

INTERNATIONAL PUBLIC PARTNERSHIPS

Annual Report and Financial Statements
for the year ended 31 December 2012



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Cover image:
Ormonde offshore transmission project.
See Case Study on page 23 for further
information.

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For more information go online to
www.internationalpublicpartnerships.com

CAUTIONARY STATEMENT

The pages 6 to 43 of this Report (including the Letter from the Chairman and Investment Advisor's Report), the 'Review Section', have been prepared solely to provide additional information to shareholders to assist in a review of the Company's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Review Section may include statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Advisor concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Advisor expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

This Annual Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to International Public Partnerships Limited and its subsidiary undertakings when viewed as a whole.

FINANCIAL HIGHLIGHTS

Net Asset Value

£861.0_M

2012 full year distribution

6.0_{pps}

New investment during 2012

£146.6_M

Capital raised in 2012

£200.0_M

- Net Asset Value ('NAV') per share¹ of 121.0 pence as at 31 December 2012 (2011 – 116.9 pence)
- NAV² of £861.0 million as at 31 December 2012 (2011 – £624.3 million)
- Fully covered full year 2012 dividend totalling 6.0 pence per share, up 2.6% from full year 2011³
- International Financial Reporting Standards ('IFRS') accounting profit before tax of £26.8 million for the period ended 31 December 2012 (2011 – £13.2 million)
- £200 million (before issue costs) of new equity capital raised from shareholders (exceeding the initial target of £180 million) with a further £40 million raised in January 2013, to support the Company's pipeline of attractive investment opportunities
- £146.6 million of additional investments made during the period (2011 – £122.0 million)
- Construction completion reached on the Company's second largest asset by value, the Northern Diabolo Project in Belgium, on budget and on time
- IFRS Net Assets of £520.9 million as at 31 December 2012 (2011 – £356.2 million)
- Undrawn debt facilities of £100 million and uncommitted cash of £86 million currently available for further investment
- Total Shareholder Return since listing in 2006 of 67.7% (equivalent to 8.8% annualised total return), compared to 21.3% on the FTSE All-Share over that same period⁴

¹ Net Asset Value ('NAV') per share is based on the number of Ordinary Shares in issue at 31 December.

² NAV as shown above is a Directors' estimate of the fair market valuation of the Group's economic interests, calculated utilising discounted cash flow methodology^a, adjusted for IPEV (International Private Equity and Venture Capital Association) guidelines, a methodology considered appropriate, given the special nature of infrastructure investments. Estimated future cash flows accruing to each economic interest^b have been discounted using discount rates that reflect an estimate of the risks associated with that interest. This includes the cash flows relating to the Strathclyde and Hereford and Worcester senior debt interests which prior to 30 June 2012 had been valued as the aggregate of the principal outstanding plus the costs associated with terminating the underlying fixed interest rate arrangements as of 9 November 2006. The Net Asset Value referred to above and on other pages differs from the basis of recording net assets utilising International Financial Reporting Standards as set out in the balance sheet included in the financial statements – a reconciliation of these two bases for preparing the balance sheet is provided on an unaudited basis on page 49. The key differences are that

the IFRS balance sheet includes assets and liabilities on a consolidated basis. Further, the IFRS net assets have been impacted, amongst other things, by changes in the fair value of financial hedging instruments that are entered into by the Group to minimise risk associated with changes in interest rates. NAV per share is calculated based on the number of shares in issue at the period end. Attention is drawn to the section of this Report relating to 'Risk Factors' with respect to the calculation methodology for NAV.

^a The Net Asset Value also includes the estimated value of cash, cash equivalents and assets and liabilities attributable to the Company and intermediate holding companies at 31 December 2012.

^b The Group's economic interests at 31 December 2012 are set out in the Portfolio Interests section of this Annual Report and Financial Statements.

³ The first instalment was paid in October 2012 with the second instalment expected to be paid in June 2013.

⁴ Source: Bloomberg – share price appreciation plus income.

COMPANY OVERVIEW

International Public Partnerships Limited (LSE: INPP, 'the Company', 'INPP') is a FTSE 250 company that invests in public and social infrastructure projects. The portfolio consists of 122 individual investment projects in the United Kingdom, Australia, Canada, Germany, France, Belgium, Italy and Ireland. Examples include schools, hospitals, courthouses, police stations, transport infrastructure, rolling stock and energy transmission projects.

The Company seeks to provide its shareholders with both a long-term yield and the opportunity for capital growth through investment across both construction and operational phases of infrastructure projects. The Company aims to provide a medium-term return equal to or greater than 8% based on the initial public offer issue price in November 2006 of 100 pence per share.

The Company listed on the London Stock Exchange (LSE) in November 2006 with a market capitalisation of approximately £300 million. Since this time the Company has raised over £440 million of additional capital through a C-share capital listing (subsequently converted), by way of placements, open offers and offers for subscription and through tap issuance. The Company's most recent capital raising was undertaken in June 2012 when the Company completed a £200 million Placing, Open Offer and Offer for Subscription. The proceeds were used to repay the Company's debt facility and partially to fund new investments. As at 31 December 2012 the Company had a market capitalisation of £894.1 million. In January 2013, after the 2012 financial year end, the Company undertook a further £40 million capital raising, by way of a tap issue.

International Public Partnerships is advised by Amber Fund Management Limited, a specialist infrastructure advisor and manager within a group with approximately 80 staff dedicated to advising, managing, investing in and developing infrastructure projects and investments.

OVERVIEW

Market Capitalisation

£894.1 million at 31 December 2012
(£645.9 million at 31 December 2011)

Shares in Issue

711.6 million at 31 December 2012
(534.2 million at 31 December 2011)

Index Inclusion

FTSE All-Share, FTSE 250

ISA/PEPs/SIPPs Status

The Company's shares are eligible for ISA/PEPs and SIPPs transfers.

Website

www.internationalpublicpartnerships.com

Objective

The investment objective of the Company is to provide shareholders with sustainable long-term distributions arising from public infrastructure investments. The Directors also believe that continued capital growth can be achieved from further investment in public infrastructure assets.

Investment Advisor

Amber Fund Management Limited ('AFML') is a wholly owned subsidiary of Amber Infrastructure Group Limited. AFML is active internationally in developing, managing and originating infrastructure investment opportunities and AFML is authorised and regulated by the Financial Services Authority.

Amber Fund Management Limited
1st Floor
Two London Bridge
London
SE1 9RA

Capital Structure

The Company has a capital structure comprising of Ordinary Shares only, although the Company's Articles of Association include provision for the creation of an additional class of shares.

Registered Office

Heritage Hall
PO Box 225, Le Marchant Street
St Peter Port
Guernsey
Channel Islands
GY1 4HY

Administrator and Company Secretary

Heritage International Fund Managers Limited
Heritage Hall
PO Box 225, Le Marchant Street
St Peter Port
Guernsey
Channel Islands
GY1 4HY

Auditor

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
Channel Islands
GY1 4AF

Legal Advisor

Carey Olsen
PO Box 98, Carey House
Les Banques
St Peter Port
Guernsey
Channel Islands
GY1 4BZ

Corporate Brokers

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

Corporate Bankers

Royal Bank of Scotland International
1 Gategny Esplanade
St Peter Port
Guernsey
Channel Islands
GY1 4BQ

Public Relations

FTI Consulting
Holborn Gate
26 Southampton Buildings
London
WC2A 1PB

PORTFOLIO INTERESTS

The Company held economic interests¹ in 122 individual investments at 31 December 2012 as set out below. More information on all the Company's assets can be found on the website www.internationalpublicpartnerships.com

Transport

Angel Trains UK

BENeX²

Diabolo²

Gold Coast Rapid Transit

Reliance Rail

Police Authority

Abingdon Police

Norfolk Police HQ

North Wales Police HQ

Strathclyde Police Training Centre²

Education

Alberta Schools²

Calderdale Schools

Building Schools for the Future –
53 investments²

Derbyshire Schools Phase 1

Derbyshire Schools Phase 2

Maesteg Schools

Moray Schools

Northamptonshire Schools²

NSW Schools

Pforzheim Schools

St Thomas More School

Tower Hamlets Schools

Custodial

Long Bay Forensic and Prison
Hospitals Project

Other

Bootle Government Offices

Liverpool Central Library

Royal Melbourne Showgrounds

Redevelopment

Energy

Robin Rigg Offshore Transmission

Gunfleet Sands Offshore Transmission

Barrow Offshore Transmission

Ormonde Offshore Transmission²

Courts

Derbyshire Magistrates Courts

Dublin Criminal Courts Project

Durham (Canada) Courthouse Project

Hereford & Worcester Magistrates Courts²

Health

Alexandra Avenue Primary Care Centre

Barkantine Health Centre

Barking Road Health Centre

Blackbird Leys Health Centre

Beckenham Hospital

Brescia Hospital

Brierley Hill

Church Road Health Centre

East Oxford Care Centre

Fishponds Primary Care Centre

Frail Elders Hospital

Garland Road Health Centre

Gem Centre Bentley Bridge

Goscote Palliative Care Centre

Hampton House Health Centre

Hackney Children's Development Centre

Harrow Neighbourhood Resource Centres³

Lakeside

Medicaste Amiens Hospital Project

Mile End Specialist Addition Unit

Monks Park Health Centre

Mt Vernon

Newby Place

Nightingale Lane

Orange Hospital²

Phoenix Centre

Ridge Hill Learning Disabilities Centre

Royal Children's Hospital²

Shirehampton Primary Care Centre

Stourbridge Health and Social Care Centre

South East Resource Centre

South Bristol Community Hospital

Sudbury Health Centre

Whitchurch Primary Care Centre

Vicarage Lane Health Centre

■ Acquired during 12 months to 31 December 2012.

■ Additional stake acquired during 12 months to 31 December 2012.

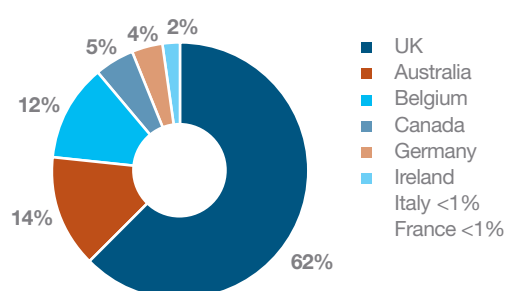
¹ Economic interests reflect an investment in the capital, subordinated or senior debt of the underlying projects as represented in the Financial Statements.

² Denotes Top 10 asset by value.

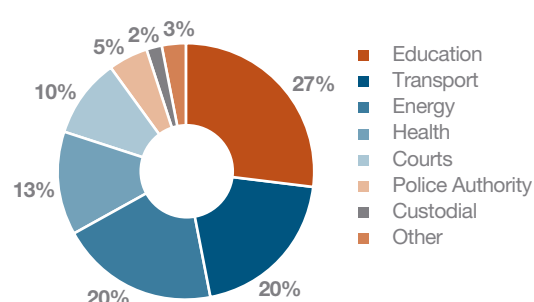
³ Comprises three projects.

Portfolio Breakdown at 31 December 2012

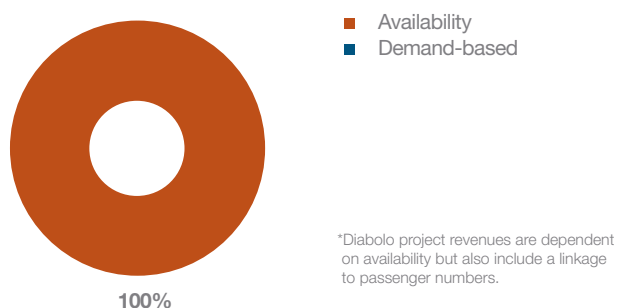
2012 Geographic Split



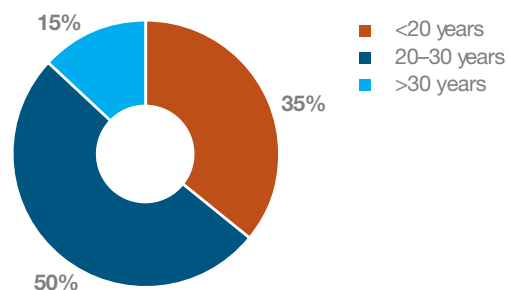
2012 Sector Breakdown



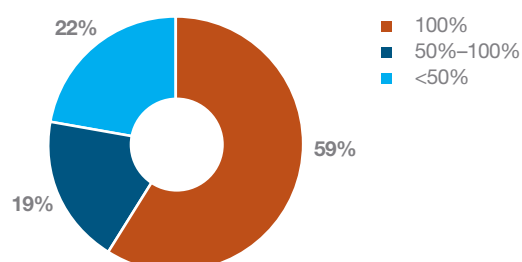
2012 Payment Type



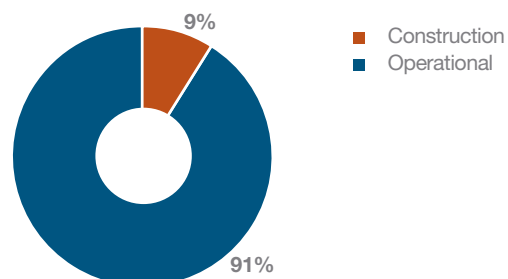
2012 Concession Length



2012 Project Stake



2012 Asset Status



The pie charts above show a breakdown of the Company's portfolio at 31 December 2012. This breakdown is based on the Directors' assessment of the fair market valuation of the Company's investments calculated utilising discounted cash flow methodology, as referred to on page 1. The discount rate used reflects the risks associated with the individual projects.

LETTER FROM THE CHAIRMAN



Keith Dorrian
Chairman

We are pleased to report that 2012 saw the Company produce a robust performance and another year of steady earnings growth against a backdrop of political change and public spending cuts.

New investment during 2012

£146.6_M

Capital raised in 2012

£200.0_M

Dear Shareholders,

It is with pleasure that I am able to write to you to report another satisfactory year for your Company. We have seen a high level of investment together with continuing strong performance from the Company's assets. The prospects for INPP in 2013 and beyond remain buoyant with good opportunities for future investments in the sectors and geographies in which the fund is active.

In 2012, the Company provided robust returns to investors of 9.1%⁵. For an investor who has held shares in the Company since IPO in 2006, the total return to 31 December 2012 was 67.7%⁵. This compares with a return on the FTSE All-Share index of 21.3% over the period since the Company's listing to 31 December 2012 (12.5% for 2012 in which the index rebounded strongly). I am pleased to be able to report the following highlights for 2012:

- £146.6 million of capital was invested in a variety of assets, most notably a new investment in the Ormonde offshore energy transmission project and incremental increases to the Company's holdings in 'Building Schools for the Future' ('BSF') projects;
- the Northern Diabolo project, a new tunnelled rail connection linking Brussels airport to the new Brussels-Antwerp High Speed rail line, was officially opened on 7 June 2012 by King Albert II of Belgium. The project is the Company's second largest investment representing c.12% of INPP's portfolio and the construction was finished on time and on budget;
- the Company's dividend increased for the fifth successive year in line with the target set by the Board and detailed in the Company's Initial Public Offer in 2006; and
- an increase in Net Asset Value ('NAV') per share of 3.5% since 31 December 2011.

The Company, through its Investment Advisor, continues to have access to a strong flow of interesting investment opportunities in various OECD geographies and the Investment Advisor is required to give the Company first refusal on all qualifying projects it identifies that meet the Company's investment criteria. Access to this diverse pipeline is increasingly one of the Company's key differentiators – particularly in an environment where the near term volume of new traditional PPP/PFI projects in the UK has reduced and competition for assets has increased.

⁵ Source: Bloomberg. From 1 January to 31 December 2012 share price appreciation plus income.

This advantage can be seen as INPP continues to benefit from its leading position within the UK offshore transmission sector. The Company, in conjunction with its consortium partners, completed investment in a fourth project, and was named preferred bidder on a fifth UK offshore transmission project off the coast of Lincolnshire, which it expects to be able to invest in during 2013.

There have also been a number of opportunities following on from the BSF portfolio acquired in August 2011. This has included the acquisition of an income accretive portfolio of assets from a contractor who was not a long-term holder of these assets. There have also been a number of smaller investment opportunities identified by the Investment Advisor as schemes in development reached financial close. We believe there are also likely to be further nearer-term follow-on investment opportunities to enhance the Company's existing investment in the BSFI portfolio.

Internationally we see a continued flow of opportunities, notably in Germany, Canada and Australia, and we are actively supportive of our Investment Advisor's policy to research opportunities in other major economies. Specifically, our Investment Advisor is, as indicated at the time of the capital raising in June 2012, analysing an opportunity to invest in a German government office project before the end of 2013.

Looking ahead there continues to be significant levels of support from investors and governments alike for private investment in infrastructure. The portfolio is well positioned to take advantage of this and I believe there continues to be the opportunity to make accretive investments for the Company.

Capital Raisings, Acquisitions and Cash Position

As previously reported within our interim results, the Company undertook a £200 million capital raising by way of a Placing, Open Offer and Offer for Subscription, that was approved by shareholders at the Annual General Meeting on 25 June 2012.

It is a measure of support for the Company and the continued investor appetite for this asset class that the original target of £180 million was exceeded and the offer closed oversubscribed. The raising was predominately supported by existing shareholders but we were also pleased to

welcome a number of new shareholders to the register including some international pension funds.

As expected, a significant portion of the net proceeds of the Offer has already been deployed, including the repayment of the £18.1 million balance on the Company's corporate debt facility drawn at that time. At the time of the raising, the Company indicated that it had a strong pipeline of immediate, accretive investment opportunities. The majority of these pipeline investments have already been concluded:

- the aforementioned BSF investments, of which a £26.9 million portfolio was acquired from Carillion Private Finance Limited. An additional £4.0 million was made in follow-on investments emanating from the Company's investment in the existing BSF portfolio; and
- the £115.1 million acquisition of Ormonde UK offshore wind electricity transmission asset.

The Board believes that these assets are important additions to the portfolio and will enhance shareholder returns.

Following the 31 December 2012 balance date, on 10 January 2013, the Company undertook a £40 million capital raise by way of a tap issue. The issue was oversubscribed and undertaken to provide the resources needed to realise the Company's significant pipeline of investment opportunities as well as assisting in managing down the premium that the Company's shares were trading at relative to the NAV.

Following the January capital raising, the Company has access to approximately £86 million of cash available for investment (after providing for the forthcoming June dividend payment and a prudent reserve for working capital) and a further £100 million available through its corporate debt facility.

Financial Results

On a consolidated IFRS basis the profit before tax was £26.8 million (2011 – £13.2 million). On a cash basis⁶, cash of £53.6 million (2011 – £44.0 million) before distributions was received by the Company from its portfolio of investments. On a net basis, post one-off transaction costs (excluding costs associated with the capital raising), this produced an operating cash surplus of £40.7 million (2011 – £30.5 million) equivalent to a coverage over the distribution

payable for the year ended 31 December 2012 of 1.3 times (2011 – 1.5 times). More details are provided in the Investment Advisor's Report.

Investment Performance

The Company's portfolio of 122 infrastructure investments continued to perform well in the 12 months to 31 December 2012. As at 31 December 2012, NAV per share was 121.0 pence, a 3.5% increase from the NAV per share as at 31 December 2011 of 116.9 pence and an increase of 5.0% on the 115.2 pence per share NAV provided to investors prior to the completion of the £200 million capital raising.

This increase in performance of the portfolio largely reflects the successful conclusion of construction activity on certain investments as well as active ongoing management and underlying macroeconomic changes benefiting the portfolio. More detailed information on the performance of the Company's assets is set out in the Investment Advisor's Report.

I believe that, other things being equal, there remain good prospects for further increases in NAV in future periods, as projects currently in construction move into the operational phase or those which have recently reached completion demonstrate performance during the post-construction operational period. As noted above, one of the Company's largest assets, representing c.12% of NAV, Northern Diabolo Project, was officially opened on 7 June 2012, and there is likely to be an associated uplift to NAV for that project over the coming 12–18 months as it settles into operational status and its post-construction risk premium reduces.

Distributions

In line with the target established at the time of the IPO, the Company has been able, on a fully funded basis, to increase dividends for the past five successive years.

The Board confirms that it will target a total distribution of 6.15 pence per share for the 2013 financial year. The Board is now pleased to confirm that a payment of 3.075 pence per share in respect of this target is expected to be paid in October 2013. The second payment is expected to be made in June 2014.

⁶ See the Investment Advisor's Report for additional information on this calculation.

LETTER FROM THE CHAIRMAN

CONTINUED

A scrip dividend option exists in respect of the Company's distributions subject to the Directors being satisfied that this is in the best interests of the Company at the relevant time. Subject to shareholders approving the continuation of the option at the forthcoming Annual General Meeting ('AGM') applications for participation in the scrip distribution option will be sent to investors in September 2013 and May 2014.

The Board is committed to directing the Company's continuing operation in a manner that will ensure that, as far as possible the policy of regularly increasing dividend payments is sustainable in the longer term, notwithstanding the current global economic uncertainty.

