. There can be no assurance that this target will be met
[2] The cash flows and the valuation are based on a number of assumptions, including discount rates, inflation rates, deposit interest rates, tax rates and foreign exchange rates. These assumptions and the valuation of the current portfolio may vary over time
[3] The cash flows and the valuation are from the portfolio of 117 investments at 30 September 2020 and do not include other assets or liabilities of the Group, and assume that during the period illustrated above (i) no new investments are purchased, (ii) no existing investments are sold and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains
[4] Valuation considers cash flows beyond 2055, for example for Northwest Parkway (USA) 87 years of cash flows, are assumed
[5] This is a target only and not a profit forecast. There can be no assurance that this target will be met

2.2
Valuation of the Portfolio (continued)

Discounted Cash Flow Key Assumptions And Principles

As described above, the Group's investments are predominantly valued using a discounted cash flow analysis of the forecast investment cash flows from each portfolio company. The following is an overview of the key assumptions and principles applied in the valuation and forecasting of future cash flows:

- Discount rates and other key valuation assumptions (as outlined above) continue to be applicable;
- Contracts for PPP projects and demand-based assets are not terminated before their contractual expiry date;
- A reasonable assessment is made of construction defect remediation where the risk sits with the portfolio company, operational performance, including in relation to PPP projects, payment deductions and the ability to pass these down to subcontractors;
- Distributions from each portfolio company reflect reasonable expectations, including consideration of financial covenant restrictions from senior lenders;
- Lifecycle and capital maintenance risks are either not borne by the portfolio company because they are passed down to a subcontractor or, where borne by the portfolio company, are incurred per current forecasts;
- For demand-based assets a reasonable assessment is made of future revenue growth, typically supported by forecasts made by an independent third party;
- Where assets are in construction a reasonable assessment is made as to the timing of completion and the ability to pass down any costs of delay to subcontractors;
- Where a portfolio company expects to receive residual value from an asset, the projected amount for this value is realised;
- Non-UK investments are valued in local currency and converted to Sterling at the period end exchange rates;
- A reasonable assessment is made of regulatory changes in the future which may impact cash flow forecasts; and
- Perpetual investments are assumed to have a finite life (e.g. Affinity Water is valued using a terminal value assumption).

In forming the above assessments, the Investment Manager works with portfolio companies' management teams, as well as engaging with suitably qualified third parties such as technical advisers, traffic consultants, legal advisers and regulatory experts.

Case Study: Demand-Based Assets

Summary

- Forecasts for the demand-based assets with GDP correlation have been revised, reflecting updated assumptions around economic recovery and with the benefit of over six months of Covid-19-affected traffic data.
- The patterns of recovery across the three largest demand-based assets have diverged; revenues on the A63 Motorway (France) have rebounded strongly, with Northwest Parkway (USA) and High Speed 1 (UK) assumed to follow a more gradual path to recovery.

Revenue Performance

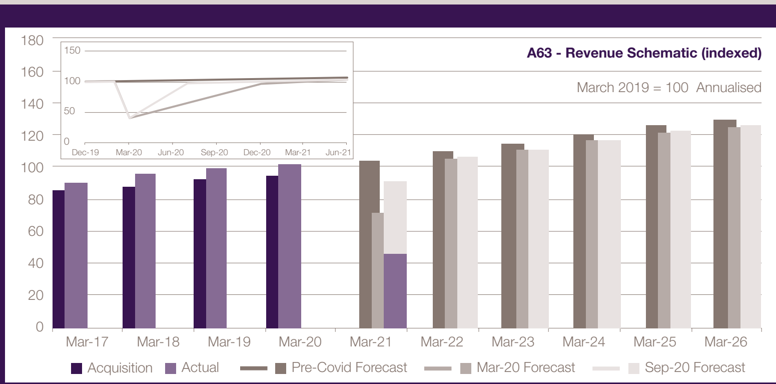
Reduction in revenue levels[1] versus HICL's pre-Covid-19 assumptions:

	Valuation Assumptions (31 Mar – 30 Sep)	Actual Revenue (31 Mar – 30 Sep)	Month to 31 Oct (Latest available)
High Speed 1	-10%	-9%	-9%[2]
A63 Motorway	-50%	-16%	-5%
Northwest Parkway[3]	-63%	-54%	-41%

[1] average % decrease in revenue in the specified time window
[2] estimate based on latest available management information
[3] traffic volumes used as a proxy for revenue over these time frames for NWP

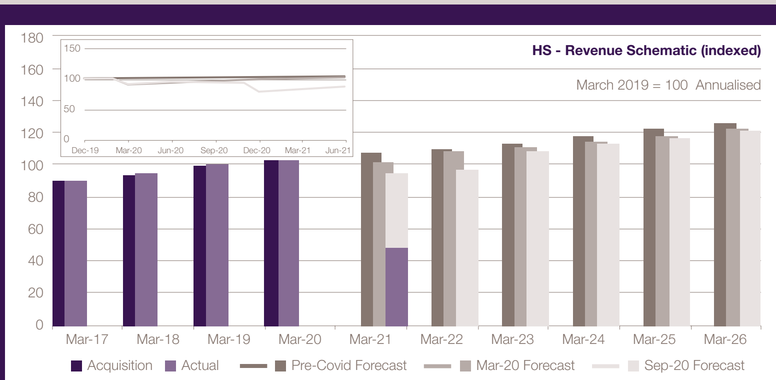
A63, France

Revenue on the A63 has rebounded strongly, with the sector-specific economic contraction witnessed in France not significantly impacting traffic on this road. On this basis, the assumption regarding the timing of recovery to normal operating conditions has been brought forward; traffic is forecast to be almost in line with HICL's pre-Covid-19 levels from 1 January 2021 with an assumed 10% reduction in light vehicles to reflect the greater uncertainty on consumer traffic. Traffic growth rate assumptions from 1 January 2021 are in line with HICL's pre-Covid-19 forecast. Underlying traffic is now expected to take approximately four quarters to reach pre-Covid-19 levels (eight quarters in the March 2020 valuation, measured from the onset of the pandemic).



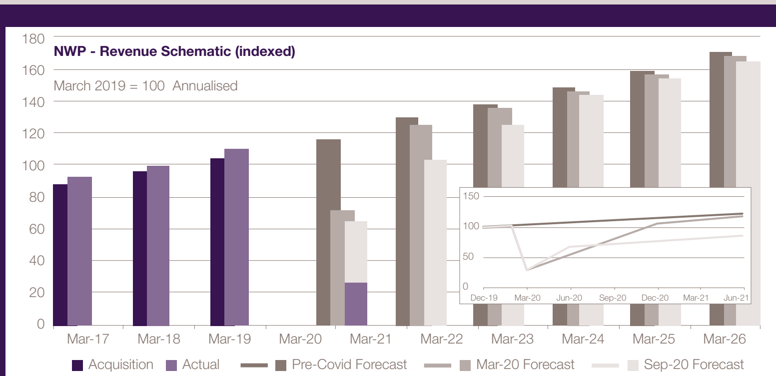
High Speed 1, UK

Contracted track access revenue for domestic and international train paths has supported HS1's revenues in the period, despite continued lower demand for retail and car parking (c. 16% of pre-Covid-19 revenues). Domestic train paths (c. 68% of pre-Covid-19 track access revenue) continue to run at a full service with pre-bookings out to May 2021. Eurostar's current pre-bookings for international train paths (c. 32% of pre-Covid-19 track access revenue) cease in mid-December 2020 and beyond this are expected to initially decrease to around current prevailing levels, which continue to be significantly affected by the resumption of quarantine measures on travellers arriving from France (currently c. 20% of the current contracted level). As a result, a protracted recovery for both Eurostar and retail and car parking revenues has been assumed, with a return to long-term international train path levels by 1 January 2023 (previously 1 January 2021). Long-term growth has been rebased using cumulative GDP forecasts for 2020 (-10.0%), 2021 (6.5%) and 2022 (2.5%) using a median of economic forecasts[1] before reverting to HICL's pre-Covid-19 growth assumptions. The effect of this recasting of the growth profile is that underlying traffic is expected to take approximately 16 quarters to reach pre-Covid-19 levels (previously 13 quarters, measured from the onset of the pandemic). The project benefits from significant liquidity sufficient to fund debt service through 2021 in a range of plausible downside scenarios.



Northwest Parkway, USA

The Northwest Parkway's revenue saw a swift recovery to current levels and subsequently plateaued, with continued impact of state and local government Covid-19 policies as well as subdued activity at Denver airport. A more gradual recovery to normal operating conditions by 1 January 2023 (previously 1 January 2021) is now assumed. The long-term growth of the asset has been rebased using cumulative GDP forecasts for 2020 (-5.0%), 2021 (4.0%) and 2022 (3.0%) using a median of economic forecasts[2] before reverting to HICL's pre-Covid-19 growth assumptions from 2023 onwards. The effect of this recasting of the growth profile is that underlying traffic is expected to take approximately 12 quarters to reach pre-Covid-19 levels (previously eight quarters, measured from the onset of the pandemic). The project benefits from significant liquidity sufficient to fund debt service out to 2023.



[1] Median of 37 forecasts published between 24 June and 5 October 2020

[2] Median of 60 forecasts published between 24 June and 2 October 2020

PSBP NE Batch – Hylton Castle, UK

2.3
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 2020 are set out below.

KPI	Measure	Objective	Commentary	30 September 2020	30 September 2019
Dividends	Aggregate interim dividends declared per share for the year	An annual distribution of at least that achieved in the prior year	**Achieved**	4.12p	4.12p
Total Shareholder Return	NAV growth and dividends paid per share since IPO	A long-term IRR target of 7% to 8% as set out at IPO[1]	**Achieved**	9.0% p.a.	9.3% p.a.
Cash-covered Dividends	Operational cash flow/ dividends paid to shareholders	Cash covered dividends	**Not achieved In-line with guidance provided to the market[3]**	0.83x	1.05x
Positive Inflation Correlation	Changes in the expected portfolio return for 1% p.a. inflation change	Maintain positive correlation	**Achieved**	0.8%	0.8%
Competitive Cost Proposition	Annualised ongoing charges/ average undiluted NAV[2]	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**	1.08%	1.09%

[1] Set by reference to the issue price of 100p per share, at the time of the Company's IPO in February 2006. Previously reported on a dividends declared basis
[2] Calculated in accordance with Association of Investment Companies guidelines. Ongoing charges excluding non-recurring items such as acquisition costs
[3] See HICL's Annual Report for the year ended 31 March 2020

2.4
Portfolio Analysis

as at 30 September 2020

MARKET SEGMENT

September 2020

March 2020

	Sep 2020	Mar 2020
▲ PPP projects	72%	72%
▲ Demand-based assets	19%	20%
▲ Regulated assets	9%	8%

GEOGRAPHIC LOCATION

September 2020

March 2020

	Sep 2020	Mar 2020
▲ UK	74%	76%
▲ EU	19%	17%
▲ North America	7%	7%

OWNERSHIP STAKE

September 2020

March 2020

	Sep 2020	Mar 2020
▲ 100% ownership	31%	26%
▲ 50% – 100% ownership	32%	34%
▲ Less than 50% ownership	37%	40%

SECTOR

September 2020

March 2020

	Sep 2020	Mar 2020
▲ Accommodation	13%	11%
▲ Education	14%	14%
▲ Electricity, Gas & Water	9%	8%
▲ Health	28%	30%
▲ Fire, Law & Order	6%	7%
▲ Transport	30%	30%