Gearing

The Company has continued its policy not to hold long-term debt. The Company's investments are generally held in special purpose asset owning entities that are financed by a mix of long-term matched debt and risk capital. This asset level debt is non-recourse to the Company and in almost every case is long-term amortising debt upon which a fixed rate of interest (or swapped variable rate to fixed rate of interest) is payable over the period of the underlying contract.

The Company's revolving debt facility is used to acquire new investment opportunities between equity raisings in order to avoid, as far as possible, cash drag and allows the Company to move quickly to acquire attractive investment opportunities as they arise. In late 2011, the corporate debt facility was drawn to £18.1 million to partly fund the Company's initial investment in its BSF portfolio investment. However, consistent with the Company's policy of only maintaining balances for a short period, the outstanding balance was promptly repaid following the £200 million capital raising undertaken during the period. The Company's corporate debt facility is therefore currently undrawn.

The Current Infrastructure Market

The infrastructure market continues to grow and to receive increased and positive focus from a broad group of investors. The Board sees this as an encouraging trend, which is also supported by a reasonable supply of investment opportunities, although we have seen increased competition in some sectors over the last 12 months due to growing competition between bidders and new entrants to the market.

There have also been a number of positive developments in government policy during the period which demonstrate continued support for the role of private sector investment in the provision of public infrastructure projects.

In December, in conjunction with its Autumn Statement, the UK Government announced its renewed approach to public-private partnerships ('PPPs'), known as 'Private Finance 2' or 'PF2'. As expected, existing PFI contracts with government agencies were left largely unchanged with no effect on INPP's existing portfolio. Going forward, newly procured schemes will be likely to have greater equity participation by the government agency or authority commissioning the works and higher levels of equity are also likely to be required from investors participating in the projects. There will also be greater transparency in reporting and streamlining of project procurement. Overall, we believe that the proposed reforms are largely positive for the sector and the Company and demonstrate the importance of the Government's further encouragement of private sector investment in infrastructure.

During the period, an issue that was overhanging the sector was resolved. The Office for National Statistics conducted a review into the calculation of the Retail Price Index – a key measure of inflation upon which many of the Company's UK contracts are based. It concluded that no change to the calculation was required, which is a positive outcome for the sector.

The UK government also provided further encouragement to investors in the sector, announcing in early July that it would provide up to £40 billion of guarantees to support infrastructure projects which are struggling to find finance in adverse credit conditions. While the nature and quality of INPP's projects is high and the Company does not anticipate any significant need to apply for

these guarantees, it is a measure of the UK government's commitment to ensure that adequate investment is made into the sector.

Similar levels of support for private infrastructure investment are evident from governments in other jurisdictions in which the fund invests. For example, in Australia the Federal Government has recently conducted a review into the role of private investment in the sector⁷, concluding that a significant portion of its mature infrastructure portfolio could be divested in order to recycle capital into other-under funded forms of infrastructure.

Nevertheless, it must be noted that, in the UK at least, there has been a very marked reduction since 2010 in the number of new projects being brought forward by government under PFI, PPP or PF2 arrangements and we see no real sign of a change in this trend in the near term. A corollary of this reduction in supply in the new projects market has been to increase competition for those remaining projects. This, coupled with continued investor demand for such assets, has resulted in some downward pressure on returns. As a result, the Company has remained selective in its pursuit of appropriate acquisitions and sought only to focus on new investments that are anticipated to be accretive and to make strategic sense within its overall portfolio.

The Company has also, to an extent, been isolated from some of this increased competitive pressure through investing in alternative assets and sectors which have higher barriers to entry. The offshore energy transmission assets referred to above are a good example of this. Looking ahead, the Company continues to expect to invest in other opportunities both in the PFI/PPP sector and in the wider utilities sector where the Company and its Advisor believe that appropriate value for investors can be achieved. Overall, we continue to be confident of the flow of new infrastructure opportunities in our core geographic markets.

Further information on the Company's investment strategy and policies can be found in the Investment Policy section on pages 24 to 26 of this Report.

⁷ 'Australia's Public Infrastructure – Part of the Answer to Removing Infrastructure Deficit', Australian Government, October 2012.

Corporate Governance and Board

There have been a number of changes with respect to the Board of Directors during the period.

It is with regret that the Board accepted the resignation of Non-Executive Director Carol Goodwin at the end of the financial year. Ms Goodwin, who had served as an independent Non-Executive Director since 2007, as a member of the Audit Committee and as Chairman of the Management Engagement Committee, advised the Board in the second quarter that, for personal family reasons, she would be resigning as a Director of the Company at the end of the year.

Carol stands out as a shining example of a knowledgeable, effective and dedicated Non-Executive Director and her input, knowledge, experience and business acumen have been key elements in the success and continuing development of the Company. We thank her for her significant contribution to the Company and I would especially like to record my personal thanks for the way in which she assisted me in my duties.

Ms Goodwin's prior notice of her intended resignation enabled the Board to undertake appropriate succession planning and in recognition of this, following a review and the interview of a number of potential replacement Non-Executive Directors, Ms Claire Whittet was appointed a non-executive director on 10 September 2012, and was appointed to the Audit Committee on 23 November 2012. Ms Whittet's significant experience in the financial sector, particularly within credit markets, together with her knowledge of corporate governance and regulation will be a valuable addition to the Board.

I have also notified the Board of my intention, having reached the age of 67, to retire as Chairman of the Company on 31 December 2013 and I will not offer myself forward for re-election upon my rotational resignation at the 2014 Annual General Meeting. I have appreciated and been thankful for the trust and support of the shareholders, Board members and stakeholders over the last six years and I believe that it is a reflection of this trust and support that enabled us to successfully steer the Company through the effects of the recession on its previous promoter and create the substantial and profitable organisation that exists today.

Whilst it is over 12 months to my intended departure the Board is mindful of planning for my succession too and it is envisaged that the Chair of the Audit Committee, Mr Rupert Dorey, will be appointed to the role of Chairman of the Board upon my retirement from the post on 31 December 2013. Rupert has been a member of the Board since the Company's inception, has a detailed understanding of the Company and its investments and is fully qualified and able to take over the Chairman's role. I have no doubt that if he is appointed, the Company will benefit and continue to prosper under Mr Dorey's leadership. It is also envisaged that Mr John Whittle, a qualified accountant and Board member since 2009, will take over the responsibilities of Chair of the Audit Committee. In the period between now and the end of the year Mr Dorey and Mr Whittle will be shadowing the responsibilities it is intended they will be assuming in 2014.

Reduction in Base Fees

The Board is pleased to advise that costs associated with the ongoing management of the Company have reduced. During the period the Company and the Investment Advisor agreed that from 30 June 2012, the Base Fee payable to the Investment Advisor would reduce to 1% per annum in respect of the Gross Asset Value ('GAV') of the Company's operational projects that exceed £750 million (calculated in accordance with the principles detailed in the Investment Advisor's Report and being those projects that have been certified as being fully operational by the relevant counterparty and senior lender).

For GAV less than £750 million and for non-operational projects the Base Fee payable to the Investment Advisor will remain unchanged at 1.2% per annum. There will be no change to the Incentive Fee arrangements to the Investment Advisor. We believe that this is a positive development for the fund and that investors should benefit from efficiencies as the portfolio increases in size.

Directors' Fees

Position	Current	Future	Number
Chairman	£47,000	£60,000	1
Audit Chairman	£37,000	£50,000	1
Independent Directors	£32,000	£37,500	2
Non-independent Director	£32,000	£32,000	1
Total Proposed Board Annual Fees	£180,000	£217,000	

As noted later in this Report, the Company's 'Ongoing Charges', as defined by the Association of Investment Companies, have reduced as a result from 1.59% for the period ended 31 December 2011 to 1.27% to 31 December 2012.

Directors' Fees

It is now three years since the Directors' fees were last reviewed and, during this period, not only has the Company grown from a market capitalisation of £387 million to £894 million as at the end of 2012, but the responsibilities and time commitment of Directors have been significantly increased. During the year, the independent Board members met formally on 23 occasions (see page 39) and this level of commitment reflects the complexity, value and volume of the new investment opportunities that the Board reviews and the ever-increasing regulatory and compliance obligations on the Company. Examples of the latter include changes to London Stock Exchange Listing Rules, the introduction of IFRS Accounting Standards to the accounts of the Group's subsidiaries and anticipated new regulations such as AIFMD.

At the current time, gross aggregate Directors' fees are limited by the Company's articles to £250,000 per annum. At the AGM the Company will be asking shareholders to approve an increase in this limit to £350,000 which comfortably exceeds the current or proposed levels of remuneration for the Board but allows scope for the appointment of additional Directors which is particularly desirable to facilitate future Board succession planning and allow an overlap between the appointment of any new Directors and the retirement of any outgoing Directors. The increase will enable the Company to ensure that the Board remuneration, composition and succession planning can be sustained for the foreseeable future. In making this request the Board feels it appropriate to detail its intention with regard to the fees payable to Directors with effect from 1 January 2013 and they are as follows in the table below:

LETTER FROM THE CHAIRMAN

CONTINUED

These fees include an allowance for the attendance of independent directors at the key board committees which comprise the Audit Committee and the Management Engagement Committee. In addition to these fees Board members may receive additional fees as recompense for specific tasks such as capital raising although these are paid out of the capital raising they are reported within and included in total Directors' emoluments which are subject to the above noted maximum. In addition to these specifically approved fees, the total also includes any additional fees including, but not limited to, the fees in relation to the appointment of a Director as part of succession planning, the appointment of an additional Director or the making of payments to a Director for a specific task.

Principal Risks and Uncertainties

There are risks associated with investing in the Company. The Board seeks to mitigate and manage risks relating to the Company where possible through review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's portfolio. However, not all risks can be anticipated or managed.

The principal risks and uncertainties facing the Company are set out on pages 27 to 29 and detailed further in the Placing, Open Offer and Offer for Subscription Prospectus published on 24 May 2012. These principal risks and uncertainties are expected to remain relevant to the Company for the foreseeable future and include:

- Credit and counterparty risks – The risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.
- Liquidity risk – The ability to successfully access suitable financial resources in the debt, equity and related financial markets.
- Valuation risk – The risk that the Company's published NAV does not fairly reflect the true value of its assets.

- Inflation risk – Revenues and expenditures of project entities with respect to infrastructure assets are generally partially or wholly subject to indexation and an assumption is made that inflation will increase at a long-term rate. The Company's ability to meet targets may be adversely or positively impacted by inflation.
- Foreign exchange risk – The Company has exposure to foreign currencies and therefore exposure to exchange rate fluctuations.
- Market risk – The Company is a listed entity and as such the value of an investment in the Company is subject to normal market fluctuations and other risks inherent in investing in listed securities.
- Other external risks – Includes the political and regulatory risks (including tax and accounting policies and practices) associated with the Company and its projects and changes in the competitive environment which may have an adverse impact on the Company.

Outlook

Overall, the Board is looking forward to the remainder of 2013 with confidence. The Company's portfolio is now substantially operational with several large-scale projects having reached construction completion over the past 18 months. The benefits of the completion of these assets have already started to flow through to increases in the Company's NAV and, other things being equal, are expected to do so over the coming period as the operational phases of these projects progress.

Overall, the portfolio continues to perform well and I am confident that there are attractive infrastructure opportunities in the UK and in the overseas jurisdictions in which the Advisor is represented and knowledgeable. The recent commitments to infrastructure procurement made by the UK Government and governments in other jurisdictions in which we invest support this view. Additionally, we are encouraged by continued investor demand for the infrastructure sector.

I and my fellow directors would also like to thank investors for their support during the successful £200 million capital raising in June last year and the £40 million tap issue in January this year. We were encouraged greatly by the strong levels of demand for the Company's shares and are confident that, in conjunction with the Investment Advisor, we can continue to acquire assets that will bring long-term value to the portfolio.

Finally, we all reiterate our willingness to be available to meet with investors as required and to maintain a high level of constructive dialogue with our shareholders.



Keith Dorrian
27 March 2013
Chairman



For more information go online to
www.internationalpublicpartnerships.com

CASE STUDY NORTHERN DIABOLO PROJECT

The Northern Diabolo Project involved a five year construction programme to build a new tunnelled rail connection under Brussels airport.



About the Sector

The Northern Diabolo Project is a Belgium based project that provides greater rail access to Brussels airport. The project involved a five year construction programme to build a new tunnelled rail connection under Brussels airport runway, linking the airport to the new Brussels-Antwerp High Speed rail line. International Public Partnerships holds a 75% stake in the project to build and finance the airport section over the five year construction period and then operate for a further 35 years.

At the time of its opening by King Albert II of Belgium in June 2012 it was the largest project by value in the Company's portfolio.

The project receives a combination of fixed availability income paid by the Belgian railway infrastructure provider Infrabel NV and non-fixed price passenger based income paid by Belgian railway operator NMBS NV.

International Public Partnerships Role

Having commenced construction in October 2007, the Company's Investment Advisor worked with the construction contractor joint venture THV Dialink (consisting of BAM, Vinci, and Smet Tunnelling) to successfully complete the construction phase on time and to budget on 25 February 2012. After

this date the Diabolo project was extensively tested by the authorities, and went into service on 10 June 2012.

This was a major achievement given the complexities of the project, which included an extension of the existing railway platform and approximately 3 kilometres of track, a new 300 metre cross-over chamber and two 7.3 metre diameter single-track bored tunnels that extended beneath the airport runway. During the Diabolo rail tunnelling works extensive roadworks were required at the E19 highway (Brussels-Antwerp) junction with the airport cargo area. These roadworks were carried out by the same project management team and contractor.

During the entire construction and commissioning phase, the project was managed on site by a dedicated Amber asset manager who supervised the project team. All project parties worked well together, coordinating interaction with all authorities. This hands-on approach ensured completion of the project on time and within budget.

The valuation benefits for the portfolio of the project having completed construction are expected to occur over successive periods of the operational phase.



INVESTMENT ADVISOR'S REPORT

International Public Partnerships Limited performed in line with, or above, projections in 2012.

About the Investment Advisor

Amber Fund Management Limited ('AFML') is a wholly owned subsidiary of Amber Infrastructure Group Limited ('Amber'). AFML is authorised and regulated in the UK by the Financial Services Authority.

Amber is a specialist developer, manager and originator with respect to infrastructure assets in Europe, Australia and North America. At 31 December 2012, Amber had approximately 80 staff based in the UK (London), Germany (Munich), Australia (Sydney and Melbourne) and the United States (San Francisco).

Introduction

International Public Partnerships Limited performed in line with, or above, projections in 2012.

The portfolio delivered returns as anticipated and the Company's distribution increased in line with target for the fifth successive year. Highlights include the successful achievement of construction completion on several projects including one of the portfolio's largest assets, the Northern Diabolo rail project in Brussels and investment of £146.6 million into new assets including consolidating the Company's leading position in the UK offshore electricity transmission sector.

Overall, the year was characterised by:

- resolution of the procurement of social infrastructure in the UK with the announcement of PF2 by the Government with the Autumn Statement;

- confirmation that the Retail Price Index calculation would not be changed, leading to more certainty around contracts with this measure of inflation linkage in the UK;
- a steady supply of new investment opportunities, in particular within the UK offshore electricity transmission sector;
- continued supply of attractive portfolios of assets from construction companies and other vendors with a short-term investment horizon;
- strong government support in the UK and other key markets such as Europe, Canada and Australia for greater private sector investment in infrastructure assets; and
- the maintenance of a healthy pipeline of attractive investment opportunities likely to come to fruition in 2013 and beyond.

The continued economic uncertainty that affects the wider equity market also continued to serve as an illustration of how infrastructure assets can offer stable returns for investors even through such volatile conditions. Over the year we have seen increasing numbers of investors become interested in infrastructure investment both in the UK and from new international markets. One effect of this has been increased demand for certain assets – notably mature operating PPP projects. This is to some extent driven by the reduction in UK gilt yields and some new entrants to the market. This increased competition augurs well for the value of the Company's existing assets but also places a premium on the ability to source new investments 'off market' or through own account development work. Both these avenues to investment continue to be focuses for the Investment Advisor.

Investment Performance

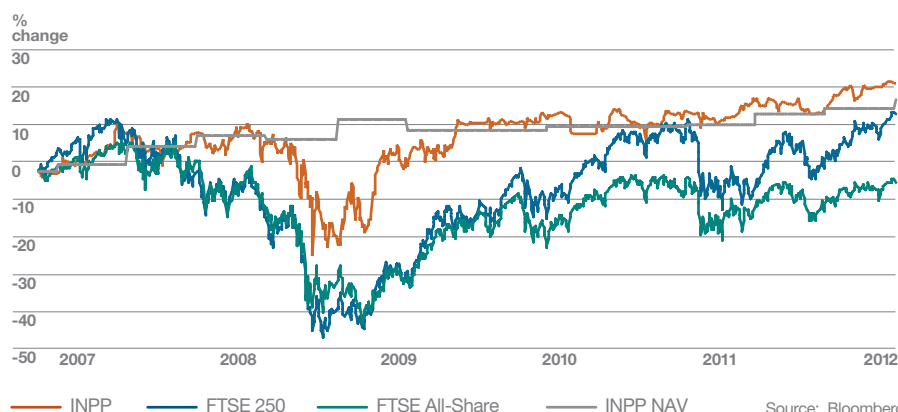
The Company aims to provide attractive risk adjusted levels of income to its investors coupled with capital appreciation. The total return achieved by an investor (share price appreciation plus distribution) between 1 January 2012 and 31 December 2012 was 9.1%. The Company's policy remains to target annual growth in its distribution in future years in the 2.5%–3.0% range which is broadly consistent with long-term policy targets for inflation in the countries where the Company operates.

The chart overleaf shows a comparison between the Company's yield in 2012 and the distribution of certain other assets classes highlighting that the Company compares favourably to other high yielding benchmarks.

The Company aims to provide consistent low volatility returns to investors with only limited correlation to more general equity markets. Generally, the returns from infrastructure assets such as those invested in by the Company are not significantly linked to macro economic trends such as movements in GDP.

As such, the expectation is that the share price performance of the Company should exhibit low volatility coupled with relatively low levels of correlation with wider market indices such as the FTSE 250 or FTSE All-Share indices. The historical performance of the Company's share price relative to the key benchmarks is given below and shows consistent performance over a long period, barring volatility surrounding uncertainty regarding the Company's Investment Advisor in late 2008/early 2009.

INPP Share Price Performance vs FTSE Indices



Portfolio Performance

The Company's portfolio of assets performed in line with projections during the 12 months to 31 December 2012.

The Investment Advisor's asset management team continued to work with each of the portfolio assets to ensure, so far as possible, that they operate as anticipated and to review where additional returns for investors may be achieved. Operational and compliance performance standards across the portfolio were maintained at high levels and a significant number of requests for variations were progressed on behalf of the Company's public sector clients during the period to respond to their evolving operational needs.

The Investment Advisor has an active approach to asset management and, as part of its regular activity, works in a collaborative way with both the procuring authorities and operational contractors involved in its projects to identify enhancements and appropriate cost savings to projects.

During the period, significant success in delivering construction completions and a consequent reduction in the portion of the portfolio under construction has been achieved – reducing from 26% at 31 December 2011 to 9% at 31 December 2012. This includes the completion of one of the Company's largest assets, Northern Diabolo Project (c.12% of the Company's portfolio at 31 December 2012). The project, which included the five year construction of a tunnelled rail connection linking Brussels airport to the new Brussels–Antwerp High Speed rail line, was completed on time and on budget and is expected to start generating income for the Company later this financial year. The valuation benefits of having completed construction are expected to occur over successive periods once the operational phase is well established.

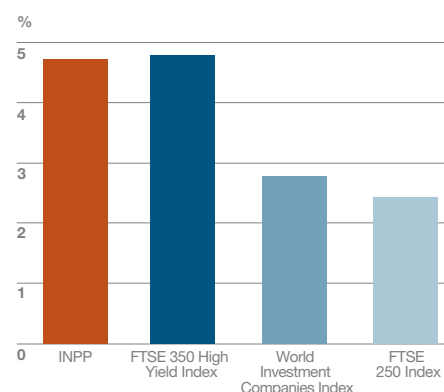
Other construction highlights during the period included:

- The completion of the £35 million Moray Schools scheme in Scotland to replace the existing facilities at Keith Primary School and Elgin Academy.
- The completion of Newby Place Health and Well-being Centre in Hackney, London and the completion of the Nightingale Clinic, also in Hackney, with a combined project value of £8 million.
- Construction completed on time on ten BSF projects. A further six projects remain in construction with the majority due to complete by the end of 2013.
- The Duke of Gloucester formally opened the Walsall Palliative Care Centre (UK) at a ceremony in February 2012.
- Works commenced on Phase 2 of the Royal Children's Hospital project in Melbourne, Australia a week early, in February 2012. Final completion remains on target for December 2014. The Royal Children's Hospital Australia was also awarded the National Infrastructure Award Project of the Year by Infrastructure Partnerships Australia and the National Excellence and Building & Construction Award for projects over \$100 million.

On 14 January 2013, shortly after the financial year end, construction completion was achieved on the Liverpool Central Library and Archive project. The new library annex together with restored Grade II original structures will provide the greater Liverpool area with a significant new educational resource. The project is expected to be open to the public in May.

As at the date of signing of these financial statements, each of the projects listed in the table below were under construction is either on schedule or ahead of time.

INPP Yield v Market



The Company, through the Investment Advisor and the arrangements in place to provide asset level management services, continues to apply considerable resource to managing relationships with its public sector counterparties – particularly those who occupy facilities such as schools and health sector buildings. We believe that the strength of these relationships both protect investor returns and help uncover new opportunities. They also allow an open discussion on alterations to project facilities that provide good value for money for the public sector. During the period, the significant requests for changes from public sector clients included:

- Tower Hamlets Grouped Schools PFI scheme: construction completion of a £3 million expansion scheme at Wellington School;
- Northampton Grouped Schools Project: financial close achieved for circa £8 million of expansion schemes at five sites;
- STaG1 BSF project at Jarrow School: a £4 million swimming pool was constructed for South Tyneside Council, under a variation to the contract. The completed pool was handed over in October 2012;
- other UK and Irish assets: the delivery of a high volume of low value changes totalling circa £3 million in response to changing operational needs; and, the initial development of a pipeline of significant asset changes totalling over £35 million anticipated to be delivered throughout 2013/14, subject to necessary consents;

Asset	Location	Expected Completion Date	Status	% of INPP NAV
Building Schools for the Future portfolio	UK	Various. Latest February 2014	On schedule	0.7%
Gold Coast Rapid Transit	Australia	Mid 2014	On schedule	1.4%
Royal Children's Hospital	Australia	Phase 1 – September 2011 Stage 2 – December 2014	Phase 1 – Completed Phase 2 – On schedule	6.5%

The table excludes Liverpool Library which reached completion before the signing date of these financial statements.

INVESTMENT ADVISOR'S REPORT

CONTINUED

- Royal Melbourne Showgrounds, Australia: State partners approved significant new works to existing facilities for delivery in 2013;
- Orange & Associated Health Services PPP, Australia: two significant variations for 2012 that included the fit-out of a second radiotherapy bunker and an upgrade to the existing Acute Mental Health facility. These variations had a combined capital expenditure of A\$1.1 million with additional facilities management costs of approximately A\$400,000;
- Long Bay Forensic & Prison Hospital PPP: throughout 2011 and 2012, the Investment Advisor assisted NSW Health in their negotiations with the State Electricity Retailer to gain access to the lower health electricity tariffs; and
- Alberta Schools, Canada: Alberta Infrastructure introduced over 30 minor variations to the project during 2012 with one significant variation being the provision of additional modular classroom units to accommodate more students. A total of 16 modular classroom units have been installed, and another 18 modular classroom units are being provided by the respective School Boards. The total value of the additional buildings and associated infrastructure is approximately C\$4.5 million.

Solid levels of operational performance were also achieved by the Company's projects as evidenced by:

- annual availability and performance deductions across the portfolio were, in net terms, negligible;
- good ongoing relationships with the Company's public sector customers;
- the finalisation and ongoing progression of insurance benchmarking across a

number of UK and Irish assets, including Calderdale Schools, Derby Schools 2, Maesteg School, Moray Schools, Northampton Schools, Tower Hamlets Schools and Dublin Courts and the completion of Abingdon Police Headquarters and Dublin Courts Facilities Management Soft services benchmarking exercises; and

- the completion of an insurance benchmarking exercise for Long Bay Forensic & Prison Hospital PPP in December 2012 which resulted in substantial savings for NSW Health & Corrective Services NSW.

Acquisitions and Capital Raisings

During 2012, the Company made a number of significant acquisitions, with over £146 million invested into new and existing assets (2011 – £122 million in additional investments). The main investments were:

- the £115.1 million acquisition of Ormonde UK offshore energy transmission asset ('OFTO'); and
- further BSF investments – a £26.9 million portfolio was acquired from Carillion Private Finance Limited and an additional £4.0 million made in follow-on investments emanating from the Company's investment in the existing BSF portfolio.

The acquisition of Ormonde OFTO was the fourth offshore transmission project that the Company and its consortium partners, Transmission Investment, have closed in the UK. The project has been operational since 2011, and provides immediate yield to the Company's investors. In addition, the asset has income streams that are fully linked to the UK Retail Price Index and therefore also provides valuable additional inflation protection for the portfolio, increasing the estimated proportion of the gross portfolio cash flows projected to have inflation linkage from c.70% to c.75%.

In order to facilitate these investments INPP undertook a capital raising, successfully raising £200 million (including capital raising fees of £3.1 million) from existing and new investors in June 2012. This was in excess of the £180 million target, demonstrating continued demand for the Company's risk adjusted return and strong yielding assets. A further £40 million (including capital raising fee of £0.3 million) was raised in January 2013 by way of a tap issue to further bolster the Company's cash reserves for investment and assist in managing down the premium that the Company's shares were trading at relative to the NAV per share.

The prospects for further acquisitions in 2013 are reviewed in the Outlook section below.

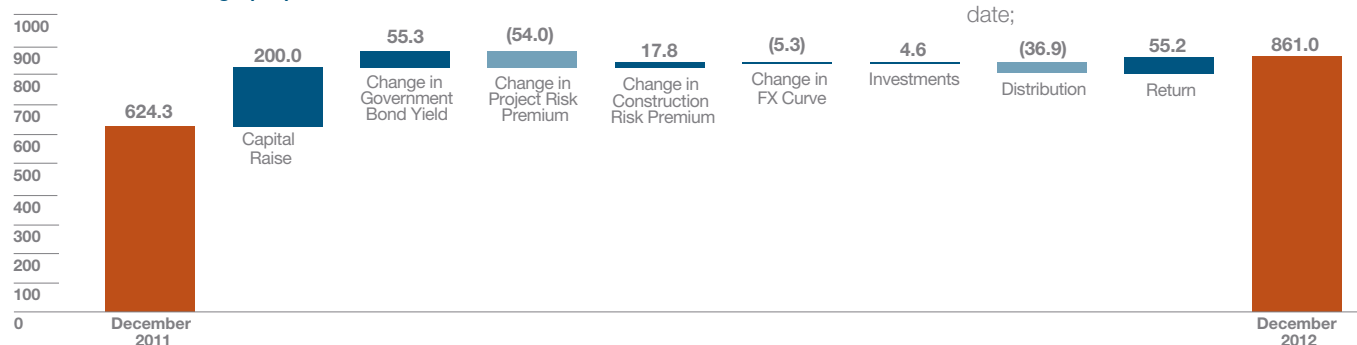
Net Asset Valuation ('NAV') and Future Cash Flows

The Directors of the Company assess the NAV of an Ordinary Share with the assistance of AFML. The Company produces fair market valuations of its investments on a six-monthly basis as at 30 June and 31 December. The valuation methodologies used are primarily based on discounting the Company's future projected net cash flows at appropriate discount rates. Valuations so obtained are however also reviewed against values obtained for similar assets in comparable market transactions seen by the Company or Investment Advisor over the year and adjusted accordingly.

Key inputs and assumptions utilised in projecting the Company's net future cash flows include:

- inflation (where the Company assumes long-term inflation will run at 2.5% per annum);
- cash deposit rates (where the Company assumes a long-term average deposit rate of 3.2% per annum);
- that current tax rates remain applicable;
- that the contracts under which payments are made to the Company and its subsidiaries remain on track and are not terminated before their contractual expiry date;

INPP Valuation Change (£m)



- that deductions suffered under such contracts are fully passed down to subcontractors;
- that cash flows from and to the Company's subsidiaries and the infrastructure asset owning entities in which it has invested will be made and are received at the times anticipated;
- that where assets are in construction they are either completed on time or any costs of delay are borne by the contractors not the Company;
- that where the operating costs of the Company or the infrastructure asset owning entities in which it has invested are fixed by contract, such contracts are performed, and where such costs are not fixed, that they remain within projected budgets;
- that where the Company or the infrastructure asset owning entities in which it has invested owns the residual property value in the asset that the projected amount for this value is realised; and
- that where assets in which the Company invests are not GBP assets that foreign exchange rates remain consistent with current three year projections.

To calculate the NAV, the Company, advised by the Investment Advisor discounts the projected net future cash flows for each investment using a discount rate which reflects the aggregate of:

1. rates on government bonds with an average life equivalent to the asset issued by the national government for the location of the asset ('government bond rates');
2. a premium to reflect the inherent greater risk in investing in infrastructure assets over government bonds;
3. a further premium to reflect the state of maturity of the asset with a larger premium applied to immature assets and/or assets in construction and/or to reflect any current asset specific or operational issues. Typically this risk premium will reduce over the life of any asset as an asset matures, its operating performance becomes more established, and the risks associated with its future cash flows decrease;

4. an additional premium applicable to assets over a certain size;
5. an additional premium applicable to assets denominated in currencies other than GBP; and
6. a further adjustment reflective of market based transaction valuation evidence for similar assets.

The Company builds up its NAV by applying the principles above to each of its investments and aggregating the results. On this basis, the Company's NAV, as appraised by the Directors, as at 31 December 2012 increased by 4.1 pence per share to 121.0 pence per share (2011 – 116.9 pence per share). As at 31 December 2012 the Company's portfolio was valued at £861.0 million (2011 – £624.3 million).

However, as noted elsewhere in this document, there are a number of attendant risks associated with the calculation of the NAV and this assessment should be read in conjunction with the 'Risk and risk management' section found on pages 27 to 29 of this document.

The main drivers of this change included:

- a reduction in risk premia affecting certain assets as a consequence of their moving from the construction to operational phase;
- cash flows being greater than projected due in part to higher than projected inflation;
- valuation benefits arising from acquisitions made during the period;
- a continued reduction in government bond rates in some jurisdictions;
- negative movements in foreign exchange rates;
- operational performance of the underlying assets and the fund's net assets from the existing portfolio; and
- offsetting in part these positive contributions was an adjustment designed to reflect the prices at which similar investments were observed to be trading at in the market.

It is important to appreciate that while assets of the sort the Company invests in are regularly the subject of open market transactions the volume and frequency of such transactions varies and there is no immediate liquid market to allow for such assets to be valued on a mark-to-market basis. As such, and in common with similar investors in the sector, the Company's assessment of NAV has to be based on its judgement at the time of making such assessment.

Discount Rates

On a weighted average basis, taking into account the changes referred to above, the weighted average discount rate applicable across the portfolio decreased by 0.20% driven by a reduction in the risk premia associated with construction assets.

Over the period, the weighted average government bond rate fell 0.92%. This was offset by a 0.72% increase in the weighted average project premium which is the net movement of an increase to risk premia to adjust for transactions observed in the market (discussed above) and the decrease in risk premia relating to construction assets nearing or reached completion.

Valuation Methodology	31 December 2012	31 December 2011	Movement
NAV per share	121.0 pence	116.9 pence	4.1 pence
Weighted Average Discount Rate	8.30%	8.50%	(0.20)%
Weighted Average Government Bond Rate ¹	2.92%	3.84%	(0.92)%
Weighted Average Project Premium ²	5.38%	4.66%	0.72%
Discount Rate Range	6.50% to 11.25%	6.50% to 11.25%	Unchanged

¹ See item 1 on page 15.

² Aggregate effect of items 2 to 6 on page 15.

INVESTMENT ADVISOR'S REPORT

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Sensitivity Analysis

The Company's NAV is based on the factors outlined above. In addition the Company also provides sensitivity analysis of its NAV to key assumptions to more fully inform investors of the estimated impact of these variables. The estimated impact of changes to discount, inflation, foreign exchange and deposit rates are outlined below. Investors should note that this analysis is provided as an indication of the likely impact of these variables on the NAV and the actual outcome of any change to these variables may be different from the estimate provided.

The Company's approach to determining the discount rate is described in detail above. Assuming all other things are equal, a change to the weighted average rate of 8.30% has the following impact on the 31 December 2012 NAV of 121.0 pence per share:

Discount rate	+0.5% change Pence per share	-0.5% change Pence per share	+1.0% change Pence per share	-1.0% change Pence per share
Implied change	(4.4)	4.7	(8.4)	9.9
Implied NAV	116.6	125.7	112.6	130.9

Movements in inflation result in changes to revenue due to the inflation linkage inherent in most of the Company's concessions with c.75% of gross revenues linked to inflation, although this is partially mitigated by operating costs which may also increase in line with inflation.

The Company and Investment Advisor have noted that some peer group investment funds in the infrastructure sector utilise a long-term inflation assumption of 2.75% per annum. If the Company were to assume a long-term inflation rate for all its assets of 2.75% per annum instead of 2.5% per annum then (assuming all other variables remained unchanged), and using the same discount rate as has been adopted to calculate NAV at 31 December 2012, the Company's NAV would be 122.9 pence per share.

If the Company were to assume a long-term inflation rate for all its assets of 2.75% per annum instead of 2.5% per annum then (assuming all other variables remained unchanged), with the Company's NAV unchanged at 121.0p per share, the weighted average discount rate would increase to 8.52% at 31 December 2012.

Where actual inflation is higher or lower than this level it will impact on the Company's cash flow in either a positive or negative manner. If the 2.5% per annum long-term inflation rate that is currently assumed across the portfolio were to vary, and other things are equal, the expected impact on the 31 December 2012 NAV of 121.0 pence per share is estimated to be as follows:

Inflation rate	+0.25% change Pence per share	-0.25% change Pence per share	+1.0% change Pence per share	-1.0% change Pence per share
Implied change	1.9	(1.9)	7.7	(7.1)
Implied NAV	122.9	119.1	128.7	113.9

Note: Sensitivity applied to controlled projects.

However, investors should be somewhat cautious about viewing these two variables in isolation as changes in interest rates have traditionally had a strong linkage with inflation and there may be some interplay between the two variables.

The Company has a geographically diverse portfolio and therefore GBP revenues are subject to exchange risk. The following sensitivity indicates the degree to which the NAV per share would be expected to be impacted should exchange rates vary, all else being equal:

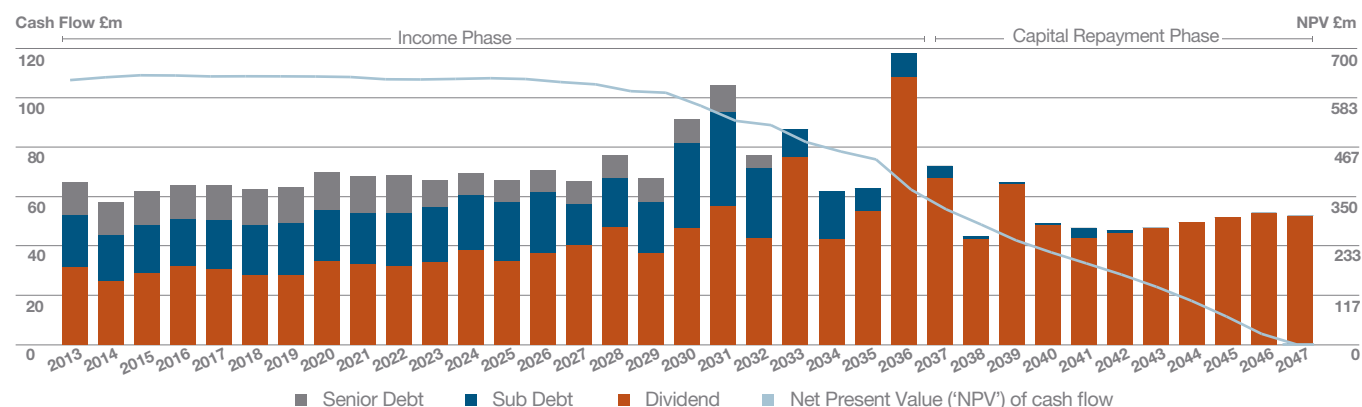
Exchange rate	10% favourable change Pence per share	10% adverse change Pence per share
Implied change	4.6	(3.8)
Implied NAV	125.6	117.2

The Company's projects also have a degree of cash held on deposit. The long-term average future deposit rate across the portfolio is estimated at 3.2% per annum. While operating cash balances tend to be low given the structured nature of the investments, project finance structures typically include reserve accounts to mitigate certain costs and therefore variations to deposit rates may impact the portfolio, all else being equal, as follows:

Deposit rate	+0.5% change Pence per share	-0.5% change Pence per share
Implied change	0.7	(0.6)
Implied NAV	121.7	120.4

Note: Sensitivity applied to controlled projects.

INPP projected cash flow profile by income type



Long-term Cash Flow Profile

To assist investors to evaluate the longer-term return profile of the fund, a graph charting the future projected cash flows is provided above. The chart demonstrates how, all other things being equal, the portfolio valuation is currently expected to evolve over a 35 year period to 2047. The Company's portfolio is made up of fixed-term concessions whose valuation reduces as that concession draws to a close. The majority of the payments to investors over the life of the concession are investment income from the operational assets. However, as the life of the concession draws to a close, payments to investors take the form of a return of capital. The current portfolio is expected to make its final capital repayment in 2047. Any future acquisitions (or disposal) or changes to the projected cash flows of any investment will change this projected profile from time to time.

It should be noted however that there are many factors that may influence the actual achieved long-term cash flow profile. These include both internal as well as external factors and investors should not treat the profile set out above as being a projection, estimate or profit forecast. The actual achieved profile may well be higher or lower than indicated.

Financial Results

At 31 December 2012, the Group, being the Company and its consolidated subsidiaries, had a total of 122 investments. The Group has control over 33 of these investments by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the specific project entities. Under International Financial Reporting Standards ('IFRS'), the results of these companies are consolidated in the Group's financial statements on a line-by-line basis. The remainder are either equity accounted for (generally a shareholding in the range of 20%–50%) or are minority investments and are fair valued using a discounted cash flow method and held as available for sale financial assets.

These consolidated investments form part of the Group's larger portfolio of similar investments all of which are held for investment purposes and managed as such, with no distinction for management purposes made between those investments classified under IFRS as subsidiaries (consolidated investments), associates or joint ventures (equity accounted investments) and simple investments. In addition, as at 31 December 2012, all debt owed by the Group's investments (with the exception of the Group's corporate debt facility with RBS and NAB) is project specific and non-recourse to the Company.

In addition to its statutory reporting obligations under IFRS, the Company has prepared proforma financial information prepared on an 'investment basis'. By deconsolidating the subsidiary investments, the performance of the business under consolidated IFRS basis may be compared with the results under the investment basis. This proforma financial information is not

audited but is provided to give additional guidance, in combination with consideration of the primary financial statements, to aid visibility of the financial results based on the dividends, interest and capital receipts that are received from the individual investments of the Group.

IFRS Results

On a consolidated IFRS basis, profit before tax was £26.8 million (2011 – £13.2 million) with earnings per share of 4.8 pence (2011 – 3.3 pence). Profit after tax was £27.6 million (2011 – £16.1 million). The results on a consolidated IFRS basis include profits from the underlying project entities that are consolidated or equity accounted. These results are impacted by non-cash items, including amortisation of intangible assets, unrealised foreign exchange translation movements and depreciation. Not all profits generated in the underlying project entities are immediately distributed due to requirements to retain cash for future costs or to ensure covenant compliance.

Income and expenses – Investment basis

Cash received from the portfolio of investments by way of distributions, including dividends, interest payments, capital and principal repayments (the latter from subordinated debt and senior debt held in investments) was £53.6 million (2011 – £44.0 million). The net cash receipts to the investment holding companies within the Group, excluding one-off transaction costs, was £42.8 million (2011 – £33.8 million) as set out overleaf. This net cash receipt provided good coverage of the 2012 cash distribution of £30.5 million (2011 – £20.3 million).

INVESTMENT ADVISOR'S REPORT

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Summary net corporate cash flow (unaudited)

The table below summarises cash received from investments net of corporate costs.

	Year to 31 December 2012 £million	Year to 31 December 2011 £million
Cash received from investments		
Dividends and interest	47.8	41.7
Capital receipts	5.8	2.3
	53.6	44.0
Less: corporate costs and net finance costs		
Net financing costs	(1.0)	(1.1)
Corporate expenses	(9.8)	(9.1)
Net cash flow (excluding one-off transaction costs)	42.8	33.8
Less: One-off transaction costs	(2.1)	(3.3)
Net cash flow (including one-off transaction costs)	40.7	30.5

Corporate costs and net finance costs – Investment basis (unaudited)

Total corporate costs before one-off transaction fees increased by £0.6 million to £10.8 million (2011 – £10.2 million) as a result of the increase in investments made by the fund:

- net financing costs decreased during the year by £0.1 million to £1.0 million (2011 – £1.1 million) as a result of lower utilisation of the corporate facility to part finance new investments; and
- the increase of £0.7 million in the level of recurring corporate costs to £9.8 million (2011 – £9.1 million) was associated with the Investment Advisor's management fee which increased in line with the growth in managed investments.