INVESTMENT STATUS

September 2020

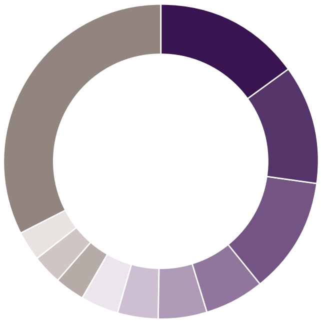
March 2020

	Sep 2020	Mar 2020
▲ Fully operational	97%	97%
▲ Construction	3%	3%

TEN LARGEST INVESTMENTS

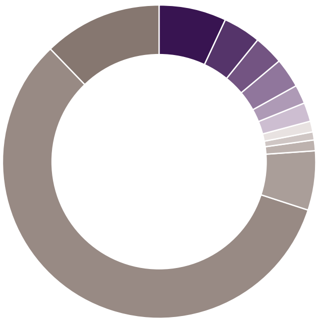
Affinity Water	7%
A63	6%
High Speed 1	5%
Northwest Parkway	5%
Southmead Hospital	4%
RSME	4%
Pinderfields & Pontefract Hospitals	4%
Home Office	4%
Dutch High Speed Rail Link	3%
Queen Alexandra Hospital	3%
Remaining Investments	55%

10 LARGEST FACILITIES MANAGEMENT COUNTERPARTY EXPOSURES



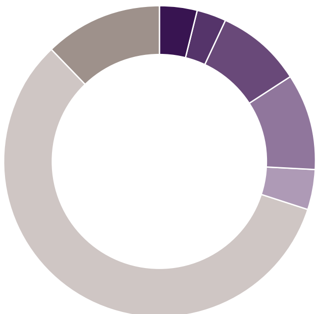
Bouygues	15%
Engie	13%
In House	12%
EGIS	6%
Network Rail	5%
Mitie	4%
Babcock	4%
Sodexo	3%
Siemens	3%
Strabag	3%
Other	32%

10 LARGEST CONSTRUCTION COUNTERPARTY EXPOSURES



Colas	7%
Balfour Beatty	4%
Laing O'Rourke	3%
Strabag	3%
DEME	2%
Bouygues	2%
Bilfinger	1%
Morgan Sindall	1%
Galiford Try	1%
Other contractors	6%
Latent defects limitation/Warranty period expired	58%
Affinity Water and High Speed 1	12%

LATENT DEFECT WARRANTY PERIODS REMAINING



Within 1 year	4%
1–2 years	3%
2–5 years	9%
5–10 years	10%
10+ years	4%
Latent defects limitation/ Warranty period expired	58%
Affinity Water and High Speed 1	12%

2.5
The Investment Portfolio

117 assets as at 30 September 2020

Education 14%

- Bangor & Nendrum Schools
- Barking & Dagenham Schools
- Belfast Metropolitan College
- Boldon School
- Bradford Schools 1
- Bradford Schools 2
- Conwy Schools
- Cork School of Music (Ireland)
- Croydon School
- Darlington Schools
- Defence Sixth Form College
- Derby Schools
- Ealing Schools
- East Ayrshire Schools
- Ecole Centrale Supélec (France)
- Edinburgh Schools
- Falkirk Schools NPD
- Fife Schools 2
- Haverstock School
- Helicopter Training Facility
- Irish Grouped Schools (Ireland)
- Kent Schools
- Manchester School
- Newham BSF Schools
- Newport Schools
- North Ayrshire Schools
- North Tyneside Schools
- Norwich Schools
- Oldham Schools
- Paris-Sud University (France)
- Perth & Kinross Schools
- PSBP NE Batch
- Renfrewshire Schools
- Salford & Wigan BSF Phase 1
- Salford & Wigan BSF Phase 2
- Salford Schools
- Sheffield Schools
- Sheffield BSF Schools
- South Ayrshire Schools
- University of Bourgogne (France)
- West Lothian Schools
- Wooldale Centre for Learning

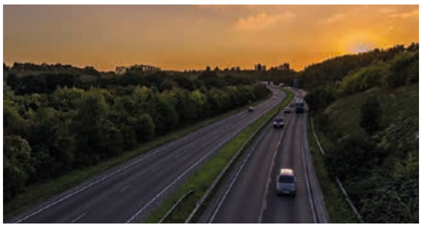
Health 28%

- Barnet Hospital
- Birmingham Hospitals
- Birmingham & Solihull LIFT
- Bishop Auckland Hospital
- Blackburn Hospital
- Blackpool Primary Care Facility
- Brentwood Community Hospital
- Brighton Hospital
- Central Middlesex Hospital
- Doncaster Mental Health Hospital
- Ealing Care Homes
- Glasgow Hospital
- Hinchingbrooke Hospital
- Irish Primary Care Centres (Ireland)
- Lewisham Hospital
- Medway LIFT
- Newton Abbot Hospital
- Oxford Churchill Oncology
- Oxford John Radcliffe Hospital
- Oxford Nuffield Hospital
- Pinderfields & Pontefract Hospitals
- Queen Alexandra Hospital
- Redbridge & Waltham Forest LIFT
- Romford Hospital
- Salford Hospital
- Sheffield Hospital
- Southmead Hospital
- Staffordshire LIFT
- Stoke Mandeville Hospital
- Tameside General Hospital
- West Middlesex Hospital
- Willesden Hospital

Fire, Law & Order 6%

- Addiewell Prison
- Breda Court (Netherlands)
- Dorset Fire & Rescue
- Durham & Cleveland Firearms Training Centre
- Exeter Crown and County Court
- Gloucester Fire & Rescue
- Greater Manchester Police Stations
- Medway Police
- Metropolitan Police Training Centre
- Royal Canadian Mounted Police HQ (Canada)
- South East London Police Stations
- Sussex Custodial Centre
- Tyne & Wear Fire Stations
- Zaanstad Prison (Netherlands)

Transport 30%



- A9 Road (Netherlands)
- A13 Road
- A63 Motorway (France)
- A92 Road
- A249 Road
- Blankenburg Connection (Netherlands)
- Connect PFI
- Dutch High Speed Rail Link (Netherlands)
- High Speed 1
- Kicking Horse Canyon (Canada)
- M1-A1 Link Road
- M80 Motorway
- M17 Motorway (Ireland)
- Northwest Parkway (USA)
- NW Anthony Henday (Canada)
- RD901 Road (France)

Accommodation 13%

- Allenby & Connaught
- Health & Safety Headquarters
- Home Office
- Miles Platting Social Housing
- Newcastle Libraries
- Northwood MoD HQ
- Oldham Library
- Royal School of Military Engineering
- University of Sheffield Accommodation

Electricity, Gas & Water 9%

- Affinity Water
- Burbo Bank OFTO
- Galloper OFTO
- Race Bank OFTO
- Walney Extension OFTO

Key

- Incremental investment since 31 March 2020
- Contract handed back to the public sector client since 31 March 2020
- New investment since 31 March 2020

2.6
Operating & Financial Review

A Sustainable Business Model
HICL's strategy to deliver the Investment Proposition is through successful execution of its Business Model. The Company delegates the majority of the day-to-day activities required to deliver the Business Model to InfraRed, its Investment Manager and the Operator of its Portfolio.

HICL's business model has three key pillars:

Value Preservation ensuring the realisation of long-term outcomes for all stakeholders by delivering the base case for shareholders, preserving a well-maintained portfolio of infrastructure assets and creating a positive social and environmental impact, both now and for future generations.

Value Enhancement outperforming the base case through active management for the benefit of all stakeholders and making a beneficial impact on communities by enhancing their experience of infrastructure.

Accretive Investment constructing a portfolio which delivers the Investment Proposition and improves key portfolio metrics by investing in assets which have a positive impact on the environment, promote social development and improve quality of life.

At the heart of InfraRed's approach to HICL's business model is a desire to deliver reliable and resilient infrastructure that supports economic development and human wellbeing. The Investment Manager believes that by doing so, HICL will be best placed to meet not only the needs of the community served by the assets but also its investors, who will benefit from the sustainable, long-term approach.

HICL actively contributes to the United Nations ("UN") Sustainable Development Goals ("SDGs") through the delivery of reliable and resilient infrastructure that supports economic development and human wellbeing. As a custodian of public, community infrastructure, there is a focus on inclusive, affordable and equitable access for all. The nature of HICL's investment proposition means the Company inherently contributes to developing industry, innovation and infrastructure (SDG 9); and building sustainable cities and communities (SDG 11).

HICL also leverages its resources, in particular that of InfraRed, its Investment Manager, to make a positive contribution to a number of other SDGs:

HICL's day-to-day contribution to the SDGs is epitomised through the impact that its investments have on the communities within which they are situated. The statistics on the following page demonstrate the reach of the portfolio within society and highlight the importance of the Investment Manager's sustainable, long-term approach to the business model.

Further examples of HICL's contribution to the SDGs through specific initiatives undertaken by its portfolio companies, or directly by the Investment Manager, are provided throughout this Operating & Financial Review.

3 GOOD HEALTH AND WELL-BEING

10 million

Over 10 million people with direct access to the healthcare facilities in the portfolio

7 AFFORDABLE AND CLEAN ENERGY

1.8 GW

Connecting offshore wind generation with enough capacity to power 1.7 million homes

4 QUALITY EDUCATION

120,000

Over 120,000 student places across the school, college and university facilities in the portfolio

11 SUSTAINABLE CITIES AND COMMUNITIES

500

Over 500km of road and high speed railway across the portfolio delivering regional interconnectivity

6 CLEAN WATER AND SANITATION

3.6 million

Population served with clean water by Affinity Water

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

50

Over 50 police stations, custody centres, fire stations and training facilities

Responsibilities of InfraRed

The application of HICL's Sustainability Strategy, which was published in the 2020 Annual Report, is undertaken by InfraRed as the Investment Manager and Operator.

InfraRed has been a signatory of the Principles for Responsible Investment ("PRI") since 2011. InfraRed continues to take a leadership role in the implementation of robust responsible investment strategies through its ongoing membership of the PRI Infrastructure Advisory Committee.

During the period, InfraRed's infrastructure business has been awarded an A+ rating, as assessed by PRI, for the sixth consecutive year. This is the highest attainable rating and above the peer median. The PRI assessment methodology can be found on the PRI website: www.unpri.org/report/about-reporting-and-assessment.

In order to minimise the negative impact of its own operations, InfraRed has become a certified CarbonNeutral company[1]. Effective from 1 January 2019 onwards, the certification demonstrates that the business has achieved a net zero carbon position by reducing its own carbon emission-related activities such as air travel and using accredited offsetting schemes.

During the height of the Covid-19 pandemic, over 175 members of InfraRed staff collectively walked or ran 16,983km (equivalent to the distance between London to Sydney) in order to raise money for charitable causes. Thanks to the generosity of sponsors, over £150,000 was raised for charities across all six of InfraRed's office locations that provide vital support to those affected by the pandemic.

Following a recent office move, the Investment Manager donated furniture worth approximately £100,000 to a variety of organisations, the majority of which are HICL portfolio companies. This has been well received by both clients and end users, and particularly so where this has allowed them to divert additional funding towards their response to Covid-19.

In order to formalise and encourage further charitable activity, the Investment Manager has established the InfraRed Charitable Foundation during the half year, which has obtained Charitable Incorporated Organisation status from the Charities Commission.

Group Sustainability Highlights

In line with the Group's desire to align its disclosure with the guidance published by the Task Force on Climate-related Financial Disclosures ("TCFD"), the Investment Manager has commissioned detailed climate change assessments across the entire portfolio. The results of these assessments will allow the Group to further improve its disclosure and are a key step towards full compliance with the recommendations.

HICL and InfraRed are both official TCFD Supporters[2], confirming their commitment to acting on climate change and to consistent and meaningful climate-related financial disclosures.