Corporate costs and net financing costs

	Year to 31 December 2012 £million	Year to 31 December 2011 £million
Net corporate financing costs		
Interest income	0.2	0.3
Corporate facility running costs	(1.2)	(1.4)
Total net corporate financing costs	(1.0)	(1.1)
Corporate costs and net financing costs (continued)		
Corporate expenses		
Investment Advisor's management fee	(8.1)	(7.0)
Audit fees	(0.1)	(0.1)
Directors' fees and expenses	(0.2)	(0.2)
Other running costs	(1.4)	(1.8)
Total corporate expenses¹	(9.8)	(9.1)
Total corporate costs (excluding one-off transaction costs)	(10.8)	(10.2)
One-off transaction costs	(2.1)	(3.3)
Total corporate costs including one-off transaction costs	(12.9)	(13.5)

¹ In accordance with Association of Investment Companies (AIC) guidance this number is used to calculate the Annualised Ongoing Charges (see overleaf).

One-off transaction costs of £2.1 million related to new investments (2011 – £2.0 million). No costs relating to the renewal of the corporate debt facility (2011 – £1.1 million) and to an intra-group reorganisation (2011 – £0.2 million) were incurred by the Company during the year.

One-off transaction costs

	Year to 31 December 2012 £million	Year to 31 December 2011 £million
New investment transaction costs	(2.1)	(2.0)
Corporate facility renewal	–	(1.1)
Intra group reorganisation costs	–	(0.2)
One-off transaction costs (excluding capital raising costs)	(2.1)	(3.3)

In accordance with guidelines published by the Association of Investment Companies in May 2012, the Company now reports 'Ongoing Charges', being the annualised ongoing charges of the Company as a proportion of the average of the published NAVs relating to that period. For the year ended 31 December 2012 the annualised Ongoing Charges were 1.27% (2011 – 1.59%). The reduction of c.0.32% was due to an increase in net assets through capital raisings and acquisitions in the period but only a partial period increase in ongoing corporate expenses.

Ongoing Charges

	Year to 31 December 2012 £million	Year to 31 December 2011 £million
Annualised Ongoing Charges	(9.8)	(9.1)
Average NAV ¹	774.7	572.1
Ongoing Charges²	(1.27%)	(1.59%)

¹ Average of the two most recent published NAVs for the relevant period.

² In accordance with the Association of Investment Companies guidance.

Balance Sheet – Investment basis

In order to provide shareholders with further information regarding NAV, and to assist with enhanced transparency of the Company's capacity for investment and ability to make distributions, additional unaudited financial information is provided to help explain the Group's financial position and its projected ability to maintain distribution coverage. This analysis compares the components of the NAV to IFRS net assets.

For investment purposes the Company reports its NAV twice a year. The Company's investment NAV is a valuation of the cash that the Company expects to receive in the future from its investments. This NAV takes account of the dates when cash is expected to be received through applying a discount factor to reflect the time value of money and the risk assessment of the investment. In common with similar investment funds, the Directors believe that this is the most useful measure of the Company's value to investors.

For accounting purposes the Group is required to prepare consolidated group accounts in accordance with IFRS. There are important differences between the investment NAV and the Group's Balance Sheet prepared under IFRS. This note is designed to explain some of these differences.

Unaudited summary Balance Sheet

	Year to 31 December 2012			Year to 31 December 2011		
	NAV basis £million	Adjustments £million	Consolidated IFRS £million	NAV basis £million	Adjustments £million	Consolidated IFRS £million
Investments at fair value	784.4 ¹	(754.2)	30.2	600.7 ¹	(574.8)	25.9
Financial assets at amortised cost	–	2,627.3	2,627.3	–	2,269.8	2,269.8
Other current and non-current assets	5.0	515.9	520.9	5.4	458.8	464.2
Net cash/(borrowings)	77.8	(2,194.7)	(2,116.9)	22.7	(1,989.9)	(1,967.2)
Net derivative financial instruments ²	–	(356.5)	(356.5)	–	(279.4)	(279.4)
Other current and non-current liabilities	(6.2)	(178.5)	(184.7)	(4.5)	(152.6)	(157.1)
Non-controlling interests	–	5.1	5.1	–	(1.7)	(1.7)
Net assets to equity holders of the parent	861.0	(335.6)	525.4	624.3	(269.8)	354.5

¹ Investments at fair value on an investment basis reflected an investment in the capital, subordinated or senior debt of the underlying projects as represented in the Financial Statements.

² Includes net fair value of interest rate, CPI/RPI and foreign exchange swaps.

INVESTMENT ADVISOR'S REPORT

CONTINUED

Investments

Under IFRS, the Group Balance Sheet is prepared to reflect the consolidation of the gross assets and liabilities of underlying project investments, line-by-line, that are controlled by the Group by virtue of it having the power to govern, directly or indirectly, the financial and operating policies of the underlying investment entities. It also includes the Group's share of the assets and liabilities of underlying joint ventures and associate investments by virtue of the Group having either joint control or significant influence over the underlying investments.

Given the Group has control, joint control or significant influence over virtually all of its investments, which is beneficial from an operating and therefore investor cash flow perspective, the impact in the consolidated Group IFRS Balance Sheet is to look-through to the majority of underlying investments' balance sheets as highlighted above. By contrast, the investment NAV reflects the fair market value of the underlying investments from an investor perspective.

Financial assets and liabilities

Under IFRS non-recourse, ring-fenced project level debt is included within the IFRS Consolidated Balance Sheet. However, the Group does not provide guarantees in relation to such debt and would only be exposed in the event of default up to the maximum value of any investment made in an underlying project and therefore this debt is not included in the investment NAV analysis.

Under IFRS the fair value of underlying project level interest rate swaps (i.e. the value of the interest rate swaps had they been terminated on 31 December 2012) is brought into the Consolidated Balance Sheet at the balance sheet date. This is the case notwithstanding that the Group has no intention of seeking early termination of such interest rate swaps and it would be likely to be contrary to the interests of the Group to seek to do so.

The impact of this IFRS requirement is shareholders can expect to see period-to-period volatility in the Consolidated Balance Sheet reflecting the difference between point-in-time market interest rates and fixed interest rates under swap agreements held within the underlying portfolio. Whilst these cash flow hedges provide risk mitigation against cash flow volatility and therefore to investor returns and would be expected to unwind over the life of the underlying

concessions, this leads to a significant difference between IFRS and the investment NAV basis which the Directors continue to believe gives a more useful view of the Company's net assets.

The Group's interest rate swaps are in place for the duration of the relevant underlying project debt and therefore the Group's intention is to hold these until maturity. However, under IFRS the impact of marking-to-market these interest rates swaps when market rates are historically low has resulted in a reduction in the IFRS Consolidated Balance Sheet in the year ended 31 December 2012 of £82.9 million (before the impact of deferred tax). On a cumulative basis the total interest rate swap 'liability' on a fair value basis of £353.9 million is included in the IFRS consolidated accounts whereas this is mitigated within the investment NAV which is calculated on a different basis and uses a different discount rate. The Group has no intention to break these swaps and therefore in cash flow terms such liabilities would not be expected to arise.

Certain balances such as intangible assets, financial assets (accounted for as loans and receivables) and bank debt are initially recorded at fair market value and then subsequently at amortised cost. This together with the movement in the fair value of interest swaps accounts for the principal differences in the net asset position between an IFRS consolidated basis and investment NAV basis.

Gearing

The Group's £100 million three year revolving facility from Royal Bank of Scotland plc ('RBS') and National Australia Bank ('NAB') was renewed in April 2011 on similar terms to the previous facility (also provided by RBS and NAB). The key changes were revisions to the margin charged on the facility which increased from 175 to 225 basis points. This facility is used to fund acquisitions and is on a recourse basis to the Group. The Company's Articles of Association limit the Group's recourse debt to 50% of Adjusted Gross Asset Value of its investments and cash balances. As at 31 December 2012, the facility was undrawn. At the asset-level, the Company seeks to secure long-term non-recourse debt matched where possible to the concession life of an asset at the time of acquisition. Such debt is non-recourse to the Company.

On a consolidated IFRS basis no distinction is made between asset level debt that is non-recourse to the Company and Company level debt that is full recourse to the Company (in respect of investments that are consolidated). Thus for IFRS purposes the Group reports net debt of £2,116.9 million at 31 December 2012 (2011 – £1,967.2 million). This increase in IFRS net debt over the year reflects the additional debt from consolidated investments, offset by the repayment of the corporate debt facility.

Currently, the weighted average concession life remaining in the portfolio is 23 years, compared to a weighted average debt tenure of 21 years. No debt is required to be refinanced over the next 30 years, ensuring strong protection for investors of future projected cash flows.

Investment Environment and Outlook

The market for infrastructure, which is still in relatively early stages of development in comparison to other asset classes, continues to receive increasing levels of interest from a broad range of investors as they recognise its attractions. This position has led to successful capital raisings for the Company as well as, more generally, an increased allocation of capital across the sector from a growing number of investors. This wider appreciation of and demand for infrastructure assets is a positive sign for shareholders in the Company in our view.

In the UK, some investors had concerns as to the results of the UK government's review of historic PFI/PPP projects. As anticipated, the Government has announced some reforms to the PFI/PPP procurement approach in the UK, although these will not generally have retrospective effect. The results of the review thus broadly affirm the status quo in respect of the Company's existing UK portfolio. Going forward, the general trend both in the UK and overseas is for governments to continue to be supportive of private sector investment in infrastructure.

Notably the UK has evolved the PPP/PFI concept and identified it as continuing to be an important means of infrastructure procurement through the new 'PF2' initiatives announced with the Autumn Statement in November 2012. Under PF2, the indications are that a further raft of privately financed infrastructure projects will be developed albeit with some structural alterations from the existing PFI/PPP model.

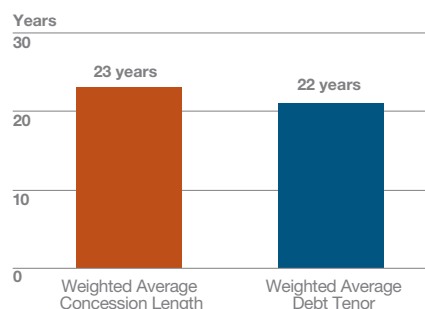
These alterations seem likely to mainly involve government becoming a co-investor in future projects at the equity level and also opening up the prospect of 'equity competitions' where new projects are being developed. In our view these changes are broadly positive for the Company and if 'equity competitions' become the norm, this may open the way for the Company to invest in more early stage projects.

The main question following the announcement of PF2, however, is the extent of the pipeline of new opportunities that will be developed under it. To date there is no certainty about this. What is clear is that over the last few years we have seen fewer UK private finance initiative projects being developed than in the preceding period, largely due to the UK Government's spending cuts. This has been a factor in the UK particularly but there have also been fewer new projects brought forward in other markets including Australia and Canada. This reduced rate of new opportunities has contributed to the fall in the proportion of the Company's assets that are in construction.

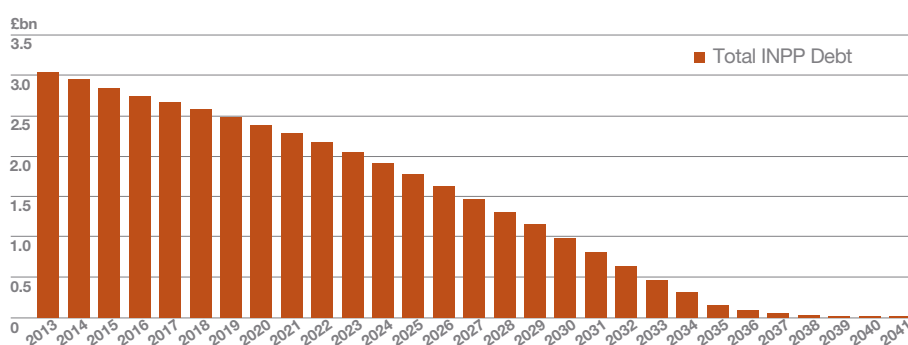
We believe that it is attractive for the Company to have a proportion of its assets in construction and we have seen over the last 12 months how successful construction completions can lead to NAV growth. Nevertheless the Company's ability to source new construction projects is significantly related to the number of new projects brought forward by governments. As Investment Advisors, we have sought to avoid 'chasing risk' and while we will remain keen for the Company to identify and invest in appropriately risked construction projects (some of which are currently being analysed) we will endeavour to avoid significantly changing the Company's approach to risk.

The other main market-based issue is that we have observed increased demand for secondary (i.e. existing assets) investment in the market. This has led to some upward pressure on pricing and downward pressure on returns. In previous periods we have noted that there has not been a direct correlation between pricing in this sector and bond yields but it now seems to us that this sector may simply have been lagging the wider market in this respect. Such movements are positive for valuations in the sector but show the need for circumspection in analysing new acquisitions and investment opportunities.

INPP Concession Length v Debt Tenor



INPP Debt Profile



INVESTMENT ADVISOR'S REPORT

CONTINUED

To date, the Company has been broadly insulated from some of the competitive pressures in the market as well as the diminished supply of traditional new infrastructure projects such as schools and health centres (and we believe that this is likely to continue to be the case). This has been due significantly to early identification of new areas of potential investment (for instance energy transmission and other utilities) which have not necessarily been as competitive and where early mover advantage – particularly in the UK offshore transmission sector – has brought benefits to investors.

As Investment Advisors we will, in addition to focusing on the existing portfolio, continue to search for attractive opportunities in both the traditional PPP/PFI sectors (including under PF2 in the UK) as well as other opportunities (for instance in the utility sector) that appear to offer an attractive balance of risk and reward.

Areas of particular focus for the Company currently include:

- continued application in the area of UK offshore transmission where the Company has a strong market leading position, including being part of a consortium appointed preferred bidder in a fifth project, which is expected to reach financial close during the 2013 financial year;
- delivery of additional investments through pre-emptive positioning within the BSF investment portfolio;
- the wider regulated utility market both in the UK and elsewhere, where attractive returns can be projected from assets with low risk profiles;
- social infrastructure projects in Germany, Canada, Australia and elsewhere, which conform to the existing risk profile within the Company's portfolio;

- opportunities arising in the UK health and social care sphere where an active pipeline of small to medium sized opportunities continue to exist;
- opportunities that arise from re-pricing of capital in the debt capital markets; and
- proposals from third parties seeking to dispose of assets meeting the Company's investment criteria.

Overall, we believe there continues to be a strong pipeline of infrastructure investment opportunities and we are confident that is likely to remain the case through 2013 and beyond.

As a result, we continue to be optimistic about the prospects for the Company, both in terms of the performance of its existing assets and the opportunity to add high quality assets to the portfolio in the future.

Amber Fund Management Limited

27 March 2013



For more information go online to
www.internationalpublicpartnerships.com

CASE STUDY UK OFFSHORE TRANSMISSION

The Company has been extremely successful, securing five of the eleven projects currently awarded, making it the holder of the largest number of UK OFTO licences.



About the Sector

UK Offshore Transmission Owner ('OFTO') projects form a new and rapidly growing infrastructure sector in its own right. Created from the sale by wind farm developers of the transmission cables and sub-stations linking the wind farm generation activities (i.e. turbines) to the national grid, the future capital value of OFTO projects is forecast to be more than £14 billion over the next nine years. The investment is availability-based and therefore takes no exposure to the electricity generation capacity of the wind farm.

The sector has been created through the requirement for electricity companies to 'unbundle' generation activities from transmission activities in accordance with European Commission regulations.

The sale of such assets has been achieved through a competitive tender process run by Ofgem, the UK electricity regulator.

International Public Partnerships' Role

The Company has been extremely successful, securing five of the eleven projects currently awarded, making it the holder of the largest number of UK OFTO licences. These assets now comprise c.20% of INPP's portfolio by value.

During 2012, the Company reached financial close on the £115.1 million Ormonde OFTO, the fourth project to be awarded to INPP by Ofgem. The 150 megawatt ('MW') project – structured on a 20 year availability-based revenue stream – is unique in its move away from financing OFTOs in the long-term bank debt market. Instead, INPP invested across the project's entire capital structure, enabling the fund to take advantage of the 100% inflation-linked revenues across the whole asset.

Other assets already in the portfolio are:

- Robin Rigg East and West – Located in Cumbria with 180 MW of capacity; acquired in March 2011.
- Gunfleet Sands 1 & 2 – Located in Essex with 172 MW of capacity; acquired in July 2011.
- Barrow – Located in Barrow-in-Furness with 90 MW capacity; acquired in September 2011.

The Company is well positioned to take advantage of the future pipeline of OFTO projects due to come to market. It is the preferred bidder on Lincs OFTO (270 MW) which is expected to complete during 2013 and is shortlisted for another project currently being tendered.



INVESTMENT POLICY AND STRATEGY

The Company's intention is to provide, over the long term, distributions at levels that are both sustainable and which preserve the capital value of the Company's portfolio of infrastructure investments over the long term.

Investment Objectives

Distributions

The Company will seek to provide Shareholders with a predictable and attractive yield on the Company's investments.

The Company's intention is to provide, over the long term, distributions at levels that are both sustainable and which preserve the capital value of the Company's portfolio of infrastructure investments over the long term (subject, where relevant, to amortisation of the Company's investments over the term of the relevant concession periods of such investments). The Company will target a minimum dividend per annum and the Company will aim to maintain and enhance the level of distributions. The Company's target dividend for 2013 is 6.15 pence per Ordinary Share which equates to a dividend yield (based on the NAV per share as at 31 December 2012) of approximately 5.1%^a.

The Company's ability to make distributions and/or to pay dividends will be subject always to the requirements of the Law.

Capital growth

The Directors also believe that long-term capital growth can be achieved. The Company will target an internal rate of return ('IRR') equal to or greater than 8%^a on the Initial Public Offer issue price of 100 pence per Ordinary Share to be achieved over the long term and the Company hopes to achieve this through (amongst other techniques) asset development, future acquisitions, active management and prudent use of gearing. The Directors believe, based on the advice of the Investment Advisor, that there are currently opportunities to acquire further investments that may enhance the Company's internal rate of return.

Investment Policy Introduction

The Company's investment policy is to invest directly or indirectly in public or social infrastructure assets located in the UK, Australia, Europe and North America. The Investment Advisor will also consider investment in other core OECD countries, such as New Zealand, where it considers that the risk profile of a particular opportunity meets the Company's requirements.

The Company intends to continue acquiring operational and construction phase assets from the Investment Advisor and/or third party vendors. The Company intends (but is not bound) to hold its investments for the long term and may well hold its investments for the life of a project. The Company will seek to enhance the capital value of its investments and the income derived from its investments.

The Company intends to acquire further investments within any of the following parameters:

- investments with characteristics similar to the existing portfolio;
- investments in other assets, businesses or concessions having a public infrastructure character and in respect of which availability-based payments are or will become payable or in respect of which a property rental is or will become payable or in respect of which user paid charges (or payments related to amount of use) are or will become payable; or
- investments in infrastructure assets or concessions which, based on the advice of the Investment Advisor, the Directors believe have high barriers to entry and expect to generate an attractive total rate of return over the whole of the life of the investments.

Such investments may be for investment capital in single assets or portfolios of assets and may arise globally. The Company may therefore make investments in any location or jurisdiction where the investment in question meets the parameters set out above, although the Company does not currently expect to invest to any material extent in infrastructure projects located in non-OECD countries in the foreseeable future.

It is expected that further investments will be sourced by the Investment Advisor and it is likely that some of these will be investments that have been originated and developed by, and may be acquired from, the Amber Group. Members of the Amber Group and other companies in which Amber has an interest also provide services including but not limited to origination, development, financial advice, transaction execution, asset and special purpose vehicle management with respect to infrastructure assets and entities including project entities that are or may be owned directly or indirectly by the Company. They will not be liable to account for any profit earned from any such services.

^a These are targets only and not profit forecasts. There can be no assurance that these targets will be met or that the Company will make any distributions whatsoever.

New investments and conflicts of interest

The Company has established the following procedures and arrangements to deal with the possible conflicts of interest that may arise in respect of any proposed acquisition of an investment from the Amber Group and to manage the conduct of such acquisitions accordingly. The potential conflicts of interest that may arise include that Amber will be an existing investor in the asset while its subsidiary, Amber Fund Management Limited ('AFML'), acts on the 'buyside' as Investment Advisor and Operator. The Investment Advisory Agreement contains procedures with the intention of ensuring that the terms on which the vendors of such assets dispose of their assets are fair and reasonable to the vendors; and on the 'buyside' AFML as Investment Advisor and Operator must be satisfied as to the appropriateness of the terms for and the price of, the acquisition.

Key features of these procedures include:

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

- individuals with material direct or indirect economic interests in the relevant assets will not participate in Buyside Committee and Sellside Committee discussions regarding the relevant assets; and
- a requirement that the financial statements, policies and records of any such asset offered to the Company can be made compliant with IFRS.

In addition to the procedures detailed above, the acquisition of assets from any member of the Amber Group will be considered and approved by the Independent Directors of the Company. In considering any such acquisition, the Independent Directors will, as they deem necessary, review and ask questions of the Buyside Committee of the Investment Advisor and the Group's other advisors and the acquisition will be approved by the Directors on the basis of this advice. The purpose of these procedures is to ensure that the terms upon which any investment is acquired from a member of the Amber Group is on an arm's length basis.

Any entities that provide services to the Company and/or affiliates of such entities and the Directors and any person or company with whom the Directors are affiliated or by whom they are employed may contract or enter into any financial or other transaction with any member of the Company or with any Shareholder or any entity whose securities are held by or for the account of the Company, or be interested in any such contract or transaction.

Portfolio composition

While there are no restrictions on the amount of the Company's assets which may be invested in any one area or sector, the Company will, over the long term, seek a spread of investments both geographically and across industry sectors in order to achieve a broad balance of risk in the Company's portfolio. Shareholders should note that the actual asset allocation will depend on the development of the infrastructure market, market conditions and the judgement of the Investment Advisor and the Board as to what is in the best interests of Shareholders at the time of the relevant investment. As at 31 December 2012 the Company had 38% of its investment portfolio in assets outside the UK, a significant increase from 10% at the time of the Company's IPO.

The Company will not (other than in respect of holding entities) lend to, or invest in the securities of, any one company or group, more than 20% of the Company's total assets (as calculated at the time the investment or loan is made). The Directors have adopted this investment restriction with the intention of maintaining a spread of investment risk. This investment restriction applies at the time of investment. The Company will not be required to rebalance its investment portfolio in accordance with such investment restriction as a result of a change in the NAV of any investment or of the NAV of the Company as a whole.

As at 31 December 2012, the largest investment in the Company's portfolio, Ormonde OFTO, accounted for 14.7%, while the Company's largest ten investments account for 64.3% of the portfolio. Details of the ten largest investments can be on the Company's website (www.internationalpublicpartnerships.com).

Cash management

Until the Company is fully invested and pending re-investment or distribution of cash receipts, cash received by the Company will be invested in cash, cash equivalents, near cash instruments, money market instruments and money market funds and cash funds. The Company may also hold derivative or other financial instruments designed for efficient portfolio management or to hedge interest, inflation or currency rate risks.

The Company and any other member of the Company may also lend cash which it holds as part of its cash management policy.

INVESTMENT POLICY AND STRATEGY

CONTINUED

Hedging

Where investments are made in currencies other than GBP, it is expected that the Company will consider whether to hedge currency risk in accordance with the Company's currency and hedging policy as determined from time to time by the Directors.

A portion of the Company's underlying investments may be denominated in currencies other than GBP. For example, a portion of the portfolio is denominated in Australian Dollars, Canadian Dollars and Euro. However, any dividends or distributions in respect of the Ordinary Shares will be made in GBP and the market prices and NAV Ordinary Shares will be reported in GBP.

Currency hedging may be carried out to seek to provide some protection to the level of GBP dividends and other distributions that the Company aims to pay on the Ordinary Shares, and in order to reduce the risk of currency fluctuations and the volatility of returns that may result from such currency exposure. Such currency hedging may include the use of foreign currency borrowings to finance foreign currency assets and forward foreign exchange contracts.

Interest rate hedging may be carried out to seek to provide protection against increasing costs of servicing debt drawn down by the Company to finance investments. This may involve the use of interest rate derivatives and similar derivative instruments. Hedging against inflation may also be carried out and this may involve the use of RPI swaps and similar derivative instruments.

Currency, interest rate and any inflationary hedging policies are reviewed by the Directors on a regular basis to ensure that the risks associated with movements in foreign exchange rates, interest rates and inflation are being appropriately managed.

Such transactions (if carried out) are undertaken for the purpose of efficient portfolio management to enhance returns from the portfolio and will not be carried out for speculative purposes. The execution of currency, interest rate and inflationary hedging transactions is at the discretion of AFML in its capacity as operator, subject to the policies set by and the overall supervision of the Directors.

Leverage

The Company intends to make prudent use of leverage to enhance returns to investors, to finance the acquisition of investments and to satisfy working capital requirements. Borrowings may be made by the Company itself or by any of the subsidiary holding entities.

Under the Company's Articles, the Company's outstanding borrowings, including any financial guarantees to support subscription obligations in relation to investments, are limited to up to 50% of the Gross Asset Value of the Company's investments and cash balances, with the Company having the ability to borrow in aggregate up to 66% of such Gross Asset Value on a short-term (i.e. less than 365 day) basis if considered appropriate. Circumstances where this might be the case include for the purposes of new acquisitions. For the purposes of the borrowing limitation, outstanding borrowings exclude intra-group borrowings and the debts of underlying project entities. The Company may borrow in currencies other than GBP as part of any currency hedging strategy.

Following the capital raising undertaken in June, the Company repaid the £18.1 million drawn against its corporate debt facility and as at 31 December 2012, the Company had no outstanding borrowings against this facility.

Debt secured against any of the Company's investments is on an individual investment basis and is non-recourse to the Company. The Company also seeks, where possible, to secure long-term debt matched to the concession life of the asset. For example, the average life of the existing project-level debt is 21 years compared to the average remaining life of the Company's assets of 23 years.

Changes to investment policy

Material changes to the investment policy set out in this section may only be made by ordinary resolution of the shareholders in accordance with the Listing Rules.

Investment Strategy

The Directors believe that the opportunity offered to the Company by its relationship with the Investment Advisor will lead to the Company being well placed to acquire further investments meeting the Company's investment objectives and policy. The Directors believe that there are two ways in which this is likely to occur:

- acquisition of further investments developed by Amber (the Directors are aware of a number of further transactions within the PPP sector for which Amber is preferred bidder or which are under development by Amber); and
- acquisition of further investments that are sourced through opportunities identified by Amber's infrastructure team.

The Company will seek to acquire further infrastructure assets where the Directors believe that this will create shareholder value and expect that the project origination skills of AFML and Amber will assist the Company in identifying new investment opportunities.

Such acquisitions may be of single assets, of portfolios or shares in companies or partnership interests. The acquisition of further investments will be financed from cash reserves including those arising from raising debt and/or through seeking additional capital from the shareholders and equity capital markets or a combination of these. Acquisitions will be led by a desire to increase value for shareholders.

Further investments may be either direct or indirect (i.e. through the Company investing in a company or other entity which itself has a direct or indirect interest in the underlying investment opportunity).

It is currently expected that any further investments will, as with the existing portfolio, be held through the Company structure but the Directors and the Investment Advisor will keep the structure under review and amend it as may be appropriate for the most efficient holding of investments.

RISK AND RISK MANAGEMENT

The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company and Group on an ongoing basis. It seeks to ensure that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all local and international laws and regulations are upheld. In light of continued market volatility and economic turmoil, particular attention has been given to the effectiveness of controls to monitor liquidity risk, asset values, counterparty exposure and credit availability.

The Directors set out the material risks relating to the Group's portfolio and investing in the Company as at May 2012 in the Company's Placing, Open Offer and Offer for Subscription, available from the Company's website. This document should be reviewed by shareholders but broad areas of risk include (but may not be limited to) external risks, strategy and management, operational and investment and financial. These factors are summarised below:

External Risks

Broad external factors, including the economic conditions in the jurisdictions in which the Group operates, have the capacity to impact the portfolio of assets this includes interest rates, foreign exchange and inflation.

In particular the revenues and expenditure of project entities with respect to infrastructure assets are generally partly or wholly subject to indexation. An assumption is made that inflation will increase at a long-term rate (which may vary depending on country and from time to time). The effect on investment returns if inflation is above or below the original projections for this long-term rate will impact on the cash that the Group actually generates from its investments. The Group's ability to meet targets and its objective may be adversely or positively affected by inflation and/or deflation or by changes to the manner in which inflation is calculated by the governing authority. The impact of interest rates and foreign exchange is discussed in Financial Risks further below.

Each of the portfolio's assets has an underlying legal contract with a public sector client and the economic viability of a project may depend implicitly or explicitly on regulatory conditions in a particular jurisdiction. There is a risk that political decisions and/or changes to regulation could be taken to seek to vary the terms of, or terminate, a contract. In some cases governments have rights of voluntary termination and any compensation payable on termination may well be less than the Group's valuation for the asset terminated. It is also possible that the underlying public sector client may default and there is no certainty that the central government will in all cases assume the liabilities of that local or state government or agency. In such cases the value of the Group's investment portfolio and its ability to meet target distributions would be affected.

There is also a risk that a government or public commissioning body may decide to vary the means by which it delivers future projects i.e. not through PFI/PPP initiatives or modifications to these structures e.g. PF2. Should this be the case the Group's ability to source assets in the future could be limited with the reduction in supply. While unlikely, force majeure events and acts of terrorism may also impact projects and may see returns diminished.

Financing structures through which the Company invests into projects are based on assumptions regarding prevailing taxation law and practice and accounting standards. Any change in that investment's tax status or in tax legislation or practice (including in relation to taxation rates) or in accounting standards could adversely affect the project's investment return and, in turn, have an adverse impact on the financial performance of the Group. More broadly, changes to regulations that impact the wider financial services sector e.g. the Alternative Investment Fund Manager's Directive may also have application to the Company and in doing so may increase the Company's costs of compliance in unanticipated ways.

The Company operates in a competitive environment both in sourcing capital and by way of competition from other investors who bid against the Company to acquire new assets. The Company believes it has a differentiated strategy from its competitors on both counts. Firstly, it believes that its diversified portfolio of assets, both from a geographic and sector perspective, position it well in the eyes of investors. It also provides the potential for further capital growth through its construction assets which investors also view favourably. However these strategies may not be successful. The Company's Investment Advisor is a leading originator, asset management and fund manager in the infrastructure sector. The Company relies on the expertise of its Advisor and believes its long-term track record positions it well to acquire new assets for the fund vis-à-vis other competitors in the market.

Strategic and Management Risks

The Company seeks to provide its shareholders with both a long-term government-backed yield and capital growth through investment across both construction and operational phases of infrastructure projects. The Company aims to provide a medium term return of equal to or greater than 8% on the initial public offer issue price of 100 pence per share. The Company aims also to provide a robust and attractive growing yield to investors. However, this strategy necessarily means that investor will only have exposure to a single asset class and there is a risk that the Company may fail to reach its return objectives.

The Company's NAV is assessed in good faith by the Company's Directors half yearly with the assistance of the Investment Advisor. NAV is derived from projections of future cash flows to the Company and discounted at a rate to arrive at a present value of those future cash flows. Such cash flows may in practice be higher or lower than projected and/or may arise at different times. As with any valuation the assessment of NAV depends on judgements which may in hindsight be wrong or unjustified and/or an error made in modelling. The discount rate utilised will change from time to time influenced by market and portfolio specific factors.

RISK AND RISK MANAGEMENT

CONTINUED

The ability both to deliver returns and to pay distributions is dependent on a number of economic factors outside the Company's or the Investment Advisor's control. Whilst assumptions that are believed to be reasonable have been factored into business plans, external factors could materially affect the Company and impede its ability to deliver its financial objectives such as assumptions around taxation and exchange controls in the jurisdiction in which the Company invests.

The Company is dependent on the Investment Advisor for advice relating to the day-to-day asset level management of the Group's assets. The Investment Advisor is supported by other service providers to the Group. Failure by the Investment Advisor or other service provider could have a material impact on the Group. Equally a loss of key personnel from a service provider may have an impact on the performance of the Group. The Management Engagement Committee of the Board reviews the performance of each service provider on an annual basis and seeks to ensure that each service provider has adequate systems and controls in place in relation to the services they provide to the Group.

As a listed entity the Company is subject to the same risks as any other traded equity security on the London Stock Exchange. For example, at any point in time its market price may or may not reflect the NAV as calculated by the Company and the value of a shareholding may be diluted if a shareholder does not participate in any capital raisings undertaken by the Company.

Operational and Investment Risks

There is no guarantee that suitable additional investments will be available in which the Company can invest or that any investment will be successful. Competition for investment opportunities may result in increased purchase prices. Whether an investment is acquired via the Investment Advisor's pipeline or through an on-market competition it is important that the investment is analysed thoroughly in order to determine the appropriate value the Company is prepared to pay. The Company is exposed to the risk that such work is not carried out properly or that mistakes are made in such work that lead to the Company over-paying for assets.

Whilst most construction and operational risks in projects in which the Company invests are passed down to subcontractors through a well-established contractual framework, there are occasions when costs and/or risks are retained within the project vehicle. These include where there is a cap on the contractor's liability or for a number of routine running cost items, likely to include insurance and life cycle costs. Any cost implication, not otherwise passed down to subcontractors, will generally be borne by the affected project. For the current portfolio, the Company has assessed the risk and considers that the lifecycle and insurance provisions are reasonable and adequate but this view may be wrong. Subcontractors may become insolvent or otherwise fail to perform their obligations, including due to industrial relations issues, even where risks are passed down to them. Public sector clients may also have the right to terminate the project agreement where a project, shareholder or subcontractor has committed bribery, corruption or other fraudulent act, although the Company has appropriate policies in place to counter such practices.

Generally the Group's assets benefit from loans and are subject to security in favour of third party lenders. While such loans are generally long term, in certain circumstances such as default, lenders will be entitled to demand early repayment and enforce that security. However, such loans are structured in the expectation that there would be no recourse to the Group beyond the maximum of the amount invested.

Once acquired, investments need to perform in line with their business plans. Underperformance can be caused by a number of factors, one of which is the underperformance of a service delivery partner. The Investment Advisor has tight controls and asset management processes in place to ensure that projects are meeting their intended performance targets. It regularly reports the progress of projects, on a case-by-case basis to the Board where any issues and mitigation is discussed so that any resulting financial impact can be minimised. The Company is also conscious of concentration issues associated with having reliance on any one service provider. It also actively ensures that exposures to specific contractors are minimised by reviewing these providers at the time of acquisition and, from a portfolio perspective, on an ongoing basis.

The significant majority of the Company's portfolio has availability-based revenue mechanisms; however, the Northern Diabolo Project has a component of demand risk. To the extent that passenger numbers do not meet the Company's projection, the project's performance may be negatively impacted.

The Group intends to hold assets long-term and does not have an active strategy to sell assets although this will be considered where desirable. The Company's assets may be illiquid and difficult to sell quickly or at all. They may not be saleable at NAV and while the Company has a diverse portfolio it is also notable that its largest ten investments currently comprise 64.3% of the portfolio. Currently the Company believes that there is an active market for the purchase and sale of assets similar to those of the Company however this could change.

The Company depends on contractual arrangements in all aspects of its business. Such contracts may be open to dispute or reinterpretation and may be affected by controls over their operation which are vested in third parties (e.g. banks) which may be operated in unpredictable ways, including the right for senior lenders to 'step in' and take responsibility for the asset. Any such actions may affect the Group in a number of ways including its projected receipt of cash particularly if certain contractual covenants were broken. In practice such matters cannot be ruled out as possibilities although such contracts will generally have received extensive legal review before being entered into and the assets managed to avoid being placed in a position that would cause the lenders or other related parties concern.

The Group is exposed to the risk of possible conflicts of interest. These may arise in (but not limited to) circumstances where the Group acquires investments from entities associated with its Investment Advisor and/or circumstances where entities associated with its Investment Advisor receive fees (before, at or after acquisition) from entities acquired by the Group. The Group has established conflict management procedures to mitigate this risk as set out in the Investment Policy section above.

Financial Risks

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The underlying project entities in which the Group is invested have usually either entered a fixed rate loan agreement or variable interest rate loan agreement. In the latter an interest rate swap agreement will usually be entered into at the commencement of the loan. Hedging activities are designed to be aligned with the period of the loan, which also mirrors the concession period and are generally highly effective. However the risk that swap counterparties may fail and/or there may be other reasons why such arrangements may become ineffective cannot be ruled out.

The Company has exposures to foreign currency exchange rate movement, as a result of its investments in assets which are in currencies other than GBP. Foreign exchange movements may have a future effect on both the Company's cash flow and valuation. Any collapse of or restructuring of the Eurozone or changes affecting the use of the Euro in countries where the Group has investments might have unforeseen negative consequences for the Company.

The Company may from time to time borrow money on a revolving and/or short-term basis to assist it with working capital and and/or to acquire new investments. Such borrowing will generally be on a floating rate basis and limited in time. While the Company fully expects to manage its treasury position effectively the Company is exposed to the risks consequential on this including an inability to repay loans when they fall due. There can be no certainty that loans taken out by the Company or the Group or any underlying entity can be renewed on the same terms or at all. Nor can there be certainty that additional equity capital can be raised from shareholders.

In some cases project entities may own assets that are expected to have a residual value to the Company once its contract with the public sector client has expired. The Company makes assumptions around the value of this asset, typically very conservative, but there can be no assurances that these assumptions are correct. The majority of the Company's assets are concessions that will have no value after the contract expires. Unless the Group enters in to additional investments to offset this diminution to value the Company's NAV will reduce accordingly.

The Group aims not to be exposed to significant credit risk but this cannot be fully avoided and different assets of the Group have different underlying credit risks. This applies also to the other contractual counterparties of the Group and its underlying entities.

While the Company and the Group are exposed to the risks (and other risks) set out above, the policy of the Board and the Investment Advisor is to take an active approach to risk management. This includes the review at least quarterly of the chief risks that are from time to time believed to affect the Company and the adoption of such mitigation strategies as may be reasonable in response.

BOARD OF DIRECTORS



Board of Directors

The Directors, all of whom are non-executive and the majority of whom are independent, who served throughout the year are listed below and were appointed on 2 August 2006 (unless stated otherwise):

Keith Dorrian

Rupert Dorey

Giles Frost

Carol Goodwin – appointed 19 February 2007; resigned 31 December 2012

John Whittle – appointed 6 August 2009

Claire Whittet – appointed 10 September 2012

The biographical details of the current serving directors are given below:

1/ Keith Dorrian (Chairman)

Born in 1946, he is a Guernsey resident and has 40 years' experience in the offshore finance industry. Joining Manufacturers Hanover in 1973, he moved to First National Bank of Chicago in 1984 where he was appointed Vice President and Company Secretary. In 1989 he joined ANZ Bank (Guernsey) where, as a Director of the Bank and Fund Management company, he was closely involved in the banking and fund management services of the Group. He took up the position of Manager Corporate Clients in Bank of Bermuda (Guernsey) Ltd in 2000 and was appointed local Head of Global Fund Services and Managing Director of the Guernsey Bank's Fund Administration company, Management International (Guernsey) Limited, in 2001, retiring on 31 December 2003. He is currently a member of the Guernsey Investment Fund Association, the Institute of Financial Services, has been elected a Fellow of the Institute of Directors and holds the Institute's Diploma in Company Directors and is a Director of a number of funds and fund management companies.

As at the date of this Report Mr Dorrian is a director of the following companies:

AB Alternative Strategies PCC Limited
 AB International Fund PCC Limited
 Arab Bank Fund Managers (Guernsey) Limited
 Asian Alternative Strategies Fund Ltd
 BH Credit Catalysts Limited
 Cayuga Investment Management
 Credit Suisse Core Alternative Strategies Ltd
 Credit Suisse Global Real Estate & Infrastructure Opportunities Ltd
 Credit Suisse Opportunistic Alternative Strategies Ltd
 Custom Portfolio PCC Ltd
 Eagle & Dominion Growth Fund Limited
 Eagle & Dominion Limited
 Eurocastle Investments Limited
 Hermes Emerging Markets Private Equity Fund GP Limited
 IIAB PCC Limited
 International Public Partnerships Limited
 K A N Consulting Limited
 Master Capital Fund Limited
 Pensus Limited
 Premium Portfolio Fund PCC Ltd
 Premium Series PCC Ltd
 PSource Structured Debt Limited
 Re Investments Alternative Strategies IC Ltd
 Re Investments Global IC Ltd
 Re Investments ICC Ltd
 Re Investments LEA Markets Ltd
 Secundum Series PCC Limited
 Strategic Investments GP Limited
 Strategic Investment Portfolio Holdings Limited
 Third Point Offshore Investors Limited
 UK Commercial Property Estates Holdings Limited
 UK Commercial Property Estates Limited
 UK Commercial Property GP Limited
 UK Commercial Property Holdings Limited
 UK Commercial Property Nominee Limited
 UK Commercial Property Trust Limited

2/ Rupert Dorey

Born in 1960, he is a resident of Guernsey, has over 22 years' experience in debt capital markets, specialising in credit related products, including derivative instruments. Mr Dorey's expertise is principally in the areas of debt distribution, origination and trading, covering all types of debt from investment grade to high yield and distressed debt. He was at Credit Suisse First Boston (CSFB) for 17 years from 1988 until May 2005, holding a number of positions including fixed income credit product coordinator for European offices and head of UK Credit and Rates Sales. Since leaving CSFB, Mr Dorey is acting in a non-executive directorship capacity for a number of hedge funds, funds of hedge funds and private equity funds. He is the current President of the Guernsey Chamber of Commerce.