In the upcoming Annual Report covering the year to 31 March 2021, the Group intends to report against a new Key Performance Indicator related to sustainable stewardship, so that investors and wider stakeholders can objectively measure progress at the asset level.

[1] https://www.carbonneutral.com/
[2] https://www.fsb-tcfd.org/tcfd-supporters/

2.6
Operating & Financial Review (continued)

The Operational Response To Covid-19

The Company's ability to respond agilely to the Covid-19 pandemic during the period has highlighted the merits of its sustainable business model. Operations at many of HICL's investments, including schools, hospitals and emergency services buildings are both directly affected by, and at the heart of, the public sector's response to Covid-19.

The Investment Manager has set out its Code of Conduct in respect of the Covid-19 pandemic and its impact on the portfolio, which has been published on the InfraRed website (www.ircp.com). Through active management of HICL's portfolio companies, and collaboration with clients and delivery partners, InfraRed has prioritised three key initiatives:

1. Health and wellbeing of staff, end users, clients and stakeholders, and delivery partners at all of the facilities within the portfolio
   - A number of portfolio companies have recognised the individual contribution made by staff by providing free meals or vouchers. For example, at Salford Royal Hospital, clinical and support staff were provided with free food and drink 'grab bags' during the height of the pandemic, and at North Tyneside Schools Love to Shop vouchers were ordered for subcontracted facilities management staff.
   - At Perth & Kinross Schools, 3D printers have been sourced by the portfolio company and loaned to school staff. This has allowed the schools to produce protective face masks and other personal protective equipment for local NHS providers.
   - At Ealing Care Homes the portfolio company has, in collaboration with the Care Provider, funded a helpline for all staff in order to support their mental health and wellbeing during challenging working conditions.

By partnering with public healthcare providers to raise awareness and increase access to targeted health services, HICL contributes to SDG 3 – good health and wellbeing

3 GOOD HEALTH AND WELL-BEING

2. The immediate service needs of HICL's clients, the end users of the portfolio's assets and other stakeholders, prioritising asset quality, availability and flexibility
   - Over the period, there has been a large number of variations across many assets in the healthcare and education sectors of the portfolio, as clients have sought to reconfigure and redeploy resources to best respond to the challenges posed by the Covid-19 pandemic.
   - Where possible, portfolio companies have sought to introduce or make use of flexible, bespoke variation processes in order to prioritise the execution of client requests, with contractual arrangements following only once Covid-19 related needs have been met.
   - Examples of variations undertaken on behalf of clients range from the installation of social distancing measures such as signage and Perspex screens to complex reconfigurations of hospital wards.

By encouraging and promoting effective public-private partnerships, HICL contributes to SDG 17 – partnerships for the goals

17 PARTNERSHIPS FOR THE GOALS

3. Managing the financial outcomes sustainably for investors, many of whom are pensioners who rely on the income generated from HICL. The financial impact of Covid-19 on the Company and its portfolio, in particular in respect of the demand-based assets, is set out in Section 2.2 – Valuation of the Portfolio.

The Business Model In Action

This report provides additional commentary across the Value Enhancement, Value Preservation and Accretive Investment pillars of the Business Model to give additional texture on activities at asset, portfolio and Group level. These initiatives, whilst not material individually, resulted in net outperformance of the Group's investments in PPP projects and regulated assets and made a positive contribution to the communities HICL operates within.

Portfolio characteristics and statistics are set out in Section 2.4 – Portfolio Analysis.

Value Preservation

InfraRed's Asset Management and Portfolio Management teams work closely together, in partnership with the management teams within HICL's portfolio companies and stakeholders of the infrastructure, to preserve the value of the Group's investments. The objective is to ensure portfolio companies provide well-maintained infrastructure to deliver key outcomes for end users, stakeholders and communities, perform in line with the relevant contractual obligations and/or regulatory framework, and, in so doing, meet or exceed the forecast base case investment return.

Demand-Based Assets

As noted in Section 2.1 – Investment Manager's Report, the Company's GDP-linked demand-based assets continue to be impacted by reduced usage as a direct result of the Covid-19 pandemic. A case study detailing the performance of HICL's three largest GDP-linked assets over the period is set out in Section 2.2 – Valuation of the Portfolio.

Over the six-month period, High Speed 1 ("HS1") received contracted track access revenues from both London & South Eastern Railway and Eurostar in line with forecast. However, underlying international service levels continue to be affected by government pandemic management policies. As part of its response to Covid-19, Eurostar announced the following changes:

- The commencement of direct services between Amsterdam and London following the extension of juxtaposed border control checks to the Netherlands, reducing the journey time significantly on this route; and
- Removing all stops at Ashford International and Ebbsfleet International until at least 2022 (domestic train services are unaffected and will continue to serve these stations).

Neither service change is expected to have a material impact on the number of train paths booked in the future.

Due to continued uncertainty around the recovery of international train service levels, HS1 has been subject to credit ratings agency action, with Standard & Poor's downgrading senior secured debt issued by High Speed Rail Finance (1) Plc by one notch to BBB+. The project continues to benefit from sufficient liquidity to service all debt under a range of plausible scenarios.

Both the Investment Manager and HS1 management team continue to closely monitor the conclusion of the UK's Brexit negotiations. Even in the event of a disorderly exit, Eurostar will continue to hold a dual licence to operate in both the UK and EU. Although passengers may experience increased waiting times at the borders, any impact is likely to be mitigated by HS1's Brexit continuity plan and suppressed passenger volumes as a result of Covid-19. In order to assist with the UK's Brexit preparedness, HS1 has agreed to provide overspill capacity for customs checks on goods vehicles at Ebbsfleet International car park.

In order to encourage the safe return of rail passengers and retail customers to St Pancras International, HS1 has introduced two state-of-the-art cleaning robots to eradicate viruses throughout the station's concourse and facilities. Working in tandem, one robot uses innovative UV-C light technology to eradicate airborne viruses whilst the second cleans and disinfects surfaces with an automated scrubber dryer. The robots require minimal human interaction and provide thorough and consistent cleaning to the station day and night.

Shortly after the end of the period, HS1 announced the launch of its Sustainability Strategy, which was developed in close collaboration with the Investment Manager. Some of the key initiatives are shown below.

By March 2022, 100% of the electricity used to power trains and stations will be guaranteed to originate from renewable sources, meaning that HS1 will become the first UK railway to be powered entirely through renewable energy

7 AFFORDABLE AND CLEAN ENERGY

HS1's environmental protection plan seeks to prevent all non-hazardous waste going to landfill by 2022, recycle 90% of operations and project waste by 2023 and ultimately deliver a Biodiversity Net Gain by 2030 if this is deemed achievable following a full survey in 2021

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

By 2030, HS1 expects to be fully carbon-neutral, and has put in place an energy reduction plan across both traction and non-traction energy in order to reduce the carbon footprint of its wider operations in the short term

13 CLIMATE ACTION

To fulfil its role as a responsible neighbour and provide a positive contribution to the communities around its stations and lineside, HS1 will contribute 700 hours of staff time each year to local communities and charity activities by the end of 2022

17 PARTNERSHIPS FOR THE GOALS

2.6
Operating & Financial Review (continued)

In October 2020, HS1 CEO Dyan Crowther was announced as the winner of the Infrastructure Leader award at the 2020 Amazon Everywoman in Transport & Logistics Awards in recognition of her contribution to the rail industry and her work to promote gender diversity.

By supporting and empowering women in leadership and advocating equal opportunity for all, HICL contributes to SDG 5 – gender equality

On the A63 Motorway (France), the portfolio company and operator won the Private Sector Innovation award from the International Bridge, Tunnel and Turnpike Association in recognition of its virtual reality training programme to teach and certify road safety patrollers. Through the use of innovative technology, the portfolio company has been able to significantly improve staff wellbeing and safety without compromising on the quality of the training and therefore the experience of the end road users.

By upholding labour standards and initiating skills development programmes across the supply chain, HICL contributes to SDG 8 – decent work and economic growth

Occupancy rates at the University of Sheffield accommodation project have increased in the academic year 2020-21 compared to the previous year. This has occurred as a result of Covid-19 related changes to A-level grading which resulted in the removal of the cap on the number of first year undergraduate students taking up places. Over the period, lifecycle works have been completed in time for the new student intake and comprise development of shared communal spaces including kitchens, living areas, corridors and stair areas.

Counterparties

Counterparty risk is a key focus of the Group. This would primarily manifest itself as either counterparty failure or underperformance of contractors. In each case, InfraRed's priority would be the continuation of service delivery to public sector clients and the users of the affected infrastructure.

HICL has contingency plans that proactively contemplate a scenario in which a key subcontractor enters administration or liquidation, which have been tested in recent years. The Investment Manager's wide network provides a number of potential replacement service providers.

Projects affected by the administration of Interserve PLC ("Interserve") continue to be available for public sector clients with good service levels maintained. As at 30 September 2020, projects where Interserve undertake facilities management services represent less than 1% of the portfolio by value. InfraRed's dedicated Credit team continues to monitor the financial health of all of the Group's counterparties in order to inform contingency planning and proactive management.

Regulatory Review Processes

Affinity Water

As previously reported, Affinity Water accepted the Final Determination from Ofwat on its business plan for the five years of Asset Management Period 7 ("AMP7") to 2025. The four water companies that sought referrals from the Competition and Markets Authority ("CMA") received provisional findings during the period, with the CMA's final determination expected in February 2021. As noted in Section 2.1 – Investment Manager's Report, the proposed increase to the allowed weighted average cost of capital ("WACC") offers read-across to other companies in the sector, including Affinity Water, from the next Asset Management Period (AMP8) onwards.

High Speed 1

As a result of the significantly depressed levels of international train paths currently running on HS1, the management team has engaged in discussions with Eurostar, London & South Eastern Railway and the UK Department for Transport in respect of station and track access charges. The aim of these discussions is to manage the immediate cost pressures faced by all train operating companies whilst ensuring the long-term resilience of the asset. Depending on the outcome of these discussions, HS1 may be required to exercise a contractual measure to ensure that track access charges are reallocated between the train operating companies in order to cover fixed costs.

Construction Defects

Construction defects in portfolio assets are in most cases identified through the regular programme of operations and maintenance activities or as a result of proactive asset surveys commissioned by portfolio companies. If unresolved, these defects have the potential to impact on asset availability and/or the ability for projects to make distributions to investors.

Defects detected within the statutory limitations period (typically 12 years in England, for example) are lodged with the relevant construction subcontractor for remediation. Ensuring that the cost of remediation is borne by the original construction contractor, when they have responsibility for such remediation, is essential to value preservation. Contractual claim mechanisms include dispute resolution processes that enable portfolio companies to enforce their rights and, if necessary, through the court system when a dispute cannot be resolved by negotiation.

The resolution of construction defects is a key priority. However, the onset of Covid-19 is expected to affect the ability to investigate and remediate defects on certain assets (e.g. hospitals). The timeframes associated with the assumed release of distributions that have been held back may be delayed as a result.

Following the expiry of the statutory limitations period or in certain other circumstances, for example if the subcontractor becomes insolvent, the risk of remediation of construction defects when detected typically falls to the portfolio company itself, where the budgeted lifecycle spend and associated reserves would normally be the chief source of cost mitigation.

Fire safety systems

The Investment Manager has an ongoing programme of review and assurance across the Company's portfolio to identify potential fire safety system defects. Where defects are found, however minor, public safety remains the key priority, followed by continuity of service provision to public sector clients. Public sector clients are apprised of fire prevention and protection measures as well as updated on progress towards rectification. Where appropriate, project management teams work closely with the local fire service, who advise and approve the adequacy of fire prevention and protection measures in place whilst the defects are remedied. Remediation works are expected to be borne by their respective construction contractors wherever possible.