He is a member of the Institute of Directors.

As at the date of this Report Mr Dorey is a director of the following companies:

AAA Guernsey Limited
AIAF PCC Limited Strategic Opportunities Arbitrage Fund
AIAF PCC Limited G7 Fixed Income Fund
AIAF PCC Limited Fixed Income Macro Fund
International Public Partnerships Ltd
AIAF PCC Limited Strategic Equity Advantage Fund
AP Alternative Assets LP
Celadon Fund PCC Limited
Clifford Estate Company Limited
Clifford Estate Company (Chattels) Limited
Cognis General Partner Limited
Cognis 1 Fund LP
Cognis 1 Master Fund LP
CQS Diversified Fund Limited
Endurance High Performance Fund Limited
Episode Inc
Episode LLP
Green Park Capital Investment Management Limited
Guernsey Chamber of Commerce
Harbour Vest Senior Loans Europe Limited
M&G General Partner Inc
Onesimus Dorey (Holdings) Limited
Partners Group Global Opportunities Limited
Alternative Liquidity Solutions Limited
Sovereign Credit Opportunities Master Investment Company Limited
Tetragon Financial Group Fund Limited
Tetragon Financial Group Master Fund Limited

3/ Giles Frost

Aged 50, resident in the United Kingdom, he is a founder and director of Amber. Giles has worked in the infrastructure investments sector for nearly 20 years and prior to establishing the Investment Advisor in 2009, he was joint head of the European public infrastructure business unit at Babcock & Brown. Prior to this he was a solicitor and partner in the law firm Wilde Sapte (now SNR Denton).

Mr Frost is a director of Amber Infrastructure Group Holdings Limited, the ultimate holding company of the Investment Advisor to the Company and various of its subsidiaries. Mr Frost is also a director of a number of the Company's entities and of other entities in which the Company has an investment. He received no directors' fees from such roles for the Company.

4/ John Whittle (appointed 6 August 2009)

Aged 57, is a resident of Guernsey. He is a Chartered Accountant and holds the IoD Diploma in Company Direction. He is a non-executive director of Starwood European Real Estate Finance Limited (LSE), Aurora Russia Ltd, India Capital Growth Fund Ltd and Advance Frontier Markets Fund Ltd (all listed on AIM). He also acts as non-executive director to several other Guernsey investment funds. He was previously Finance Director of Close Fund Services, a large independent fund administrator, where he successfully initiated a restructuring of client financial reporting services and was a key member of the business transition team. Prior to moving to Guernsey he was at Price Waterhouse in London before embarking on a career in business services, predominantly telecoms. He co-led the business turnaround of Talkland International (now Vodafone Retail) and was directly responsible for the strategic shift into retail distribution and its subsequent implementation; he subsequently worked on the £20 million private equity acquisition of Ora Telecom.

As at the date of this Report Mr Whittle is a director of the following companies:

Advance Frontier Markets Fund Limited
Aurora Russia Limited¹
B&Q (Retail) Guernsey Limited
B&Q (Retail) Jersey Limited
CPL GP Limited
CPL Guernsey Limited
Mid Europa III Management Limited
EMP Europe (CI) Limited
Mid Europa IV Management Limited
Guernsey International Management Company Limited
Guernsey Yacht Club LBG
India Capital Growth Fund Limited
International Public Partnerships Limited
Perusa Partners Management Limited

The Solar Park Fund (GBP) IC Limited
Pont du Val Limited
Sciens Global Strategic Fund Limited
Starwood European Real Estate Finance Limited
Steadfast Capital III (GP) Limited
The IPM Renewable Energy Fund ICC Limited
The Offshore Mutual Fund PCC Limited

¹ An announcement has been made in respect of Mr Whittle's intention to resign as a Director in respect of this entity.

5/ Claire Whittet (appointed 10 September 2012)

Aged 57, she has 35 years' experience in the banking industry and since 2003 has been a Director and, more recently, Co-Head of Rothschild Bank International Ltd and a Director of Rothschild Bank (CI) Ltd. Claire began her career at the Bank of Scotland where she was for 19 years in a variety of personal and corporate finance roles. Subsequently, Claire joined Bank of Bermuda and was Global Head of Private Client Credit before taking up her current position at Rothschild.

Ms Whittet is a member of the Chartered Institute of Bankers in Scotland, a member of the Chartered Insurance Institute, a Chartered Banker, a member of the Institute of Directors and holds the Institute of Directors Diploma in Company Direction. She is a resident of Guernsey.

As at the date of this Report Ms Whittet is a director of the following companies:

Guernsey Loan Asset Securitisation Scheme Limited
Old Court Limited Guernsey
Rothschild Bank (CI) Limited
Rothschild Bank International Limited
Rothschild Finance (C.I.) Limited
Rothschild Switzerland (CI) Nominees Limited
International Public Partnerships Limited
Monico Investments Limited
Monico Limited

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditor's report thereon, for the year ended 31 December 2012.

These financial statements have been prepared by the Directors in compliance with the provisions of the Companies (Guernsey) Law, 2008.

As discussed in the Chairman's Letter, Carol Goodwin, who had served as an independent Non-Executive Director since 2007, as a member of the Audit Committee and as chairman of the Management Engagement Committee, resigned as a Director of the Company with effect from 31 December 2012 for personal family reasons.

Foreseeing Carol's departure Claire Whittet was appointed as a Non-Executive Director on 10 September 2012.

Ms Whittet was also appointed to the Audit Committee on 23 November 2012. Claire's significant experience in the finance sector, particularly within credit markets, together with her knowledge of corporate governance and regulation will be a valuable addition to the Board.

The Company's Chairman, Keith Dorrian, has notified the Board of his intention to retire as Chairman with effect from the 31 December 2013 and, due to retire in rotation, will not offer himself for re-election at the 2014 Annual General Meeting. The Board is mindful of planning for Mr Dorrian's succession and will actively search to find an additional Board member prior to Mr Dorrian's retirement. It is envisaged that the current Chair of the Audit Committee, Rupert Dorey, will be appointed to the role of Chairman of the Board on Mr Dorrian's resignation and that Mr John Whittle, a qualified accountant, will take over as Chair of the Audit Committee on the same date. In the period to the end of the year, both Mr Dorey and Mr Whittle will be familiarising themselves with their new roles to ensure a seamless takeover of responsibilities.

Principal Activities

The principal activity of the Group comprises the investment in the equity and debt of public infrastructure projects in order to provide shareholders with long-term distributions, and increasing the capital value where possible through active management.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in notes 17, 18 and 19 to the financial statements.

Business Review

A review of the business for the year ended 31 December 2012 is contained in the Letter from the Chairman (pages 6 to 10) and Investment Advisor's Report (pages 12 to 22).

Results

The results for the year are set out in the Consolidated Income Statement on page 46.

Principal Risks and Uncertainties

The principal risks and uncertainties of the business are discussed in more detail in the Risk and Risk Management report (pages 27 to 29). Explanations of credit risk, liquidity risk and interest rate risk and the way in which they are managed are contained in note 30 to the financial statements.

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are long-term yield and capital growth. The Board also monitors the Company's share price and assesses the Company's Net Asset Value. These metrics for the year ended 31 December 2012 are referred to in the Chairman's Letter and Investment Advisor's Report.

The Company is a member of the Association of Investment Companies ('AIC').

Directors' Remuneration

During the period 1 January 2012 to 31 December 2012, the Directors' remuneration was paid as follows:

		Base (£)	Other ¹ (£)	Total 2012 (£)	Total 2011 (£)
Keith Dorrian	Independent Non-Executive Chairman	47,000	10,000	57,000	47,000
Rupert Dorey	Independent Non-Executive Director	37,000	10,000	47,000	37,000
Giles Frost	Non-Executive Director	32,000	10,000	42,000	32,000
Carol Goodwin	Independent Non-Executive Director	32,000	10,000	42,000	32,000
John Whittle	Independent Non-Executive Director	32,000	10,000	42,000	32,000
Claire Whittet	Independent Non-Executive Director	9,826	–	9,826	N/A

¹Represents additional services undertaken in respect of the June 2012 capital raising.

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

The emoluments for Mr Frost are paid to his employer Amber Infrastructure Limited, a related company of the Company's Investment Advisor.

Directors' Interests

The Directors who held office at 31 December 2012 had the following interests in the shares of International Public Partnerships Limited:

Name of Director	31 December 2012 Number of Ordinary Shares		31 December 2011 Number of Ordinary Shares	
	Non-Beneficial	Beneficial	Non-beneficial	Beneficial
Keith Dorrian	–	51,467¹	–	44,205 ¹
Giles Frost	–	298,745	–	273,745
Rupert Dorey	–	593,687²	–	493,687 ²
Carol Goodwin	–	45,047	–	33,983 ³
John Whittle	–	36,626¹	–	34,875
Claire Whittet	–	–	–	–

¹ Holds shares indirectly through a Retirement Annuity Trust Scheme.

² Shares owned by Mr Dorey's spouse.

³ Holds shares directly through an investment company.

Mr Frost is also a Director of International Public Partnerships Lux 1 Sarl and International Public Partnerships Lux 2 Sarl, wholly owned subsidiary undertakings of the Company. Mr Frost is also a director of a number of other companies in which the Company directly or indirectly has an investment, although Mr Frost does not control or receive remuneration in relation to these entities.

In accordance with the Articles of Association at least one third of the Independent Directors will retire at each Annual General Meeting whilst Mr Frost as the non independent Director will retire at each Annual General Meeting. As all of the Directors are Non-Executive Directors, the Company considers the recommendation for annual re-election of all Directors is not appropriate in these circumstances as it potentially exposes the Company to additional risk.

The Board undertakes a formal written and verbal review of its own performance annually and that of its individual directors and committees. The most recent review was conducted in March 2013. The Board believes that the Chairman and each Director continues to be effective and demonstrates commitment to the role, as well as to the efficient running of the Company. The Board and its committees demonstrate a good range of skills and competency.

Directors' Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the period and remain in force at the date of this Report.

DIRECTORS' REPORT

CONTINUED

Substantial Shareholdings

As at 31 December 2012 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following substantial voting rights as shareholders of the Company.

Name of holder	Voting rights and issued share capital (%)	No of ordinary shares	Nature of holding
Investec Wealth & Investment Ltd.	11.20	79,693,898	Indirect
Schroder Investment Management Ltd.	11.00	78,279,768	Indirect
M&G Investment Management Ltd.	6.64	47,266,851	Indirect
Brewin Dolphin Ltd.	6.26	44,580,117	Indirect
Sarasin & Partners LLP	3.97	28,268,058	Indirect
Legal & General Investment Management Ltd.	3.23	22,950,358	Indirect
Deutsche Bank Private Wealth Management	2.71	19,316,065	Indirect
British Steel Pension Fund	2.50	17,819,067	Indirect
Smith & Williamson Investment Management Ltd.	2.47	17,545,521	Indirect
London Borough of Enfield Pension Fund	2.25	15,982,731	Indirect

In addition, the Company also provides the same information as at 28 February 2013, being the most current information available.

Name of holder	Voting rights and issued share capital (%)	No of ordinary shares	Nature of holding
Schroder Investment Management Ltd.	10.96	81,556,440	Indirect
Investec Wealth & Investment Ltd.	10.65	79,248,219	Indirect
M&G Investment Management Ltd.	6.06	45,061,177	Indirect
Brewin Dolphin Ltd.	5.99	44,578,415	Indirect
Sarasin & Partners LLP	3.18	23,671,523	Indirect
Legal & General Investment Management Ltd.	3.09	22,957,582	Indirect
Deutsche Bank Private Wealth Management	2.40	17,864,665	Indirect
Smith & Williamson Investment Management Ltd.	2.39	17,781,366	Indirect
British Steel Pension Fund	2.26	16,819,067	Indirect
London Borough of Enfield Pension Fund	2.15	15,982,731	Indirect

Listing Requirements

On 9 November 2006, the Company's Ordinary Shares were admitted to the Official List maintained by the Financial Services Authority. Throughout the year the Company has complied with the Listing Rules of the UK Listing Authority.

Advisory Services

Amber Fund Management Limited ('AFML') provides advisory services to the Company. A summary of the contract between the Company and AFML in respect of investment advisory services provided is given in note 41 to the financial statements.

Amber Fund Management Limited has also been appointed as Operator to International Public Partnerships Limited Partnership (a subsidiary of the Company) pursuant to the Limited Partnership Agreement and Operating Agreement. As Operator, Amber Fund Management Limited is responsible for the discretionary investment management of International Public Partnership Limited Partnership's investment portfolio. In addition, it or its associates provides (in conjunction in some cases with the Administrator) accounting and finance resource, legal, company and asset management, compliance and risk management services, and IT systems to the Company and its subsidiaries and the asset holding entities in which it is invested.

Share Capital

The Company's share capital at 31 December 2012 is comprised entirely of Ordinary Shares which rank equally in all respects. The rights attached to the Ordinary Shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association. The Company's Articles of Association may only be amended by a special resolution of the shareholders.

In June 2012, 2,149,168 new Ordinary fully paid Shares of 0.01 pence each were issued as a scrip dividend alternative in lieu of cash for the final dividend in respect of the six months ended 31 December 2011.

In June 2012, the Company announced the issue of 172,043,011 new Ordinary Shares of 0.01 pence each for cash at 116.25 pence per share through a Placing, Open Offer and Offer for Subscription.

In October 2012, 3,155,528 new Ordinary fully paid Shares of 0.01 pence each were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the six months ended 30 June 2012.

The total number of Ordinary Shares in issue at 31 December 2012 was 711,581,898.

Details of the Company's share capital are set out in note 31.

Directors' Authority to Buy Back Shares and Treasury Shares

The Company did not purchase any shares for treasury or cancellation during the year.

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Share Capital expires on 12 June 2013. The Company will seek to renew such authority at the Annual General Meeting to take place on 12 June 2013. Any buy back of Ordinary Shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing NAV of the Ordinary Shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the Listing Rules of the UK Listing Authority which provide that the price to be paid must not be more than 5% above the average of the middle market quotations for the Ordinary Shares for the five business days before the shares are purchased unless previously advised to shareholders. In accordance with the Company's Articles of Association up to 10% of the Company's shares may be held as treasury shares.

Foreign Exchange, Gearing and Treasury Policy

The Company has exposure to foreign currency as a result of investments outside of the United Kingdom and, as such, is exposed to movements in exchange rates between the Euro, Canadian Dollar, Australian Dollar and GBP. The Company may enter into forward exchange contracts to mitigate these risks.

The existing £100 million debt facility was re-negotiated in April 2011 with Royal Bank of Scotland and National Australia Bank and as at 31 December 2012 was undrawn and expires in May 2014. The Board may from time to time consider increasing the amount of this facility if it considers that such an increase will assist the Company in the acquisition of assets seen by the Board as attractive and accretive to the Company's performance and portfolio diversification. The Board considers that any such increase would be a trigger for a further equity raising.

Regulation

The Company has been declared an Authorised Fund under the Authorised Closed-ended Investment Schemes Rules of the Companies (Guernsey) Law, 2008.

Earnings per Share

Basic and diluted earnings per share were 4.80 pence for the year ended 31 December 2012 (2011 – 3.33 pence).

Dividend and Distribution Policy

Distributions on Ordinary Shares are expected to be paid twice a year, normally in respect of the six months to 30 June and 31 December each year, subject to the provisions of Guernsey law, by way of dividends. The Company may also make distributions by way of capital as well, or in lieu of, by way of dividends and if to the extent that the Directors consider this to be appropriate and permitted by the Listing Rules, the Laws and the Articles.

In accordance with announcements made, a distribution of 3.0 pence per share for the period 1 January 2012 to 30 June 2012 was paid on 19 October 2012. The distribution of 3.0 pence per share for the period 1 July 2012 to 31 December 2012 is to be paid on 14 June 2013.

Further details of the Company's distributions are set out in note 13.

DIRECTORS' REPORT

CONTINUED

Going Concern Basis

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 December 2012.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Investment Strategy and Principal risk and uncertainties sections of this Report.

The Directors have considered significant areas of possible financial risk and comprehensive financial forecasts have been prepared and submitted to the Board for review. The Directors have, based on the information contained in these forecasts and the assessment of the committed banking facilities in place, formed a judgement, at the time of approving the financial statements, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. After consideration, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Financial Statements (refer to note 1).

Investment Policy and Strategy

The Company continues to pursue a strategy focusing on investment in infrastructure assets offering a low level of credit and other risks that provide secure yield and potential capital growth particularly from assets which are in construction and yet to reach their operational stage. Details of the Company's Investment Policy and Strategy are set out in more detail on pages 24 to 26.

Corporate Governance

The Board attaches great importance to corporate governance issues. The Company complies with the UK Corporate Governance Code and AIC codes except where exceptions are noted and treats matters of appropriate corporate governance with great importance and care. Further details are provided in the Corporate Governance section of this Report.

Relations with Shareholders

The Board recognises the importance of maintaining an active and transparent dialogue with shareholders and is committed to ensuring that communications are given the highest priority. Details of the Company's approach to its investor relations activities are outlined in the Corporate Governance Report on pages 37 to 41.

Post Balance Sheet Events

The Company undertook a capital raising on 10 January raising £40 million from existing and new investors through a tap issue. The Company has the authority to issue up to 10% of its equity capital on a non pre-emptive basis by way of tap issue or otherwise, as and when the Board deem appropriate. The Board deemed such a raising appropriate based on the premium that the Company's shares traded at that time relative to the NAV per share as well as INPP's good pipeline of investment opportunities.

Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies (Guernsey) Law, 2008.

As previously reported, Ernst & Young LLP were appointed as the Group's auditors for the 2011 financial year and the Board would like to acknowledge the substantial commitment and interest shown in ensuring that the accounts were audited in a timely and professional manner.



Keith Dorrian

27 March 2013
Chairman

CORPORATE GOVERNANCE REPORT

Corporate Governance Policy

As a Company with a Premium listing on the London Stock Exchange, it is required to comply or explain in accordance with the UK Corporate Governance Code as revised by the Financial Reporting Council in June 2010 and amended in October 2011 (the 'UK Code'). It is also the Company's policy to comply with best practice on good corporate governance that is applicable to investment companies.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code and the UK Listing Authority ('UKLA') Listing Rules, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The Financial Reporting Council and the Guernsey Financial Services Commission have confirmed that so far as investment companies are concerned it considers that companies who comply with the AIC Code will be treated as meeting their obligations under the UK Code, Listing Rules and the Guernsey Code.

The AIC Code provides a 'comply or explain' code of corporate governance designed especially for the needs of investment companies. The Company is a member of the AIC. The Company has reviewed its compliance with the AIC Code (October 2010) and includes in this Report any instances where it is not in full compliance.

The Board has determined that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which the Financial Reporting Council has confirmed should meet the Company's obligations in relation to the UK Code and relevant UKLA Listing Rules) will provide more appropriate information to shareholders. The Company has complied with all the recommendations of the AIC Code and the relevant provisions of the UK Code, except as noted out below.

The role of the chief executive and executive directors' remuneration

As an Investment Company, most of the Company's day-to-day responsibilities are delegated to third parties. It does not have any executive directors. It is therefore unnecessary to set out the responsibilities of a chief executive or outline the remuneration policies for executive directors.

Annual re-election of all Directors

In accordance with the Articles of Association, at least one third of the Independent Directors will retire at each Annual General Meeting whilst Mr Frost as the non-independent Director will retire at each Annual General Meeting. The Board notes the AIC Code recommendation that all Directors be re-elected on an annual basis but considers that in the specific circumstances applying to the Company that this is not in the best interests of shareholders. The Company holds this view mainly due to the specialist nature of the Company's assets which are long-term in nature and benefit from a consistent approach across years both in terms of management and Board supervision. As such the Company takes the view that the benefits to shareholders arising from the Directors' long-term knowledge and experience of these underlying assets and their management (including their ongoing ability to review the performance of the Investment Advisor and other advisors) outweighs the benefit of annual re-election being applied to all Directors. However, during the current year in addition to Mr Frost, Ms Whittet as a new member to the Board appointed during 2012 and Mr Whittle (as part of the Board's normal rotation process) will also retire and seek re-election.

The need for an internal audit function

The Company has engaged an independent third party to perform reviews over selected controls and processes, the focus of which is agreed by the Board on an annual basis which is more appropriate for a company which is externally advised.