As set out in Section 2.1 – Investment Manager's Report, InfraRed's Asset Management team has identified further scope for defect remediation relating to fire safety at one healthcare asset in the portfolio. As the original construction contractor, Carillion PLC, has now been liquidated, the responsibility to remedy these defects rests with the portfolio company. HICL retains an absolute focus on safety and continuity of service regardless of the entity responsible for defect remediation. This is borne out by the Investment Manager's efforts towards detailed survey and remediation works on this asset.

By insisting on safe and sustainable infrastructure through sound buildings management practices, HICL contributes to SDG 11 – sustainable cities and communities

11 SUSTAINABLE CITIES AND COMMUNITIES

Compensation On Termination

Typically, public sector counterparties are entitled to voluntarily terminate a PPP contract and, if this occurs, project companies have a corresponding right to receive compensation. For the majority of HICL's investments in UK PPP projects, this compensation is contractually based on market value which would, in the Investment Manager's assessment, be equal to the prevailing value of the asset in the portfolio.

As at 30 September 2020, the Investment Manager estimates that the difference between the Group's valuation of its investments in PPP projects and demand-based assets, and the compensation contractually payable in the hypothetical event of voluntary terminations across the Group's entire portfolio of these assets represents approximately 2% of total portfolio value.

During the half year, the Connect PPP project which had been handed back to London Underground Limited reached an agreed settlement on final concession payments, which was in line with the residual valuation of the asset.

2.6
Operating & Financial Review (continued)

Value Enhancement

InfraRed's Asset Management and Portfolio Management teams seek opportunities to deliver outperformance from the portfolio through enhancing communities' experience of infrastructure and/or improving long-term financial performance.

Initiatives such as those set out in this section of the report create operational and/or financial benefits for asset owners, public sector stakeholders and end users. In doing so, the positive effect on the environment in which the infrastructure is embedded demonstrates that responsible investment practices do go hand-in-hand with economic performance.

Strengthening Partnerships

The Investment Manager recognises its position as a trusted custodian of essential public infrastructure. As such, it understands the importance of enhancing value for society as a whole. By actively supporting the objectives of all stakeholders, HICL strengthens relationships with communities, improves the environment in which the infrastructure is embedded and thus ensures that the investments themselves are sustainable in the long term.

Portfolio companies actively support and facilitate initiatives which are tailored to benefit stakeholders. HICL's Board has the firm belief that only with the endorsement of the communities in which the portfolio's infrastructure resides can HICL effectively deliver the investment proposition for its investors over the long term. Examples of initiatives launched or delivered over the period include:

▲ Affinity Water voluntarily turning off a major groundwater abstraction site at the head of the Chess Valley in the Chilterns area of Outstanding National Beauty. This action has been highly praised by Ofwat, local stakeholders and the Environment Agency and is a clear demonstration of the portfolio company's commitment to end unsustainable abstractions and restore unique natural environments for the long-term benefit of local communities. It is also a crucial first step in Affinity Water's commitment to restore the health of globally rare chalk streams by voluntarily ending unsustainable abstractions. Further actions to reduce abstraction in the River Ver, River Mimram, Upper River Lea and River Misbourne are expected to take place by summer 2024.

> By managing and mitigating the impact on ecosystems and natural resources, HICL contributes to SDG 15 – life on land
>
> 15 LIFE ON LAND

▲ The portfolio company responsible for operating the Northwest Parkway toll road (USA) made a $100,000 charitable donation to local communities struggling with the impact of Covid-19. The funds were allocated to a variety of volunteer foundations as well as to first responders in the North Metro Fire Department who serve populations along the road corridor.

> By mobilising financial resources to promote economic equality, HICL contributes to SDG 17 – partnerships for the goals
>
> 17 PARTNERSHIPS FOR THE GOALS

▲ A programme of landscaping works are currently being undertaken at the Northwood Ministry of Defence Headquarters. The landscaped spaces around the site offer a place to retreat from a high-stress work environment that involves supporting overseas military operations. The portfolio company recognises the importance of the mental and physical wellbeing of all staff, including those employed directly by the client, and has therefore agreed to make a significant contribution to the works.

> By ensuring that workers have safe and pleasant working conditions, HICL contributes to SDG 3 – good health and wellbeing
>
> 3 GOOD HEALTH AND WELL-BEING

These initiatives demonstrate that responsible investors in the private sector can contribute towards positive social outcomes and reinforce the benefits of the partnership model.

Construction Advancement

The Group has two investments currently in construction: the Biology, Pharmacy and Chemistry Department of the Paris-Sud University (France), and the Blankenburg Connection (the Netherlands) PPP projects, which together represent 3% of the portfolio, by value at 30 September 2020. The risk profile of these projects is reducing as they advance through construction thereby creating financial value for the Group.

Where construction timetables are impacted by Covid-19, resulting delays are expected to either be accommodated within current construction timetables or are expected to trigger relief action by clients to minimise losses to both portfolio companies and construction counterparties. Therefore, the future delivery of both of these projects remains an opportunity for future value enhancement.

Variations

As described above, the period has seen an unusually large number of variations agreed across the portfolio, often in a short space of time, in response to the operational challenges posed by Covid-19. In these instances, the primary focus of the Investment Manager has been to support client delivery through a flexible and rapid response to evolving patterns of use in the facilities.

Aside from Covid-19, contract variations continue to be agreed which will enhance asset outcomes for clients, improve the end-user experience and create value for HICL's shareholders. Some examples include:

- At the Sussex Custodial Services project, a renegotiation of the contract took place which provided the client with financial savings and operational benefits for detainees and staff. Coupled with this, the portfolio company has worked with the client to upgrade cells and CCTV equipment to meet Home Office requirements. Working in collaboration with the facilities management provider, a solution was delivered that exceeded the contractual specification at no additional cost to the client.
- The Exeter Crown and County Court reconfiguration project, which sought to create two new Magistrates Courts and one tribunal room in the existing building, achieved practical completion during the period. In order not to impact the sitting of the existing Crown Courts, works were carried out overnight and at weekends. The new spaces provide a materially more appropriate space for the general public, and provide greater operational flexibility for the client.

By working with government and civil society to support the rule of law, HICL contributes to SDG 16 – peace, justice and strong institutions

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Lifecycle

56% of the portfolio, by value at 30 September 2020, retains primary responsibility, both risk and reward, for asset condition and the effective delivery of asset renewal and lifecycle maintenance, as opposed to having contracted this to the supply chain.

Portfolio companies periodically review expenditure forecasts via detailed asset condition surveys that take into account the active asset management undertaken to date. To the extent that assets have performed better than expected at financial close, typically due to effective proactive maintenance regimes, lifecycle works and the associated costs are then re-profiled and re-modelled. The result of this exercise can, in the context of responsible and appropriate asset maintenance, result in financial upside. New asset renewal expenditure forecasts were completed on two projects, which increased the valuation of the associated assets. A further nine reviews are underway.

The Investment Manager uses its depth of experience on assessing asset condition and data from across the wider InfraRed portfolio to ensure lifecycle and asset renewal is well managed for stakeholders while delivering value for shareholders.

Accounting, Tax And Cash Management

During the half year, the Investment Manager has continued its approach to active cash management initiatives across the portfolio. Initiatives typically enable projects to release trapped cash and adjust the timing of certain cash flows, whilst maintaining appropriate capitalisation levels as required by company law and project lenders and help efficient management of the portfolio. These initiatives are expected to provide additional value enhancement, over base case forecasts, in the medium term.

2.6
Operating & Financial Review (continued)

Accretive Investment

A sustainable approach to investment

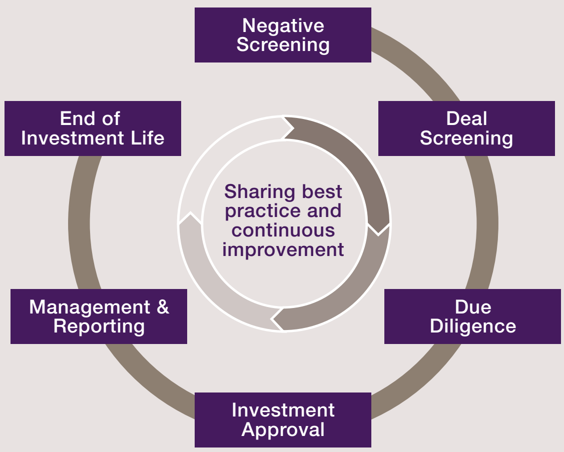
The Company has a clearly defined Investment Policy, which can be found on the Company's website. This sets the over-arching framework within which the Company aims to build a portfolio that delivers HICL's investment proposition and is consistent with the Company's overall risk appetite.

Working within delegated parameters approved by the HICL Board, InfraRed is responsible for the selection and pricing of new investments and, where deemed appropriate, disposals. The Acquisition Strategy is periodically reviewed by the Board and agreed with InfraRed, most recently in September 2020.

Sustainability is integrated into each stage of the Investment Manager's investment process; from negative screening against the firm and fund exclusion lists, deal screening, due diligence, the investment approval, ongoing management and reporting throughout the ownership period until an investment reaches the end of its economic life and is decommissioned or when we exit the investment, as demonstrated in the graphic below.

End of investment life
- Sustainability performance assessed and reported to the Investment Committee
- Responsible and collaborative approach to asset handback

Management & Reporting
- Active management through portfolio company board representation
- Implementation of sustainability action plan
- Monitor and update risk register
- Development, with stakeholder input, and implementation of social and environmental initiatives
- Reporting of sustainability KPIs and incidents to stakeholders



Investment Approval
- Sustainability due diligence findings reported to, and examined by, the Investment Committee
- Approval of sustainability action plan

Negative Screening
- Checks made against InfraRed's exclusion lists

Deal Screening
- Public data searches to identify sustainability breaches/incidents
- Initial identification of sustainability risks and opportunities

Due Diligence
- Due diligence completed to identify sustainability key risks and opportunities
- Sustainability action plan to implement post-investment

Over the course of the half year the Investment Manager, on behalf of HICL, has declined two potential investment opportunities as a direct result of either negative screening or deal screening.

Investment Activity

In June 2020, the Group completed its c.£18m investment in the transmission assets associated with the Walney Offshore Wind Farm (the Walney OFTO[3]). Alongside the three other OFTOs in HICL's portfolio, this acquisition further contributes to the UK's transition to a low-carbon economy by connecting a combined 1.8GW of offshore wind generation to the UK mainland, with energy capacity to power 1.7 million homes.

By accelerating the transition to a sustainable energy system by investing in infrastructure which establishes access to renewable energy, HICL contributes to SDG 7 – affordable and clean energy, sustainable cities and communities

Also in June 2020, HICL acquired a further 74% interest in Holdfast Training Services Limited for £85.4m, a PPP project that supports the Royal School of Military Engineering, facilitating access to high-quality education and training to service personnel for the Ministry of Defence.

In July 2020, HICL agreed to acquire the remaining 50% interest in the M17/M18 Gort to Tuam Road PPP (Ireland) for c.€41m, an availability-based transportation project that improves regional connectivity in the west of Ireland.

In the case of all three investments made in the period, the assets have been revalued as at 30 September 2020 which has made a significant contribution to the net outperformance of the Group's investments in PPP projects and regulated assets.

[3] Offshore Transmission Owner

Financial Review

This section summarises the financial results of the Company for the six month period ended 30 September 2020. The Company prepares IFRS financial statements which do not consolidate any subsidiaries, including those that are themselves investment entities.

Consistent with prior periods, the Company and its advisers have concluded that to report the relevant financial performance and position to stakeholders, it will prepare pro forma summary financial information which consolidates the results of the Company and its Corporate Subsidiaries. This basis is designated the Investment Basis and provides shareholders with more information regarding the Corporate Group's gearing and expenses, coupled with greater transparency into HICL's capacity for investment and ability to make distributions.

In the Investment Basis results, the Company consolidates the results of HICL Infrastructure 2 S.a.r.l. and Infrastructure Investments Limited Partnership (together the "Corporate Subsidiaries").

References to the "Corporate Group" in this section refer to the Company and its Corporate Subsidiaries.

Summary Financial Statements

Investment Basis Summary Income Statement

	Six months to 30 September 2020			Six months to 30 September 2019		
£m	**Investment Basis**	Consolidation adjustments	**IFRS Basis**	Investment Basis	Consolidation adjustments	IFRS Basis
Total income[1]	121.9	(16.4)	105.5	97.9	(17.3)	80.6
Expenses & finance costs	(17.8)	16.3	(1.5)	(18.4)	17.1	(1.3)
Profit/(loss) before tax	**104.1**	**(0.1)**	**104.0**	**79.5**	**(0.2)**	**79.3**
Tax	(0.1)	0.1	–[2]	(0.2)	0.2	–
Earnings	**104.0**	**–**	**104.0**	**79.3**	**–**	**79.3**
Earnings per share	**5.5p**	**–**	**5.5p**	**4.4p**	**–**	**4.4p**

On an IFRS Basis, Total income of £105.5m (2019: £80.6m) comprises income received by the Company and valuation movements in its investments. Both Total income and Expenses & finance costs are lower on an IFRS Basis than on the Investment Basis, as costs incurred by the Corporate Subsidiaries are included within Total income under IFRS, not under Expenses & finance costs.

On an Investment Basis, Total income of £121.9m (2019: £97.9m) represents the return from the portfolio recognised as income comprising dividends, sub-debt interest and valuation movements. The 25% (£24.0m) increase in Total income reflects a 0.2% reduction in the weighted average discount rate partially offset by a £26.0m valuation decrease from changes in economic assumptions combined with a £20.5m valuation reduction from Covid-19 impacting demand and regulated assets. Further detail on the valuation movements is given in Section 2.2 – Valuation of the Portfolio.

The £1.5m net foreign exchange gain (2019: £15.8m gain), which is included in Total income, comprises a £4.6m foreign exchange gain (2019: £26.4m gain) on revaluing the non-UK assets in the portfolio using September 2020 exchange rates, partly offset by a £3.1m foreign exchange hedging loss (2019: £10.6m loss).

Earnings on an IFRS Basis and Investment Basis were £104.0m, an increase of £24.7m against the prior period due to the same factors stated above.

Earnings per share were 5.5p (2019: 4.4p), the increase being driven by the growth in Earnings.

[1] Includes net foreign exchange gain of £1.5m (2019: £15.8m gain)
[2] Please refer to Note 7 of the financial statements

2.6 Operating & Financial Review (continued)

Investment Basis Cost Analysis

£m	Six months to 30 September 2020	Six months to 30 September 2019
Finance costs	1.8	2.1
Investment Manager fees	14.2	14.9
Auditor – KPMG – for the Corporate Group	0.2	0.1
Non-audit fee – KPMG – Interim review	0.1	0.1
Directors' fees & expenses	0.2	0.2
Acquisition bid costs	0.2	0.4
Professional fees	1.1	0.6
Expenses & finance costs	**17.8**	**18.4**

Total fees accruing to the Investment Manager were £14.2m (2019: £14.9m) for the period, comprising the 1.1% p.a. management fee for assets up to £750m, 1.0% for assets above £750m, 0.9% for assets above £1.5bn, 0.8% for assets above £2.25bn and 0.65% for assets above £3bn and the £0.1m p.a. management fee. The £0.7m reduction is due to the Investment Manager no longer receiving a 1.0% fee on acquisitions made from third parties.

Neither the Investment Manager nor any of its subsidiaries receives other fees from the Corporate Group or the Corporate Group's portfolio of investments.

During the period, the Corporate Group incurred £0.2m of acquisition bid costs (2019: £0.4m), mainly being legal, technical and tax due diligence, on unsuccessful bids and bids in progress.

On an IFRS Basis, expenses and finance costs were £1.5m (2019: £1.3m) as they exclude costs incurred by the Corporate Subsidiaries where the Investment Manager fees and the majority of expenses are incurred.

Investment Basis Ongoing Charges

£m	Six months to 30 September 2020	Six months to 30 September 2019
Investment Manager	14.2	14.2[1]
Audit and interim review fee – KPMG – for the Corporate Group	0.2	0.2
Directors' fees and expenses	0.2	0.2
Other ongoing expenses	0.8	0.6
Total expenses	15.4	15.2
Average NAV	2,870.9	2,787.8
Ongoing charges	**1.08%**	**1.09%**

Ongoing charges, in accordance with the Association of Investment Companies' ("AIC") guidance, is defined as annualised ongoing charges (i.e. excluding acquisition costs and other non-recurring items) divided by the average published undiluted net asset value in the period.

The Ongoing charges percentage is 1.08% (2019: 1.09%). The small reduction is driven by HICL's equity capital raises over the last 12 months.

[1] Excludes acquisition fees of £0.7m, in line with AIC calculation methodology. From 1 April 2019, these are no longer payable to the Investment Manager.

Investment Basis Summary Balance Sheet

£m	30 September 2020 Investment Basis	Consolidation adjustments	IFRS Basis	31 March 2020 Investment Basis	Consolidation adjustments	IFRS Basis
Investments at fair value	**2,994.5**	**(12.2)**	**2,982.3**	**2,811.5**	**26.4**	**2,837.9**
Working capital	(6.4)	5.7	(0.7)	(2.2)	1.7	(0.5)
Net (debt)/cash	(6.0)	6.5	0.5	28.7	(28.1)	0.6
Net assets attributable to Ordinary Shares	**2,982.1**	**–**	**2,982.1**	**2,838.0**	**–**	**2,838.0**
NAV per share (before dividend)	154.0p	–	154.0p	152.3p	–	152.3p
NAV per share (post dividend)	151.9p	–	151.9p	150.2p	–	150.2p

On an IFRS Basis, Investments at fair value increased 5% to £2,982.3m (March 2020: £2,837.9m), reflecting acquisitions in the period, partly offset by a £38.6m reduction in the fair value of the Corporate Subsidiaries mainly reflecting the movement in their Net (debt)/cash positions. On an IFRS Basis, Net cash was £0.5m (March 2020: £0.6m). The Group's cash and debt management is undertaken through the Corporate Subsidiaries.

On an Investment Basis, Investments at fair value increased 7% to £2,994.5m (March 2020: £2,811.5m), which is the Directors' Valuation of £3,073.2m (March 2020: £2,888.5m) net of £78.7m of future investment obligations (March 2020: £77.0m). Further detail on the movement in Investments at fair value is given in Section 2.2 – Valuation of the Portfolio.

The Corporate Group had Net debt, on an Investment Basis, at 30 September 2020 of £6.0m (March 2020: Net cash of £28.7m); the movement in the six months reflecting cash used for investments. Cash drawings from the Corporate Group's Revolving Credit Facility at the end of the period were £13.3m (March 2020: £Nil).

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

NAV per share was 154.0p (March 2020: 152.3p) before the 2.06p second quarterly distribution. NAV per share has increased 1.7p, reflecting 5.5p earnings per share, net of 4.1p distributions in the six month period to 30 September 2020, and 0.3p accretive equity issuance.

Analysis of the Growth in NAV per Share

Pence per share			
NAV per share at 31 March 2020			**152.3p**
Valuation movements			
Reduction in discount rates	3.2p		
Change in economic assumptions	(1.4p)		
Forex gain	0.2p		
		2.0p	
Portfolio performance			
Value enhancement	0.2p		
Covid-19	(1.1p)		
Expected NAV growth[1]	0.3p		
		(0.6p)	
Accretive issuance of shares		0.3p	
Total		**1.7p**	
NAV per share at 30 September 2020			**154.0p**

[1] Expected NAV growth is HICL's budgeted EPS less target dividend

2.6 Operating & Financial Review (continued)

Investment Basis Summary Cash Flow

£m	Six months to 30 September 2020 Investment Basis	Consolidation adjustment	IFRS Basis	Six months to 30 September 2019 Investment Basis	Consolidation adjustment	IFRS Basis
Cash from investments	82.6	(2.9)	79.7	95.2	(19.1)	76.1
Operating and finance costs outflow	(17.5)	16.1	(1.4)	(18.7)	17.9	(0.8)
Net cash inflow before capital movements	**65.1**	**13.2**	**78.3**	**76.5**	**(1.2)**	**75.3**
Cost of new investments, including acquisition costs	(140.6)	22.0	(118.6)	(18.0)	18.0	–
Share capital raised net of costs	118.8	(0.1)	118.7	(0.7)	–	(0.7)
Forex movement on borrowings/hedging[1]	0.5	(0.5)	–	(1.6)	1.6	–
Distributions paid	(78.5)	–	(78.5)	(73.1)	–	(73.1)
Movement in the period	(34.7)	34.6	(0.1)	(16.9)	18.4	1.5
Net cash/(debt) at start of period	28.7	(28.1)	0.6	(84.3)	84.3	–
Net (debt)/cash at end of period	**(6.0)**	**6.5**	**0.5**	**(101.2)**	**102.7**	**1.5**

On an IFRS Basis, the Company received £79.7m from its direct Corporate Subsidiary (2019: £76.1m). These payments are sized to pay shareholder dividends and the Company's operating costs.

Cash inflows from the portfolio on an Investment Basis were £82.6m (2019: £95.2m) or 13% lower. This was in line with expectations with the reduction due to the impact of Covid-19 related travel restrictions on the demand-based assets sensitive to GDP – see Section 2.2 – Valuation of the Portfolio for further detail.

Cost of new investments on an Investment Basis of £140.6m (2019: £18.0m) represents the cash cost of investments in the Walney OFTO, Royal School of Military Engineering PPP and M17/M18 PPP (Ireland), and acquisition costs of £0.2m (2019: £0.4m).

Hedging and borrowing is undertaken by a Corporate Subsidiary and therefore the Company had no cash flows for this on an IFRS Basis during the period. On an Investment Basis, the £0.5m cash inflow (2019: £1.6m outflow) comprised £1.2m from foreign exchange rate hedging settlements in the period and £0.7m movement in capitalised debt arrangement costs. The Corporate Group enters into forward contracts to hedge FX exposure in line with the Company's hedging policy set out below.

Dividends paid in the period increased 7%, or £5.4m to £78.5m (2019: £73.1m) in line with the increased shares in issue. Dividend cash cover, which compares operational cash flow on an Investment Basis to dividends paid, was 0.83 times (2019: 1.05 times). This was as expected and as communicated in the Company's March 2020 annual results, which indicated a likely dividend cash cover of 80%-90% for the financial year ending 31 March 2021, given the impact of Covid-19 on the demand-based assets that are sensitive to GDP.

[1] Includes movement in capitalised debt issue costs of £0.7m (2019: £0.4m)

Group Drawings and Gearing Levels

The Board's policy is that the Company should not hold material amounts of un-invested cash beyond what is necessary to meet outstanding equity commitments for existing investments or to fund potential acquisitions in the near term.

The Corporate Group has a £400m Revolving Credit Facility ("RCF"), which was last renewed on 3 April 2020 on the same commercial terms, with an expiry date of 31 May 2023. Further, following the period end in November 2020, the Corporate Group signed a £60m Letter of Credit Facility ("LCF") with an expiry date of 31 December 2026, primarily to fund existing and future longer-term funding obligations. The LCF is provided by Sumitomo Mitsui Banking Corporation and ING.