CORPORATE GOVERNANCE REPORT

CONTINUED

Board Structure

The Board currently consists of five Non-Executive Directors, whose biographies, on pages 30 to 31, demonstrate a breadth of investment and business experience. As the Chairman of the Board is an independent non-executive and there are no executive directors, the Board considers it unnecessary to appoint a senior independent Director.

Name	Position	Independent	Date Appointed
Keith Dorrian	Non-Executive Chairman	Yes	2 August 2006
Rupert Dorey	Non-Executive Director (Chairman Audit Committee)	Yes	2 August 2006
Giles Frost	Non-Executive Director	No	2 August 2006
John Whittle	Non-Executive Director	Yes	6 August 2009
Claire Whittet	Non-Executive Director	Yes	10 September 2012

As noted above, Ms Carol Goodwin, an independent Non-Executive Director, was a member of the Board until 31 December 2012. In advance of Ms Goodwin's retirement Ms Claire Whittet was appointed to the Board in September 2012.

Ms Whittet was appointed after the Board completed a search for a suitable Director having canvassed its advisors and other market participants for a list of suitable candidates. Given the high calibre of applicants through this process the Board did not engage a search consultancy or advertise further.

The Board consists solely of Non-Executive Directors and is chaired by Mr Dorrian. One third of the Directors retire by rotation at every AGM and will therefore be subject to annual re-election by shareholders. Mr Frost is not an independent Director, all other Directors are considered by the Board to be independent of the Company's Investment Advisor. Any Directors appointed to the Board since the previous AGM also retire and stand for re-election. The Chairman and the independent Directors take the lead in any discussions relating to the appointment or re-appointment of Directors taking into account the expertise of the candidates and their independence.

The Board meets at least four times a year and in addition there is regular contact between the Board, the Investment Advisor and the Administrator and the Board requires to be supplied in a timely manner with information by the Investment Advisor, the Company Secretary and other advisors in a form and of a quality appropriate to enable it to discharge its duties. The Management Engagement Committee which is a sub-committee of the Board regularly reviews the performance of the Investment Advisor and the Company's other advisors and major service suppliers to ensure that performance is satisfactory and in accordance with the terms and conditions of the respective appointments.

In accordance with its usual practice an evaluation of the performance of individual Directors and the Chairman was carried out during the year which concluded that the Board is performing satisfactorily in the eight areas reviewed which incorporated: Board composition and meeting process, Board information, training, Board dynamics, shareholder value, Board accountability and effectiveness and the performance of the Chairman.

The Board is committed to maintaining the appropriate balance of skills, knowledge and experience among its members to ensure strong leadership of the Company. When appointing Board members, its priority will always be one of meritocracy, but will be influenced by the strong desire to maintain board diversity, including gender. The Board currently has one female Director, out of its five members, which has been the gender ratio almost since inception of the Company.

New Directors receive an induction from the Investment Advisor on joining the Board, and in consultation with the Chairman all Directors are entitled to receive other relevant ongoing training as necessary.

In accordance with the UK Code requirements, the Board will consider the need for an externally facilitated evaluation of the Board at least every three years. No external valuation has been undertaken during the year however it is the Board's intention to consider a review within the next 12 months.

The Company has no executive directors or employees. All matters, including strategy, investment and dividend policies, gearing and corporate governance procedures are reserved for approval by the Board of Directors. The Board currently meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

The Company has adopted a Code of Directors' dealings in Shares which is based on the Model Code for Directors' dealings contained in the London Stock Exchange's Listing Rules.

During the year the AIC recommended that the 'Ongoing Charges' disclosure should replace the Total Expense Ratio which has been traditionally calculated by Investment Companies. The Board has adopted this recommendation which it considers provides more transparency and this change is reflected in the Annual Report.

Board Tenure and Re-election

No member of the Board has served for longer than seven years to date. As such no issue has arisen to be considered by the Board with respect to long tenure. When and if any Director shall have been in office (or on re-election would at the end of that term of office) for more than nine years the Company will consider further on this matter as to whether there is any risk that such Director might reasonably be deemed to have lost independence through such long service. The Board does not consider it appropriate or necessary for all Directors to be re-elected annually. As such, John Whittle will retire in 2013 (as a result of the retirement by rotation provisions in the Articles of Association) and Giles Frost will also retire as a result of the UK Listing Authority Listing Rules and both will stand for re-election. In accordance with its policy Ms Whittet, having joined the Board since the last AGM, will also stand for re-election.

Remuneration Policy

All Directors are non-executive and a Remuneration Committee has not been established. The Board as a whole considers matters relating to the Directors' remuneration. No advice or services were provided by any external persons in respect of its consideration of the Directors' remuneration.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Directors on the Company's affairs and the responsibilities borne by the Directors and be sufficient to attract, retain and motivate Directors of a quality required to run the Company successfully. The Chairman of the Board is paid a higher fee in recognition of additional responsibilities, as is the Chairman of the Audit Committee. The policy is to review fee rates periodically, although such a review will not necessarily result in any changes to the rates, and account is taken of fees paid to directors of comparable companies.

There are no long-term incentive schemes provided by the Company and no performance fees, or bonuses paid to Directors.

Anti-bribery and Corruption Policy

The Board has adopted a formal Anti-bribery and Corruption Policy. The policy applies to the Company and each of its Directors. Further to this the Company has sought and received confirmation from each of its service providers that they operate under equivalent policies.

Alternative Investment Fund Management Directive ('AIFMD')

The Company has been reviewing the impact of AIFMD legislation on its operations and is taking advice on the most appropriate course of action for the future. The final form legislation has only just been released and therefore its effects are still being reviewed, once all information and advice has been received from the Company's service providers and Advisors and processed the Company will take such actions as are appropriate to ensure compliance with this Pan European Directive.

Foreign Account Tax Compliance Act ('FATCA')

FATCA became effective on 1 January 2013. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US Tax compliance with respect to those assets. The Board is in discussion with the Company's service providers and Advisors to ensure that the Company will comply with the Act's requirements.

Meeting Attendance Records

The table below lists Directors' attendance at meetings during the year, to the date of this Report.

Directors	Quarterly Board (max 4)	Ad-hoc Board (max 12)	Audit Committee (max 6)	Management Engagement Committee (max 1)
K Dorrian	4	12	6	1
R Dorey	4	11	6	1
G Frost ¹	4	2 (max 2)	—	—
C Goodwin ²	4	9	5	1
J Whittle	4	11	6	0
C Whittet ³	1 (max 1)	2 (max 2)	1 (max 1)	—

¹ Mr Frost is not a member of the Audit Committee or Management Engagement Committee. Mr Frost does not attend Ad-hoc Board meetings as a Director where recommendations from the Investment Advisor are under consideration.

² Ms Goodwin retired from the Board with effect from 31 December 2012. Mr Dorrian represented Ms Goodwin in one quarterly Board meeting and one Audit Committee meeting.

³ Ms Whittet joined the Board on 10 September 2012 and was not a Board member at the time the Management Engagement Committee meeting was held.

Committees of the Board

The AIC Code and UK Code require the Company to consider appointing a nomination or remuneration committee. The Board has not deemed this necessary as the Company has no executive directors or employees and, being comprised wholly of Non-Executive Directors, the whole Board considers these matters. The Board's Audit Committee is responsible for the appointment of auditors and the review of the Company's accounting and financial affairs. This includes responsibility for reviewing significant financial reporting judgements contained in any formal announcements, including the Company's financial statements. The Audit Committee also reviews internal audit activities of the Investment Advisor, on which it relies (see detail within 'Internal Control and Financial Reporting' below).

The **Audit Committee** is chaired by Mr Dorey and is comprised of the full Board with the exception of Mr Frost. As a consequence the Company Chairman is a member of the Audit Committee, which the Board believes is appropriate as Mr Dorrian brings significant independent expertise in investment trusts and finance to the Committee which it believes is beneficial for the Committee. The Committee considers reports from the auditor, the Investment Manager and the Administrator.

The main responsibilities of the Audit Committee include monitoring the integrity of the Company's financial statements and appropriateness of its accounting policies, reviewing the effectiveness of the internal control systems and making recommendations to the Board regarding the appointment, independence and remuneration of the auditor.

The Committee is responsible for monitoring the objectivity and effectiveness of the audit process, with particular regard to terms under which the auditor is appointed to perform non-audit services. In advance of non-audit work being undertaken by the Company's Auditors, any conflicts are identified and if they cannot be suitably dealt with an alternative audit firm would be engaged. During the year, the Company's auditor was involved in non-audit work in relation to the capital raising and received fees of £75,000 in respect of this (2011 – £43,938). The Audit Committee is satisfied that the non-audit work that Ernst & Young provided to the Company did not interfere with the objectivity and independence of the audit.

The Board's **Management Engagement Committee** was established to provide a formal mechanism for the review of the performance of the Company's advisors including its Investment Advisor. It carries out this review through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisors' appointment with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Company's shareholders.

CORPORATE GOVERNANCE REPORT

CONTINUED

Directors' Duties and Responsibilities

The Directors have adopted a set of Reserved Powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- Statutory obligations and public disclosure
- Approval of investment decisions
- Strategic matters and financial reporting
- Board composition and accountability to shareholders
- Risk assessment and management, including reporting, compliance, monitoring, governance and control
- Other matters having material effects on the Company

These Reserved Powers of the Board have been adopted by the Directors to demonstrate clearly the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions. The Board's Reserved Powers document is available upon request.

The Directors are responsible for the overall management and direction of the affairs of the Company. The Company has no executive Directors. Under the Investment Advisory Agreement, Amber Fund Management Limited acts as Investment Advisor to the Company to review and monitor investments and advise the Company in relation to strategic management of the investment portfolio. Details of the Investment Advisor's relationship with the Company are provided in note 41 of the financial statements.

In March 2013, the Management Engagement Committee formally reviewed the performance of its advisors for the financial year ended 31 December 2012. In particular, the service provided by the Investment Advisor was reviewed with respect to performance in origination, asset management, financial and internal control, monitoring and reporting. Overall, the Committee confirmed its satisfaction with the services provided by the Investment Advisor. In accordance with its normal practice it will continue to hold discussions relating to the future strategy of the Company with the Investment Advisor and regular formal and informal discussions are

held on this subject. The Directors confirm that they believe that it is in shareholders' best interest to continue the appointment of Amber Fund Management Limited as the Company's Investment Advisor.

Heritage International Fund Managers Limited acts as Administrator and Company Secretary and is responsible to the Board under the terms of the Administration Agreement. The Administrator is also responsible for ensuring compliance with the Rules and Regulations of Guernsey Law, London Stock Exchange listing requirements, money laundering regulation and observation of the Reserved Powers of the Board and in this respect the Board receives detailed quarterly reports. The Management Engagement Committee also formally reviewed the performance of the Administrator and Company Secretary for the financial year ended 31 December 2012 and again confirms that it believes that it is in shareholders' best interest to continue the appointment of Heritage International Fund Managers Limited as the Company's Administrator and Company Secretary.

The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that it adheres to applicable legislation, rules and regulations under Guernsey Law and from the Guernsey Financial Services Commission and the London Stock Exchange. Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors on an ongoing basis and the Company has maintained appropriate Directors' Liability Insurance cover throughout the period.

The Board monitors the Company's share price and NAV and regularly considers ways in which future share price performance may be enhanced including by implementing marketing and investor relations activities, appropriate management of share price premium/discount and the relative positioning and performance of the company to its competitors. The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Internal Control, Risk Management and Financial Reporting

The Directors acknowledge that they are responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss. These systems are regularly reviewed and comply with the Turnbull Guidance (Internal Control: Revised Guidance for Directors) published by the Financial Reporting Council.

The Directors review the control framework including operations, compliance and risk management. The key procedures which have been established to provide internal control are:

- Investment advisory services are provided by Amber Fund Management Limited ('AFML'). The Board is responsible for setting the overall investment policy and monitors the action of the Investment Advisor and Operator at regular Board meetings. The Board has also delegated administration and company secretarial services to Heritage International Fund Managers Limited ('Heritage'); however it retains accountability for all delegated functions.
- The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company on an ongoing basis. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all local and international laws and regulations are upheld. In light of recent market volatility and economic turmoil, particular attention has been given to the effectiveness of controls to monitor liquidity risk, asset values, counterparty exposure and credit availability.
- The Non-Executive Directors of the Company clearly define the duties and responsibilities of their agents and advisors and appointments are made by the Board after due and careful consideration. The Board monitors the ongoing performance of such agents and advisors.

- AFML and Heritage maintain their own systems of internal control, on which they report to the Board. The Company, in common with other investment companies, does not have an internal audit function. The Board has considered the need for an internal audit function, but because of the internal control systems in place at AFML and Heritage, has decided to place reliance on their systems and internal control procedures. The Board has, however, engaged Ernst & Young to perform independent reviews over selected controls and processes. The focus of which is agreed by the Board on annual basis.
- The systems are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows therefore that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.
- The Group ensures that transactions and balances are recognised and measured in accordance with prescribed accounting policies and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting process by entities in the Group ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.

Relations with Shareholders

The Board welcomes shareholders' views and places great importance on communication with shareholders. It has responsibility for communication with the investor base and is directly involved in major communications and announcements. The Board receives regular reports on the views of shareholders and the Chairman and other Directors are available to meet shareholders if required. The Investment Advisor meets with major shareholders on a regular basis and reports to the Board on these meetings. Any issues of concern including on corporate governance or strategy can be addressed by any shareholder by writing to the Company at its registered address (see page 3).

The Annual General Meeting of the Company provides a forum for shareholders to meet and discuss issues with the Directors and with the Investment Advisor of the Company. To promote a clear understanding of the Company, its objectives and financial results, the Board aims to ensure that information relating to the Company is disclosed in a timely manner. The Company has a comprehensive investor relations section on its website (www.internationalpublicpartnerships.com) where it makes available all its publicly disclosed documents including Annual Reports and RNS announcements together with additional background information on its assets and corporate practices. Investors can register to receive notification (via email) of RNS announcements the Company issues. The Board encourages investors to utilise this useful online resource.

Corporate Social Responsibility – approach to Environment, Social and Governance Issues

The Company has a high degree of engagement with environmental, social and governance ('ESG') issues. The Company's Corporate Governance arrangements are set out in some detail in the sections above. The below outlines the Company's approach to the remaining ESG elements.

Governance considerations are considered in the due diligence that the Investment Advisor undertakes prior to any recommendations to the Board as part of the approvals process and forming part of the Company's standard approach to risk mitigation and governance.

In addition, through its Investment Advisor, the Company supports the application of environmental and social considerations when evaluating the projects it invests in. Whilst the initial parameters of these considerations are ultimately the responsibility of the commissioning local authority, the Investment Advisor will work within the framework of each project's governance structure to ensure through its subcontracting parties that there is involvement with local communities to deliver sustainable projects and investments.

When considering proposals to respond to the public authorities' requirements current environmental initiatives are considered. Renewable energy sources are reviewed for their potential and sustainable impact with a number of projects having solar thermal panels and bio-diesel generators installed. Each of the construction projects, where applicable are delivered in accordance to the Building Research Establishment Environmental Assessment Method ('BREEAM'). For example, the Liverpool Library project which reached construction completion in January 2013 achieved a rating of 'Very Good' under BREEAM. All projects within the portfolio require ongoing capital expenditure to keep the asset to an agreed standard during the term of its concession. These 'lifecycle works' are monitored by the Investment Advisor's Asset Management team for long-term sustainability and positive impact to energy consumption to ensure a value for money outcome for the underlying client. Initiatives here range from improved efficient boiler installations to double glazing window replacements.

The Asset Management team actively work with the contracted facilities management companies to explore potential additional use amongst local communities in recognition of social responsibility for example: the Northampton Schools project works with Goals Soccer Centres plc to provide community use of its sporting facilities; and, Tower Hamlets Schools worked directly with the London Borough of Tower Hamlets to deliver the Osmani Youth Centre – providing a wide range of community, health and sporting initiatives in conjunction with the Osmani Trust.

In addition to the work it undertakes with the assets in the portfolio, the Investment Advisor acknowledges the importance of ESG issues at a corporate level. Employees of Amber are required to adhere to the Advisor's Corporate Social Responsibility Statement which has a particularly focus on reducing the environmental impact of the business in the environment.

AUDIT COMMITTEE REPORT

The Audit Committee comprises the independent Non-Executive Directors and is chaired by Mr R Dorey. The Committee's terms of reference include all matters indicated by the UK Corporate Governance Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken. The Committee meets at least twice a year.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual Report and Financial Statements and the Interim Report and Financial Statements (including significant financial reporting judgements therein), the system of internal controls and the terms of appointment of the auditors together with their performance and remuneration. It is also the forum through which the auditor's report to the Board of Directors is reviewed by the Committee.

The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors may be appointed to perform non-audit services. The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to any non-audit work that the auditor may undertake.

The Audit Committee is satisfied with the auditors' effectiveness and independence; and the degree of diligence and professional scepticism applied. As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its auditors. Having carried out a review described below and having satisfied itself that the external auditors remain independent and effective, the Audit Committee has recommended to the Board that the auditor be reappointed for 2013.

The Audit Committee has noted the revisions to the UK Corporate Governance Code introduced by the Financial Reporting Council ('FRC') in September 2012 and, in particular, the recommendation to put the external audit out to tender at least every ten years. Following a request for proposals prepared by the Audit Committee in October 2010, a recommendation was made to the Board and accepted to appoint Ernst & Young LLP as the Group's auditors for the 2011 year.

The Board receives copies of the minutes of the Audit Committee meetings. The Audit Committee has met six times from the period 1 January 2012 to date.

Matters considered at these meetings include but were not limited to:

- review of the 2011 Annual Report and Financial Statements;
- review of the 2012 Half Year Financial Report;
- review of the audit plan and timetable for the preparation of the 2012 Annual Report and Financial Statements; and
- review of the 2012 Annual Report and Financial Statements.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the committee.

Approval

This Report was approved by the Audit Committee and signed on its behalf by:

Rupert Dorey
Chairman of the Audit Committee
27 March 2013

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing Financial Statements for each year which give a true and fair view, in accordance with the applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union, of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud, error and non compliance with law and regulations.

The maintenance and integrity of the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve considerations of these matters and, accordingly, the auditors accept no responsibility for any change that may have occurred to the Financial Statements since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

The Directors each confirm to the best of their knowledge that:

- a. the Consolidated Financial Statements, prepared in accordance with IFRSs as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and net return of the Group; and
- b. the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties faced.

By order of the Board



Keith Dorrian
27 March 2013
Director



Rupert Dorey
27 March 2013
Director

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERNATIONAL PUBLIC PARTNERSHIPS LIMITED

We have audited the consolidated financial statements of International Public Partnerships Limited for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 43, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting

estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our Report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the matters set out below.