Periodically, the Investment Manager will consider refinancing options aligned to the pipeline of potential transactions. As at 30 September 2020, the Group had cash drawings on its RCF of £13.3m and drawings of £80.8m by way of letters of credit. Sufficient capacity is retained on the RCF for the Group to fund additional investments as and when further attractive opportunities arise.

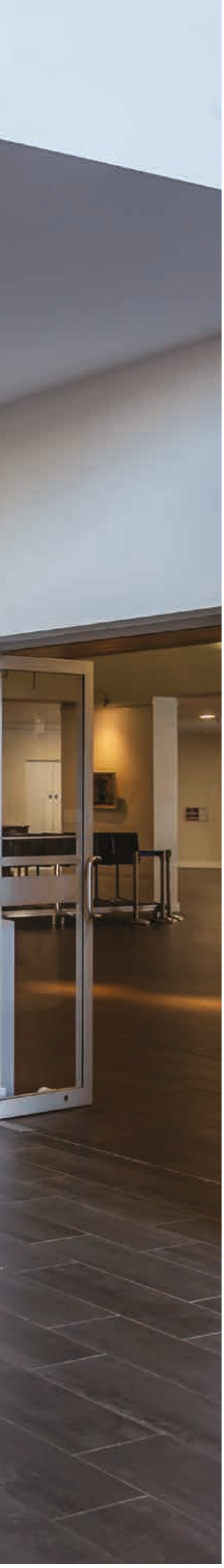
Foreign Exchange Hedging

The Corporate Group's hedging policy targets NAV per share volatility of no more than 2% for a 10% movement in foreign exchange rates. The policy balances the cost/benefit of hedging activity whilst retaining the key objective of materially mitigating the impact of foreign exchange movements on HICL's financial results.

Hedging as at 30 September 2020 compared to non-Sterling portfolio values were:

	Non-UK assets £m	FX Hedge £m	FX Hedge as % of non-UK assets %
Euro	469	239	51%
North America	210	90	43%
Total	**679**	**329**	**48%**

Cork School of Music, Ireland



03 Financial Statements

3.1
Directors' Statement of Responsibilities

We confirm that to the best of our knowledge:

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

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

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

On behalf of the Board

Ian Russell
Chairman
24 November 2020

3.2
Independent Review Report

Conclusion
We have been engaged by HICL Infrastructure PLC (the "Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 of the Company which comprises the Condensed Unaudited Income Statement, the Condensed Unaudited Balance Sheet, the Condensed Unaudited Statement of Changes in Shareholders' Equity, the Condensed Unaudited Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules (the "DTR") of the UK's Financial Conduct Authority (the "UK FCA").

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

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

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

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. 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 by the EU.

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

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

Ian Griffiths
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
24 November 2020

3.3
Condensed Unaudited Income Statement

For the six months ended 30 September 2020

	Note	For the six months ended 30 September 2020 Total £m	For the six months ended 30 September 2019 Total £m
Investment income	5	105.5	80.6
Total income		**105.5**	**80.6**
Fund expenses	6	(1.5)	(1.3)
Profit before tax		**104.0**	**79.3**
Profit for the period	8	**104.0**	**79.3**
Earnings per share – basic and diluted (pence)	8	**5.5**	**4.4**

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

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

3.4
Condensed Unaudited Balance Sheet

As at 30 September 2020

	Note	30 September 2020 Unaudited £m	31 March 2020 Audited £m
Non-current assets			
Investments at fair value through profit or loss	10	2,982.3	2,837.9
Total non-current assets		**2,982.3**	**2,837.9**
Current assets			
Trade and other receivables		0.1	0.1
Cash and cash equivalents		0.5	0.6
Total current assets		**0.6**	**0.7**
Total assets		**2,982.9**	**2,838.6**
Current liabilities			
Trade and other payables		(0.8)	(0.6)
Total current liabilities		**(0.8)**	**(0.6)**
Total liabilities		**(0.8)**	**(0.6)**
Net assets		**2,982.1**	**2,838.0**
Equity			
Share capital	11	0.2	0.2
Share premium	11	1,055.3	936.7
Distributable reserves		1,994.7	1,999.3
Other reserves		(68.1)	(98.2)
Total equity		**2,982.1**	**2,838.0**
Net assets per Ordinary Share (pence)		**154.0**	**152.3**

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

The financial statements were approved and authorised for issue by the Board of Directors on 24 November 2020, and signed on its behalf by:

I Russell
Director

S Farnon
Director

Company registered number: 11738373

3.5
Condensed Unaudited Statement of Changes in Shareholders' Equity

For the six months ended 30 September 2020

	Note	Share capital and share premium £m	Distributable reserves £m	Other reserves £m	Total shareholders' equity £m
					Six months ended 30 September 2020 Attributable to equity holders of the parent
Shareholders' equity as at 31 March 2020		936.9	1,999.3	(98.2)	2,838.0
Profit for the period		**–**	**73.9**	**30.1**[1]	**104.0**
Shares issued	11	–	–	–	–
Premium arising on share issue	11	120.0	–	–	120.0
Distributions paid to shareholders	9	–	(78.5)	–	(78.5)
Costs of share issue		(1.4)	–	–	(1.4)
Shareholders' equity at 30 September 2020		**1,055.5**	**1,994.7**	**(68.1)**	**2,982.1**

	Note	Share capital and share premium £m	Distributable reserves £m	Other reserves £m	Total shareholders' equity £m
					Six months ended 30 September 2019 Attributable to equity holders of the parent
Shareholders' equity as at 31 March 2019		0.1	2,000.0	–	2,000.1
Profit for the period		**–**	**52.4**	**26.9**[1]	**79.3**
Redemption of preference shares		(0.1)	–	–	(0.1)
Shares issued	11	0.2	–	–	0.2
Premium arising on share issue	11	821.4	–	–	821.4
Distributions paid to shareholders	9	–	(73.1)	–	(73.1)
Costs of share issue		(0.7)	–	–	(0.7)
Shareholders' equity at 30 September 2019		**820.9**	**1,979.3**	**26.9**	**2,827.1**

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

[1] Other reserves comprises unrealised net gain on revaluation of investment (see Note 5)

3.6
Condensed Unaudited Cash Flow Statement

For the six months ended 30 September 2020

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m
Cash flows from operating activities		
Profit before tax	104.0	79.3
Adjustments for:		
Investment income	(105.5)	(80.6)
Operating cash flows before movements in working capital	(1.5)	(1.3)
Changes in working capital:		
(Increase) in receivables	(0.1)	(0.1)
Increase in payables	0.2	0.6
Cash flow from operations	**(1.4)**	**(0.8)**
Investment income received	79.7	76.1
Net cash from operating activities	**78.3**	**75.3**
Cash flow from investing activities		
Investment in subsidiary	(118.6)	–
Net cash used in investing activities	**(118.6)**	**–**
Cash flows from financing activities		
Net proceeds/(costs) from issue of share capital	118.7	(0.7)
Distributions paid to shareholders	(78.5)	(73.1)
Net cash from/(used in) financing activities	**40.2**	**(73.8)**
Net (decrease)/increase in cash and cash equivalents	**(0.1)**	**1.5**
Cash and cash equivalents at beginning of period	0.6	–
Cash and cash equivalents at end of period	**0.5**	**1.5**

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

3.7
Notes to the Condensed Unaudited Financial Statements

For the six months ended 30 September 2020

1. REPORTING ENTITY

HICL Infrastructure PLC (the "Company" or "HICL UK") is a public limited company incorporated, domiciled and registered in England in the UK. The interim condensed unaudited financial statements (the "interim financial statements") as at and for the six months ended 30 September 2020 comprise the financial statements for the Company only as explained in Note 2.

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

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

These interim financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006 and should be read in conjunction with the Annual Report and Financial Statements of 2020, which were reported upon by the auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006. The Annual Report and Financial Statements of 2020 are available at www.hicl.com.

2. KEY ACCOUNTING POLICIES

Basis of preparation

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

The interim financial statements are prepared using accounting policies in compliance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") using the historical cost basis, except that financial instruments are classified as Investments at fair value through profit and loss.

The interim financial statements are presented in Pounds Sterling, which is the Company's functional currency.

The Chief Operating Decision Maker (the "CODM") is of the opinion that the Company is engaged in a single segment of business, being investment in infrastructure and has no single major customer. The Company's financial performance does not follow any material seasonal fluctuations.

The same accounting policies and methods of computation are followed in these interim financial statements as were applied in the preparation of the Company's financial statements for the year ended 31 March 2020, except for the adoption of Amendments to References to the Conceptual Framework in IFRS Standards and Definition of a Business (Amendments to IFRS 3), which became effective for accounting periods beginning on or after 1 January 2020. The adoption of the new standards had no material impact on the Company's reported results.

The areas of critical accounting judgements and estimates made by the Directors in the preparation of these condensed interim financial statements were consistent with those made in the Company's financial statements for the year ended 31 March 2020. Consistent with 31 March 2020 Annual Report and in light of Covid-19, cash flow assumptions on the demand-based assets are a significant input for the September 2020 valuation, alongside the more typical valuation estimates, such as discount rates, inflation rates, deposit rates, gross domestic products and tax rates applied. These are further discussed in Note 3 and Section 2.2 – Valuation of the Portfolio.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in Section 2.1 – Investment Manager's Report. Additionally, the financial position of the Company, its cash flows, and liquidity position are described in Section 2.6 – Operating & Financial Review.

The Directors have assessed going concern by considering areas of financial risk, the Company's access to the Revolving Credit Facility and Letter of Credit Facility (details of which are set out in Section 2.6 – Operating & Financial Review) and by reviewing cash flow forecasts with a number of stress scenarios, including actual and potential downside impacts from Covid-19. They also considered the Company's considerable financial resources, including investments in a significant number of project assets. The majority of these project assets operate long-term contracts with various public sector customers and suppliers across a range of infrastructure projects. As explained in Section 2.1 – Investment Manager's Report, these infrastructure projects include several demand-based assets that are impacted by Covid-19, and a large number of availability assets that have no exposure to economic growth. The financing for these projects is non-recourse to the Company.

2. KEY ACCOUNTING POLICIES (CONTINUED)

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

3. FINANCIAL INSTRUMENTS

Fair value hierarchy

The fair value hierarchy is defined as follows:

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

				30 September 2020
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments at fair value through profit or loss (Note 10)	–	–	2,982.3	2,982.3

				31 March 2020
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments at fair value through profit or loss (Note 10)	–	–	2,837.9	2,837.9

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 10.

Level 3

Valuation methodology

The Company records the fair value of its direct Corporate Subsidiary based on the Net Asset Value of IILP and the sundry assets and liabilities of its direct Corporate Subsidiary. IILP's Net Asset Value is based on the aggregate fair value of each of the individual project companies and holding companies in which the Company holds an indirect investment, along with the working capital of the intermediate holding companies.

The Directors have satisfied themselves as to the methodology used, the discount rates and key assumptions applied, and the valuation of all the underlying investments. All equity investments are valued using a discounted cash flow methodology except for the A13 investment in listed senior bonds which is valued based on the quoted market price at the balance sheet date. The valuation techniques and methodologies have been applied consistently with those used in the prior period. This valuation uses key assumptions which are benchmarked from an assessment of recent comparable market transactions in order to arrive at a fair market value. Valuations are performed on a six-monthly basis every September and March for all investments.

For the valuation of the underlying infrastructure investments, the Directors have also obtained an independent opinion from a third-party expert with experience in valuing these types of investments, supporting the reasonableness of the valuation.

3.7
Notes to the Condensed Unaudited Financial Statements (continued)

For the six months ended 30 September 2020

3. FINANCIAL INSTRUMENTS (CONTINUED)

The following economic assumptions were used in the discounted cash flow valuations:

		30 September 2020	31 March 2020
Inflation Rates	UK (RPI and RPIx)[1] CPIH[2]	2.75% p.a. 2.0% p.a.	2.75% p.a. 2.0% p.a.
	Eurozone (CPI)	2.0% p.a.	2.0% p.a.
	Canada (CPI)	2.0% p.a.	2.0% p.a.
	USA (CPI)	2.0% p.a.	2.0% p.a.
Interest Rates	UK	0.25% p.a. to March 2023, 1.0% p.a. thereafter	0.5% p.a. to March 2023, 1.5% p.a. thereafter
	Eurozone	0.0% p.a. to March 2023, 0.5% p.a. thereafter	0.0% p.a. to March 2023, 1.0% p.a. thereafter
	Canada	0.5% p.a. to March 2023, 1.5% p.a. thereafter	1.0% p.a. to March 2023, 2.25% p.a. thereafter
	USA	0.5% p.a. to March 2023, 1.5% p.a. thereafter	1.0% p.a. to March 2023, 2.25% p.a. thereafter
Foreign Exchange Rates	CAD/GBP	0.58	0.57
	EUR/GBP	0.91	0.89
	USD/GBP	0.77	0.81
Tax Rates	UK	19%	19%
	Eurozone	Ireland 12.5% France 25% – 33.3% Netherlands 25%	Ireland 12.5% France 25% – 33.3% Netherlands 21.7% – 25%
	USA	21% Federal & 4.6% Colorado State	21% Federal & 4.6% Colorado State
	Canada	26% and 27%	26% and 27%
GDP Growth	UK	(10.0%) in 2020, 6.5% in 2021, 2.5% in 2022, 2.0% p.a. thereafter	(5.5%) in 2020, 4.0% in 2021, 2.0% p.a. thereafter
	Eurozone	(10.0%) in 2020, 7.0% in 2021, 3.0% in 2022, 1.8% p.a. thereafter	(5.0%) in 2020, 4.0% in 2021, 1.8% p.a. thereafter
	USA	(5.0%) in 2020, 4.0% in 2021, 3.0% in 2022, 2.5% p.a. thereafter	(3.5%) in 2020, 3.0% in 2021, 2.5% p.a. thereafter

Discount rates

Judgement is used in arriving at the appropriate discount rate for each investment based on the Investment Manager's knowledge of the market, taking into account intelligence gained from bidding activities, discussions with financial advisers knowledgeable in these markets and publicly available information on relevant transactions.

The discount rates used for valuing each infrastructure investment vary on a project-by-project basis, taking into account risks associated with the financing of an investment such as investment risks (e.g. liquidity, currency risks, market appetite) and any risks to the investment's earnings (e.g. predictability and covenant of the revenues and service delivery challenges), all of which may be differentiated by the phase of the investment's life (e.g. in construction or in operation).

When there are limited transactions or information available, and as a second method and sense check, a 'bottom up' approach is taken based on the appropriate long-term government bond yields and an appropriate risk premium. The risk premium considers risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income and service delivery challenges), all of which may be differentiated by project phase, jurisdiction and market participants' appetite for these risks.

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

Period ending	Range	Weighted average
30 September 2019	**2.1%[3] to 9.3%**	**7.1%**
31 March 2020	**2.7%[4] to 9.3%**	**7.2%**
30 September 2020	**1.6%[5] to 9.1%**	**7.0%**

[1] Retail Price Index and Retail Price Index excluding mortgage interest payments
[2] Consumer Prices Index including owner occupiers' housing costs
[3] The 2.1% discount rate relates to the A13 senior bonds. The rate is the implied rate from the quoted market price of the bonds at 30 September 2019; excluding this, the discount range is from 6.2% to 9.3%
[4] The 2.7% discount rate relates to the A13 senior bonds. The rate is the implied rate from the quoted market price of the bonds at 31 March 2020; excluding this, the discount range is from 6.2% to 9.3%
[5] The 1.6% discount rate relates to the A13 senior bonds. The rate is the implied rate from the quoted market price of the bonds at 30 September 2020; excluding this, the discount range is from 6.0% to 9.1%

3. FINANCIAL INSTRUMENTS (CONTINUED)

A change to the weighted average discount rate by plus or minus 0.5% has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Discount rates	-0.5% p.a. change	Investments at fair value through profit or loss	+0.5% p.a. change
30 September 2020	**+£163.3m**	**£2,982.3m**	**-£148.4m**
31 March 2020	+£153.2m	£2,837.9m	-£139.3m
Implied change in NAV per Ordinary Share[1] – 30 September 2020	**+8.4 pence**	**154.0 pence**	**-7.7 pence**
(31 March 2020)	+8.2 pence	152.3 pence	-7.5 pence

Inflation rates

All PPP projects in the portfolio have contractual income streams with public sector clients, which are rebased every year for inflation. UK projects tend to use either Retail Price Index ("RPI") or RPI excluding mortgage payments ("RPIx") while non-UK projects use Consumer Prices Index ("CPI"), and 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 have similar indexation arrangements.

A change to the inflation rate by plus or minus 0.5% for all future periods has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Inflation rates	-0.5% p.a. change	Investments at fair value through profit or loss	+0.5% p.a. change
30 September 2020	**-£137.7m**	**£2,982.3m**	**+£150.0m**
31 March 2020	-£125.8m	£2,837.9m	+£140.9m
Implied change in NAV per Ordinary Share[2,3] – 30 September 2020	**-7.1 pence**	**154.0 pence**	**+7.7 pence**
(31 March 2020)	-6.7 pence	152.3 pence	+7.6 pence

Interest rates

Each portfolio company's interest costs are either inflation-linked or fixed rate. This is achieved through fixed rate or inflation-linked bonds, or bank debt which is hedged with an interest rate swap. The portfolio's sensitivity to interest rates primarily relates to the cash deposits required as part of the investments' senior debt funding, though a small number of projects are sensitive to interest rates as future refinancing is required.

Each PPP project and demand risk asset in the portfolio has cash held in bank deposits, which is a requirement of their senior debt financing. As at 30 September 2020, cash deposits for the portfolio were earning interest at a rate of 0.5% per annum on average.

A change to the interest rate and/or deposit rate by plus or minus 0.5% for all future periods has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Interest rates	-0.5% p.a. change	Investments at fair value through profit or loss	+0.5% p.a. change
30 September 2020	**-£20.6m**	**£2,982.3m**	**+£22.3m**
31 March 2020	-£19.0m	£2,837.9m	+£22.4m
Implied change in NAV per Ordinary Share[2,3] – 30 September 2020	**-1.1 pence**	**154.0 pence**	**+1.2 pence**
(31 March 2020)	-1.0 pence	152.3 pence	+1.2 pence

[1] Net Asset Value per Ordinary Share based on 1,936.8 million Ordinary Shares as at 30 September 2020
[2] Analysis is based on the Company's 35 largest investments, pro-rata for the whole portfolio
[3] Net Asset Value per Ordinary Share based on 1,936.8 million Ordinary Shares as at 30 September 2020

3.7
Notes to the Condensed Unaudited Financial Statements (continued)

For the six months ended 30 September 2020

3. FINANCIAL INSTRUMENTS (CONTINUED)

Gross Domestic Product ("GDP") growth rates

The portfolio has four projects where revenues are positively correlated in the long term to changes in GDP. These projects are A63 Motorway, M1-A1 Road, Northwest Parkway and High Speed 1 which together comprise 18% of Investments at fair value through profit or loss. At times of higher economic activity, there will be greater traffic volumes using these roads and railways generating increased revenues for the projects than compared to periods of lower economic activity.

Detailed, asset-specific adjustments have been made to the underlying cash flows of the GDP-sensitive investments to reflect the near-term impact of Covid-19 – see Section 2.2 – Valuation of the Portfolio for detail.

A change to the GDP growth rate by plus or minus 0.5% for all future periods has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

GDP growth rates	-0.5% p.a. change	Investments at fair value through profit or loss	+0.5% p.a. change
30 September 2020	**-£87.4m**	**£2,982.3m**	**+£85.9m**
31 March 2020	-£81.2m	£2,837.9m	+£90.3m
Implied change in NAV per Ordinary Share[1] – 30 September 2020 (31 March 2020)	**-4.5 pence** -4.4 pence	**154.0 pence** 152.3 pence	**+4.4 pence** +4.3 pence

Tax rates

The profits of each project company are subject to corporation tax in the country in which the project is located.

A change to the tax rate by plus or minus 5.0% for all future periods has the following effect on the Investments at fair value through profit or loss and NAV per Ordinary Share:

Tax rates	-5.0% p.a. change	Investments at fair value through profit or loss	+5.0% p.a. change
30 September 2020	**+£114.3m**	**£2,982.3m**	**-£114.3m**
31 March 2020	+£102.5m	£2,837.9m	-£102.0m
Implied change in NAV per Ordinary Share[1,2] – 30 September 2020 (31 March 2020)	**+5.9 pence** +5.5 pence	**154.0 pence** 152.3 pence	**-5.9 pence** -5.5 pence

Foreign exchange

The Company's hedging policy is designed to provide confidence in the near-term yield and to limit NAV per share sensitivity to no more that 2% for a 10% FX movement. Further detail on the Company's hedging policy is included within Section 2.6 – Operating & Financial Review.

A change to foreign currency/Sterling exchange by plus or minus 5.0% has the following effect on the valuation:

Foreign exchange	-5.0% p.a. change	Net asset value	+5.0% p.a. change
30 September 2020	**-£17.5m**	**£2,982.1m**	**+£17.5m**
31 March 2020	-£7.8m	£2,838.0m	+£7.8m
Implied change in NAV per Ordinary Share[1] – 30 September 2020 (31 March 2020)	**-0.9 pence** -0.4 pence	**154.0 pence** 152.3 pence	**+0.9 pence** +0.4 pence

[1] Net Asset Value per Ordinary Share based on 1,936.8 million Ordinary Shares as at 30 September 2020
[2] Analysis is based on the Company's 35 largest investments, pro-rata for the whole portfolio

4. GEOGRAPHICAL ANALYSIS

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

Investment income	UK	Eurozone	North America	Total
30 September 2020	**£59.8m**	**£37.5m**	**£8.2m**	**£105.5m**
% of Total investment income	**57%**	**35%**	**8%**	**100%**
30 September 2019	£38.8m	£25.8m	£16.0m	£80.6m
% of Total investment income	48%	32%	20%	100%

Investments at fair value through profit or loss	UK	Eurozone	North America	Total
30 September 2020	**£2,218.8m**	**£551.8m**	**£211.7m**	**£2,982.3m**
% of Total investments	**74%**	**19%**	**7%**	**100%**
31 March 2020	£2,158.0m	£470.5m	£209.4m	£2,837.9m
% of Total investments	76%	17%	7%	100%

5. INVESTMENT INCOME

	Six months ended 30 September 2020 Total £m	Six months ended 30 September 2019 Total £m
Investment income from subsidiary	75.4	53.7
Gains on revaluation of investment in subsidiary	30.1	26.9
Total	**105.5**	**80.6**

6. FUND EXPENSES

	Six months ended 30 September 2020 Total £m	Six months ended 30 September 2019 Total £m
Fees to auditor	0.2	0.1
Non-audit fee – Interim review	0.1	0.1
Investment Manager fees (Note 12)	0.1	0.1
Directors' fees (Note 12)	0.2	0.2
Professional fees	0.9	0.8
Total	**1.5**	**1.3**

The Company had no employees during the period (2019: Nil).

3.7
Notes to the Condensed Unaudited Financial Statements (continued)

For the six months ended 30 September 2020

7. INCOME TAX

	Six months ended 30 September 2020 Total £m	Six months ended 30 September 2019 Total £m
Current taxes		
Current period	–	–
	–	**–**

The effective pro-rata rate of corporation tax in the UK for a large company is 19%. The tax charge in the period was lower than the standard and effective tax rate due to differences explained below.

	Six months ended 30 September 2020 Total £m	Six months ended 30 September 2019 Total £m
Profit before tax	104.0	79.3
Profit before tax multiplied by the UK corporation tax rate of 19%	19.8	15.1
Effect of:		
Non-taxable capital profits/losses	(5.7)	(5.1)
Non-taxable dividend income	(4.4)	(4.3)
Dividends designated as interest distributions	(9.7)	(5.9)
Other	–	0.2
	–	**–**

The Directors are of the opinion that the Company has complied with the requirements for maintaining investment trust status for the purposes of section 1158 of the Corporation Tax Act 2010. This allows certain capital profits of the Company to be exempt from UK tax. Additionally, the Company may designate dividends wholly or partly as interest distributions for UK tax purposes (see Note 9). Interest distributions are treated as tax deductions against taxable income of the Company so that investors do not suffer double taxation on their returns.

Tax payable by investments

The financial statements do not include directly the tax charges for any of the Company's intermediate holding companies or 117 investments as these are held at fair value. All of these investments and intermediate holding companies are subject to taxes in the countries in which they operate.

8. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit 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 2020	Six months ended 30 September 2019
Profit attributable to equity holders of the Company	£104.0m	£79.3m
Weighted average number of Ordinary Shares in issue	1,891.2m	1,791.1m
Total basic and diluted earnings per Ordinary Share	**5.5 pence**	**4.4 pence**

9. DIVIDENDS

	Six months ended 30 September 2020 Total £m	Six months ended 30 September 2019 Total £m
Total distributions paid to shareholders in the period:		
Fourth quarterly interim dividend for the year ended 31 March 2020 of 2.07p (2019: 2.02p) per share	38.6	36.2
First quarterly interim dividend for the year ending 31 March 2021 of 2.06p (2019: 2.06p) per share	39.9	36.9
	78.5	**73.1**

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

The fourth quarterly interim dividend for the year ended 31 March 2020 of £38.6m, representing 2.07p per share, was paid on 30 June 2020 and had an interest streaming percentage of 39%. The first quarterly interim dividend for the year ending 31 March 2021 of £39.9m, representing 2.06p per share, was paid on 30 September 2020 and had an interest streaming percentage of 56%.

On 18 November 2020, the Board approved a second quarterly interim dividend for the year ending 31 March 2021 of £39.9m, representing 2.06p per share, payable on 31 December 2020, with an interest streaming percentage of 59%. The second quarterly interim dividend has not been included as a liability as at 30 September 2020.

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

The distributable reserves of the Company are £1,994.7m at 30 September 2020 (31 March 2020: £1,999.3m).

Interim dividends for the period	Six months ended 30 September 2020	Six months ended 30 September 2019
3 months ended 31 March	2.07p	2.02p
3 months ended 30 June	2.06p	2.06p
Total	**4.13p**	**4.08p**
Proposed dividend		
3 months ended 30 September	2.06p	2.06p

3.7
Notes to the Condensed Unaudited Financial Statements (continued)

For the six months ended 30 September 2020

10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2020 £m	31 March 2020 £m
Opening balance	2,837.9	–
Transfer of investments from HICL Guernsey (HICL Guernsey NAV at 31 March 2019)	–	2,821.7
Investments in the period	118.6	113.0
Cash received from investments	(79.7)	(148.4)
Gain/(loss) on revaluation of investments (Note 5)	30.1	(98.2)
Investment income (Note 5)	75.4	149.8
Carrying amount at period end	**2,982.3**	**2,837.9**
This is represented by: Greater than one year	2,982.3	2,837.9
Carrying amount at period end	**2,982.3**	**2,837.9**

The Company recognises the investment its single directly owned subsidiary at fair value which includes the fair value of each of the individual portfolio companies and holding companies in which the Company holds an indirect investment.

Section 2.2 – Valuation of the Portfolio details the impact of Covid-19 on the valuation of the underlying assets in the portfolio.

The valuation of the Company's underlying portfolio at 30 September 2020 reconciles to the Condensed Unaudited Balance Sheet as follows:

	30 September 2020 £m	31 March 2020 £m
Directors' Valuation	3,073.2	2,888.5
Less: future commitments (Note 13)	(78.7)	(77.0)
Investments at fair value per Investment Basis	**2,994.5**	**2,811.5**
Net debt in Corporate Subsidiaries	(6.5)	28.1
Working capital in Corporate Subsidiaries	(5.7)	(1.7)
Investments at fair value per Condensed Unaudited Balance Sheet	**2,982.3**	**2,837.9**

Acquisitions, via the Corporate Subsidiaries

The Company, via its Corporate Subsidiaries, made the following acquisitions during the six months ended 30 September 2020:

- In May 2020, the Company, via its Corporate Subsidiaries, acquired 29% of the Walney Extension OFTO Project for £18m.
- In June 2020, the Company, via its Corporate Subsidiaries, acquired an incremental 74% of the Royal School of Military Engineering project for £85m.
- In July 2020, the Company, via its Corporate Subsidiaries, agreed to acquire the remaining 50% stake in the M17/M18 project for a total consideration of €41m.

11. SHARE CAPITAL AND RESERVES

Ordinary Shares	30 September 2020 m	31 March 2020 m
Authorised and issued at the beginning of the period	1,863.6	–
Issued during the period	–	1,791.1
Issued for cash	73.2	72.5
Authorised and issued at end of period – fully paid	**1,936.8**	**1,863.6**

In July 2020, 73.2 million new Ordinary Shares of 0.01p each were issued to various institutional investors at an issue price per share (before expenses) of 164.0p.

The holders of the 1,936,813,499 Ordinary Shares (31 March 2020: 1,863,642,769) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

At 31 March 2019, the Company was a 100% directly owned subsidiary of HICL Infrastructure Company Limited ("HICL Guernsey"), a Guernsey based investment company that was publicly traded on the London Stock Exchange until 1 April 2019. On 1 April 2019 via a scheme of reconstruction (the "Scheme"), as detailed in HICL UK's Prospectus dated 4 March 2019, HICL Guernsey transferred its investment business to HICL UK, HICL Guernsey was placed into voluntary liquidation and HICL UK's shares were listed on the London Stock Exchange.

Ordinary Share capital and share premium	30 September 2020 £m	31 March 2020 £m
Opening balance	936.9	0.1
Redemption of redeemable preference shares	–	(0.1)
Issue of Ordinary Shares under the Scheme	–	821.7
Issue of Ordinary Shares	120.0	117.1
Costs of issue of Ordinary Shares under the Scheme	–	(0.7)
Costs of issue of Ordinary Shares	(1.4)	(1.2)
Balance at end of period	**1,055.5**	**936.9**

Share capital is £0.2m at 30 September 2020 (31 March 2020: £0.2m).

Distributable reserves and Other reserves

Distributable reserves and Other reserves are detailed in the Statement of Changes in Equity. Other reserves represent the accumulated unrealised fair value gains/losses on the Company's investment in its subsidiary since acquisition.

3.7
Notes to the Condensed Unaudited Financial Statements (continued)

For the six months ended 30 September 2020

12. RELATED PARTY TRANSACTIONS

On 1 July 2020, InfraRed Capital Partners Limited ("IRCP") was acquired by Sun Life Financial Inc. (together with its subsidiaries and joint ventures, "Sun Life"). IRCP has remained a distinct business under SLC Management, the alternatives asset manager of Sun Life. This transaction saw Sun Life take an 80% stake in IRCP with a put and call option for the IRCP owners' remaining equity interest, exercisable after four and five years respectively.

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

The Investment Manager fees charged to the Company were £0.1m (disclosed as Investment Manager fees in Note 6), of which the full balance remained payable at 30 September 2020.

IRCP is also the Operator of IILP, the Corporate Subsidiary through which HICL holds its investments. IRCP has been appointed as the Operator by the General Partner of IILP, Infrastructure Investments General Partner Limited, a subsidiary of IRCP. 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 IRCP ceases to be the Operator, HICL has the option to buy the entire share capital of the General Partner and the IRCP 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 2020, in aggregate IRCP and the General Partner were entitled to fees and/or profit share equal to: 1.1 per cent per annum of the adjusted gross asset value of all investments of HICL up to £750 million, 1.0 per cent per annum for the incremental value in excess of £750 million up to £1,500 million, 0.9 per cent for the incremental value in excess of £1,500 million, 0.8 per cent for the incremental value in excess of £2,250 million and 0.65 per cent for the incremental value in excess of £3,000 million.

The total Operator fees were £14.1m (2019: £14.1m), of which £7.2m (2019: £7.1m) remained payable by IILP at 30 September 2020. For the period ended 30 September 2019, the total charge for acquisitions made from third parties was £0.7m. This fee is no longer received by the Investment Manager.

The Directors of the Company, who are considered to be key management, received fees for their services. Their fees were £0.2m (2019: £0.2m) for the period ended 30 September 2020 (see Note 6). One Director also receives fees for serving as a Director of Luxco 2 – the annual fees are £6k (2019: £6k).

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

13. GUARANTEES AND OTHER COMMITMENTS

As at 30 September 2020, the Company, via a Corporate Subsidiary, had £78.7m commitments for future project investments (31 March 2020: £77.0m).

14. EVENTS AFTER BALANCE SHEET DATE

The second quarterly interim dividend for the year ended 31 March 2021 of 2.06p per share was approved by the Board on 18 November 2020 and is payable on 31 December 2020 to shareholders as at the close of business on 18 November 2020.

In November 2020, the Corporate Group signed a £60m Letter of Credit Facility ("LCF") with an expiry date of 31 December 2026, primarily to fund existing and future longer-term funding obligations.

University of Bourgogne, France

Directors & Advisers

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

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One Bartholomew Close
Barts Square
London
EC1A 7BL

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4T
Helpline: 0871 664 0300

Administrator to Company, Company Secretary
Aztec Financial Services (UK) Limited
Forum 4, Solent Business Park
Parkway South
Whiteley
Fareham PO15 7AD

Investment Manager and Operator
InfraRed Capital Partners Limited
One Bartholomew Close
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Financial PR
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Auditor
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15 Canada Square
London E14 5GL

Joint Corporate Brokers
Investec Bank plc
30 Gresham Street
London EC2V 7QP

RBC Capital Markets
100 Bishopsgate
London
EC2N 4AA

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

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

Company Secretary and Administrator
Aztec Financial Services (UK) Limited

Shareholders' Funds
£3.0bn as at 30 September 2020

Market Capitalisation
£3.2bn as at 30 September 2020

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

1.0% from £750m up to £1.5bn

0.9% from £1.5bn up to £2.25bn

0.8% from £2.25bn to £3.0bn

0.65% above £3.0bn

plus £0.1m per annum investment management fee

No fee on new acquisitions

No performance fee

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

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

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

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

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

Investment Policy
HICL's Investment Policy is summarised in Section 2.2 – Investment Proposition of the Company's 2020 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 other liabilities or accruals, and including outstanding subscription obligations

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ENVIRONMENTAL SYSTEM CERTIFICATION
DNV·GL
ISO 14001

Delivering Real Value.

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