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Michael Bane

For and on behalf of Ernst & Young LLP
Registered Auditors
Guernsey
27 March 2013

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Continuing operations			
Revenue	5	244,089	299,585
Cost of sales		(215,860)	(268,445)
Gross profit		28,229	31,140
Investment income	5,7	180,571	165,866
Other gains	8	–	714
Share of results from joint ventures	5,18	291	–
Share of results from associates	5,19	(1,290)	(405)
Other operating income	5	4,151	3,818
Total other net income		183,723	169,993
Other net losses	10	(1,772)	(5,650)
Finance costs	9	(144,617)	(146,342)
Operating expenses	10	(36,198)	(27,529)
Administrative expenses	10	(2,487)	(2,156)
Impairment charges	10	(90)	(6,286)
Total other expenses		(185,164)	(187,963)
Profit before tax		26,788	13,170
Tax credit	12	825	2,860
Profit for the year from continuing operations		27,613	16,030
Attributable to:			
Equity holders of the parent		29,309	16,538
Non-controlling interests – share of losses ¹		(1,696)	(508)
	Notes	Pence	Pence
Earnings per share			
From continuing operations			
Basic and diluted	14	4.71	3.33

¹ The non-controlling interests share of profit/(losses) relates to the 25% holding in the Diabolo project, the 25% holding in the Alberta Schools project, the 20% holding in the Liverpool Library project, 9% to 11% holding in four BSF projects and the 5% holding in the Amiens (France) Hospital project that are not held by the Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Profit for the year from continuing operations		27,613	16,030
Other comprehensive income			
Net decrease in foreign exchange translation reserves		1,798	(754)
Net increase in fair value of available for sale financial assets		4,734	361
Net decrease in fair value of hedging derivatives			
– Consolidated	24	(33,597)	(106,156)
– Share of joint ventures and associates		(2,743)	(2,985)
Other comprehensive loss for the year, net of tax		(29,808)	(109,534)
Total comprehensive loss		(2,195)	(93,504)
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		4,501	(92,993)
Non-controlling interests		(6,696)	(511)

Tax of £8.2 million credit (2011 – £39.5 million credit) has been netted off the components of other comprehensive income presented above (refer note 25).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share capital Ordinary £'000s	Hedging and translation reserves £'000s	Revaluation reserves £'000s	Other distributable reserve £'000s	Retained earnings £'000s	Total £'000s	Non- controlling interests £'000s	Total £'000s
Balance at 31 December 2011		259,763	(158,335)	361	219,360	33,360	354,509	1,717	356,226
Profit for the year		–	–	–	–	29,309	29,309	(1,696)	27,613
Other comprehensive (loss)/ income in the year		–	(29,542)	4,734	–	–	(24,808)	(5,000)	(29,808)
Total comprehensive income		–	(29,542)	4,734	–	29,309	4,501	(6,696)	(2,195)
Issue of Ordinary Shares	31	206,367	–	–	–	–	206,367	–	206,367
Issue fees applied to new shares	31	(3,076)	–	–	–	–	(3,076)	–	(3,076)
Distributions in the year	13	–	–	–	(36,879)	–	(36,879)	–	(36,879)
Non-controlling interest on new acquisitions		–	–	–	–	–	–	422	422
Distributions to non-controlling interests		–	–	–	–	–	–	(495)	(495)
Balance at 31 December 2012		463,054	(187,877)	5,095	182,481	62,669	525,422	(5,052)	520,370
Balance at 31 December 2010		198,259	(48,443)	–	247,235	16,822	413,873	2,704	416,577
Profit for the year		–	–	–	–	16,538	16,538	(508)	16,030
Other comprehensive (loss)/ income in the year		–	(109,892)	361	–	–	(109,531)	(3)	(109,534)
Total comprehensive income		–	(109,892)	361	–	16,538	(92,993)	(511)	(93,504)
Issue of Ordinary Shares	31	61,971	–	–	–	–	61,971	–	61,971
Issue fees applied to new shares	31	(467)	–	–	–	–	(467)	–	(467)
Distributions in the year	13	–	–	–	(27,875)	–	(27,875)	–	(27,875)
Distributions to non-controlling interests		–	–	–	–	–	–	(476)	(476)
Balance at 31 December 2011		259,763	(158,335)	361	219,360	33,360	354,509	1,717	356,226

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Notes	31 December 2012 £'000s	31 December 2011 £'000s
Non-current assets			
Intangible assets	15	376,470	331,997
Property, plant and equipment	16	7,085	7,737
Interests in joint ventures	18	592	–
Interests in associates	19	49,859	49,555
Available for sale financial assets	20	30,197	25,936
Deferred tax asset	25	36,102	24,617
Financial asset loans and receivables	21	2,586,800	2,229,111
Derivative financial instruments	24	1,632	–
Total non-current assets		3,088,737	2,668,953
Current assets			
Financial asset loans and receivables	21	40,549	40,672
Trade and other receivables	26	50,788	50,315
Cash and cash equivalents	22	426,589	419,609
Total current assets		517,926	510,596
Total assets		3,606,663	3,179,549
Current liabilities			
Trade and other payables	28	81,984	63,626
Current tax liabilities		777	1,484
Bank loans	23	69,788	42,533
Derivative financial instruments	24	286	949
Total current liabilities		152,835	108,592
Non-current liabilities			
Bank loans	23	2,473,699	2,344,288
Derivative financial instruments	24	357,896	278,478
Deferred tax liabilities	25	83,574	80,491
Long-term provisions	29	18,289	11,474
Total non-current liabilities		2,933,458	2,714,731
Total liabilities		3,086,293	2,823,323
Net assets		520,370	356,226
Equity			
Share capital	31	463,054	259,763
Revaluation reserves	32	5,095	361
Hedging and translation reserves	33	(187,877)	(158,335)
Other distributable reserve	34	182,481	219,360
Retained earnings	35	62,669	33,360
Equity attributable to equity holders of the parent		525,422	354,509
Non-controlling interests		(5,052)	1,717
Total equity		520,370	356,226

The financial statements were approved by a committee of the Board of Directors on 27 March 2013.

They were signed on its behalf by:



Keith Dorrian
27 March 2013
Director



Rupert Dorey
27 March 2013
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Net cash from operating activities	37	29,296	(72,735)
Investing Activities			
Interest received		18,447	31,901
Dividends received from associates and investments		3,305	2,371
Acquisition of subsidiaries (net of cash acquired)	36	(739)	(62,083)
Repayment of/(Investment in) debt instruments		(6,185)	(4,476)
Investment in financial and intangible assets ¹		(167,734)	(501,143)
Acquisition of equity accounted investments	18,19	(1,132)	(11,091)
Net cash used in investing activities		(154,038)	(544,521)
Financing Activities			
Proceeds from issue of shares		200,000	54,375
Dividends paid		(30,530)	(20,282)
Share issue expenses paid		(3,076)	(467)
Loan issue costs paid		–	(1,000)
Net (repayment)/proceeds of borrowings		(26,117)	376,591
Net cash provided by financing activities		140,277	409,217
Net increase/(decrease) in cash and cash equivalents		15,535	(208,039)
Cash and cash equivalents at beginning of year		419,609	629,866
Exchange gains on cash		(8,555)	(2,218)
Cash and cash equivalents at end of year		426,589	419,609

¹ Net cash used in investing activities represents the construction costs incurred on service concessions under development and includes elements of financial assets and intangible assets.

Cash and cash equivalents of £426.6 million at 31 December 2012 (2011 – £419.6 million) includes £348.8 million (2011 – £378.8 million) held by non-recourse PFI project entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

International Public Partnerships Limited is a closed ended authorised investment company incorporated in Guernsey under the Companies (Guernsey) Law, 2008. The address of the registered office is given on page 3. The nature of the Group's operations and its principal activities are set out in the Portfolio Interests, Investment Advisor's Report and Investment Policy and Strategy on pages 4, 12 and 24 respectively.

These financial statements are presented in Pounds Sterling as this is the currency of the primary economic environment in which the Group operates and represents the functional currency of the Group and all values are rounded to the nearest (£'000), except when otherwise indicated. Foreign operations are included in accordance with the policies set out in note 3.

Basis of preparation

As set out in the Directors' Report, the Directors, in their consideration of going concern have reviewed comprehensive cash flow forecasts prepared by management, which are based on prudent market data and past experience and believe, based on those forecasts and an assessment of the Group's committed banking facilities and the available headroom, that it is appropriate to prepare the financial statements of the Group on a going concern basis.

In arriving at their conclusion that the Group has adequate financial resources, the Directors were mindful that the Group had unrestricted cash of £77.8 million as at 31 December 2012, a £100 million banking facility (available for investment in new or existing projects) which is committed until 8 May 2014, under a new three year facility which commenced May 2011 and is forecast to continue in full compliance with the associated banking covenants.

During the year, the Company completed a capital raising as disclosed in note 31.

Certain risks and uncertainties which arise as a result of the current economic environment have been considered by the Board. The Board has concluded that these do not represent a significant threat to the Group as its income is generated from a portfolio of PFI concessions which are supported by government backed (or other suitably high creditworthy counterparty backed) cash flows and are forecast to cover the Group's committed costs. The Group's cash, borrowing facilities and liquidity position are disclosed in notes 22, 23 and 30. In addition, the Group's policy for management of exposure to financial risk, including liquidity, foreign exchange, credit and interest risks are set out in notes 3, 24 and 30.

2. Adoption of new and revised Standards

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2012. These are:

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IAS 12 Deferred Tax: Recovery of Underlying Assets
- IAS 1 Presentation of Items in Other Comprehensive Income
- IFRS 7 Transfers of Financial Assets

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 7 and IAS 32 Offsetting of Financial Instruments – Intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice (effective 1 January 2013 and 1 January 2014 respectively).
- IFRS 9 Financial Instruments – reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The Group is currently assessing the full impact of this standard and it is not practicable to quantify the effect as at the date of the publication of these financial statements (effective 1 January 2015).
- IFRS 10 Consolidated Financial Statements – establishes a single control model that applies to all entities. This change will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 also provide consolidation exemptions to investment entities which may have a significant impact on the Group's financial statements. The Group is currently assessing the full impact of this standard and it is not practicable to quantify the effect as at the date of the publication of these financial statements (effective 1 January 2014).
- IFRS 11 Joint Arrangements – removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is currently assessing the full impact of this standard and it is not practicable to quantify the effect as at the date of the publication of these financial statements (effective 1 January 2013).
- IFRS 12 Disclosure of Interest in Other Entities – includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The amendment will affect presentation only and has no impact on the Group's financial position or performance (effective 1 January 2013).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2. Adoption of new and revised Standards continued

- IFRS 13 Fair Value Measurement – IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the full impact of this standard and it is not practicable to quantify the effect as at the date of the publication of these financial statements (effective 1 January 2013).
- IAS 28 Investments in Associates and Joint Ventures (Revised) – as a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group is currently assessing the full impact of this standard and it is not practicable to quantify the effect as at the date of the publication of these financial statements (effective 1 January 2013).

3. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by, or adopted by, the European Union, interpretations issued by the International Financial Reporting Interpretations Committee, applicable legal and regulatory requirements of Guernsey and the Listing Rules of the UK Listing Authority. IFRS requires management to make judgements, estimates and assumptions that affect the application of the reported amounts in these financial statements. The financial statements have been prepared on the historical cost basis, as amended to reflect certain items that are presented at fair value. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December 2012. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition and where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs are those costs (predominantly legal and financial advisory costs, due diligence costs, stamp duty and including the investment advisory fees in respect of the acquisition) incurred by the Group in connection with acquisitions of investments. Any costs incurred after 1 January 2010 are charged to the Consolidated Income Statement.

Prior to 31 December 2009, any costs directly attributable to the acquisition were included as part of the costs of acquisition.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date. The excess amount arising on acquisition is recognised as an intangible asset and initially carried at fair value at acquisition. This intangible asset represents the rights to future profits on the service element of the related concessions.

The non-controlling interest in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in joint ventures

A joint venture is an entity over which the Group has joint control, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost and adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of the joint venture in excess of the Group's interest (including loans) in those joint ventures are not recognised in the financial statements.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the entity.

3. Significant accounting policies continued

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost and adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest (including loans) in those associates are not recognised in the financial statements.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Intangibles

An intangible asset is recognised on the acquisition of service concession arrangements and represents the rights to future profits on the service element of these concessions, including where relevant revenues from commercial tenants. This intangible is initially recognised at fair value and is subsequently amortised over the life of the underlying concessions.

The Group also recognises an intangible asset for the right to charge users of the infrastructure assets within a service concession. This intangible asset is initially measured at fair value and is subsequently amortised over the remaining life of the concession from the date on which it is available for use.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at fair value on acquisition, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over the estimated useful life, using the reducing balance method.

During the year the decision was taken to change the method of depreciation from the straight line method to the reducing balance method for the remainder of the asset's life. This change in accounting estimate was made based on an assessment that this represents a more appropriate method of writing off the asset's remaining value. This change has resulted in increase in depreciation charge of £0.3 million in the current year.

Revenue recognition

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for performance.

Services revenue arises in connection with the Group's PFI/PPP projects and comprises the following elements:

- the fair value of consideration for construction and upgrade services. Revenue is recognised by reference to the stage of completion of contract activity at the balance sheet date;
- availability fees and usage fees on PFI projects where the principal asset is accounted for as a fixed or intangible asset;
- revenues from the provision of facilities management services to PFI projects are recognised as contract activity progresses and a mark up on related cost to reflect the value of work performed;
- non-core facility recharges being recovered for ad hoc services delivered by PFI projects at the request of the client; and
- third-party revenues on PFI projects.

Financial asset interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment has been established.

Foreign currencies

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at spot rates on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at spot rates. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the spot rates at the date when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

3. Significant accounting policies continued

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets including PFI/PPP concession intangible assets within the scope of IFRIC 12, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs including those in respect of PFI/PPP concession finance assets are recognised in the Consolidated Income Statement in the period in which they are incurred.

Taxation

The Company's subsidiaries are subject to corporate income tax on any taxable income, after allowing for both revenue and capital deductions arising from their activities. The tax expense included in the Consolidated Income Statement represents the sum of the current tax and deferred tax and is calculated in accordance with applicable legislation in the jurisdictions in which each entity operates.

Current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in past or future years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Income Statement, except when it relates to an underlying transaction charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity correlating to where the underlying transaction has been charged or credited.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax relating to items recognised outside the Consolidated Income Statement are recognised in correlation to the underlying transactions either in other comprehensive income or equity.

3. Significant accounting policies continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

The carrying value of the financial asset is adjusted to reflect changes in actual and estimated cash flows with any adjustment recognised as income or expense in profit or loss. The change in carrying value is calculated by computing the present value of estimated future cash flows at the financial asset's original effective interest rate.

Income is recognised on an effective interest basis for debt instruments.

Available for sale financial assets

Investments classified as available for sale are measured initially and at each subsequent reporting date at fair value. For available for sale financial assets, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the profit or loss for the period.

The fair value of available for sale financial assets are determined as follows:

- the fair value of available for sale financial assets with standard terms and conditions and traded on an active liquid market are determined with reference to quoted market prices; or
- the fair value of other available for sale financial assets are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions.

Income is recognised on an effective interest basis as referred to above.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded initially at fair value, being substantially equal to the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the Consolidated Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs which are charged to Share Capital in accordance with the Companies (Guernsey) Law, 2008.

Hedge accounting

The Group designates hedging instruments as cash flow hedges. At the inception of the hedge relationship the entity documents the relationships between the hedging instrument and hedged item, along with the risk management objective and its strategy for undertaking various transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income.

Where ineffectiveness is judged to have occurred, the amount of the ineffectiveness is taken to the Consolidated Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is terminated, for example if a project is refinanced. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is recycled through the Consolidated Income Statement over the remaining life of the instrument on a straight line basis. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

3. Significant accounting policies continued

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where an intangible is not yet ready for use, it is tested for impairment at each balance sheet date.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and any impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as available for sale ('AFS'), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets objective evidence of impairment could include significant financial difficulty of the issuer or counterparty.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Provisions

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

Leases

Service concessions which fall outside of the scope of IFRIC 12 are assessed in accordance with IFRIC 4 (Determining whether an arrangement contains a lease). Where it is assessed that the service concession does contain a lease, the concession is considered as either a finance lease or an operating lease in accordance with IAS 17 (Leases).

Under IAS 17, a finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

3. Significant accounting policies continued

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When the benefits and risks with the asset reside with the PFI project company these assets are accordingly disclosed in the balance sheet as property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Depreciation is calculated over the life of the concession or specific asset life if shorter.

PFI/PPP Concessions

PFI/PPP concessions which fall within the scope of IFRIC 12 'Service Concession Arrangements' conform to the following policies depending on the rights to consideration under particular concession agreement:

- **Financial assets**
Service concessions give rise to financial assets where the Group, as operator, has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Client (grantor).

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income.

During construction, revenue is recognised at cost, plus attributable profit to the extent that this is reasonably certain, less any losses incurred or foreseen in bringing construction to completion, and less amounts received as progress payments in accordance with IAS 11. Costs for this purpose include valuation of all work done by subcontractors whether certified or not, and all overheads other than those relating to the general administration of the relevant companies. For any contracts where receipts exceed the book value of work done, the excess is included in liabilities as payments on account.

During the operational phase, cash received in respect of the service concession is allocated to the services revenue, with the remainder allocated between capital repayment of the financial asset and interest income, using the effective interest method.

Financial assets are classified as loans and receivables when it is determined that cash flows are deemed to be fixed or determinable and measured at fair value at inception and thereafter carried at amortised cost, less provision for impairment.

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

Revenue arising in respect of service concessions giving rise to an intangible asset is recognised when the services are delivered.

- **Bifurcation between financial assets and intangible assets**
Where part of the concession is accounted for as a financial asset and part an intangible asset, the fair value of consideration receivable under the arrangement is allocated between the financial asset and the intangible. The fair value of consideration related to availability or minimum take-or-pay payments is allocated to the financial asset and the difference between the total consideration and the amount allocated to the financial asset is allocated to the intangible asset.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Service Concession under IFRIC 12

- Service concessions fall within the scope of IFRIC 12 where the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement. Judgement is required to determine whether PFI concessions controlled by the Group fall within this scope and, if so, whether the nature of the arrangement gives rise to a financial asset, an intangible asset, or both.
- Service concessions are determined to be financial assets where the operator has a contractual right to receive cash or another financial asset from or at the direction of the grantor. Alternatively, service concessions are determined to be intangible assets to the extent the operator has a contractual right to charge users of the public services. Where service concessions are determined to contain both of these elements, a bifurcated model will be adopted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. Critical accounting judgements and key sources of estimation uncertainty continued

- The majority of PFI concessions which fall within the scope of IFRIC 12 are considered to give rise to financial assets on the basis that substantially all of the unitary charge is received from the grantor on an 'availability' basis. One of the Group's PFI concessions (Diabolo) falls to be accounted for using the bifurcated model, where a financial asset is recognised on the basis that substantially all of the unitary charge is received from the grantor on an 'availability' basis and an intangible asset in relation to the right to charge users of the infrastructure asset on the 'demand' basis.

Financial Assets

The fair value of financial assets has been determined by discounting future cash flows at an appropriate discount rate. The discount rates utilised to discount future cash flows are calculated by adding a project specific premium to the 15 year gilt yield at 31 December 2012.

The premium takes into account several factors, including but not limited to, the stage reached by each project, the period of operation, historical track record and with reference to recent market transactions.

Intangible Assets

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

5. Revenue and other income

An analysis of the Group's revenue and other income is as follows:

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Continuing operations		
Revenue		
Construction services	124,982	173,958
Availability and facility management fees	110,132	119,703
Non-core facility recharges	214	5,924
Third party income	8,761	—
Sub-total	244,089	299,585
Other income		
Investment income		
Interest income on deposits	18,402	32,350
Financial asset interest income	162,169	133,516
Investment income	180,571	165,866
Share of results from joint ventures (note 18)	291	—
Share of results from associates (note 19)	(1,290)	(405)
Other operating income	4,151	3,818
Total	427,812	468,864

Other operating income includes distributions received from investments that are not consolidated or accounted for under the equity method of accounting.

The reduction in construction services revenue reflects the reduction in underlying construction activity at an underlying project level as a result of projects coming towards the end of their construction phase during the year ended 31 December 2012.

Financial asset interest income has increased as a result of construction activity and new acquisitions in the period.

6. Segmental reporting

Based on a review of information provided to the chief operating decision makers in International Public Partnerships Limited the Group has identified four reportable segments based on the geographical risk associated within the Group. The factors used to identify the Group's reportable segments are centred on the risk free rates and the maturity of the PFI/PPP industry within each country. Further, foreign exchange and political risk is identified, as these also determine where resources are allocated. Management has concluded that the Group is currently organised into four reportable segments being UK, Europe (non UK), Australia and North America.

	Year ended 31 December 2012				
	UK £'000s	Europe Non UK £'000s	North America ¹ £'000s	Australia £'000s	Total £'000s
Revenue from external customers	80,312	81,105	8,208	74,464	244,089
Investment Income	61,580	10,867	22,872	85,252	180,571
Finance costs	(32,251)	(20,174)	(19,450)	(72,742)	(144,617)
Net finance income/(expense)	29,329	(9,307)	3,422	12,510	35,954
Depreciation	(652)	–	–	–	(652)
Amortisation	(6,988)	(5,661)	(229)	(1,508)	(14,386)
Impairment charges	(90)	–	–	–	(90)
Income from associates	(66)	(1,282)	–	58	(1,290)
Income from joint ventures	291	–	–	–	291
Taxation credit/(charge)	8,500	3,513	(1,083)	(10,105)	825
Reportable segment profit/(loss)	24,627	(7,988)	3,100	7,874	27,613
Assets					
Non-current	1,153,766	451,585	342,420	1,140,966	3,088,737
Current	211,835	55,834	29,798	220,459	517,926
Total	1,365,601	507,419	372,218	1,361,425	3,606,663
Liabilities					
Non-current	(909,908)	(452,199)	(342,242)	(1,229,109)	(2,933,458)
Current	(70,381)	(39,857)	(10,063)	(32,534)	(152,835)
Total	(980,289)	(492,056)	(352,305)	(1,261,643)	(3,086,293)
Interests in equity accounted investments	8,525	27,500	–	14,426	50,451

¹ North America segment relates entirely to projects in Canada.

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6. Segmental reporting continued

	Year ended 31 December 2011				
	UK £'000s	Europe Non UK £'000s	North America ¹ £'000s	Australia £'000s	Total £'000s
Revenue from external customers	72,072	57,484	6,849	163,180	299,585
Investment Income	45,678	12,188	22,559	85,441	165,866
Finance costs	(30,549)	(15,284)	(19,449)	(81,060)	(146,342)
Net finance income/(expense)	15,129	(3,096)	3,110	4,381	19,524
Depreciation	(350)	–	–	–	(350)
Amortisation	(4,308)	(3,744)	(6)	(1,521)	(9,579)
Impairment charges	(4,555)	(68)	–	(1,663)	(6,286)
Income from associates	68	(1,253)	–	780	(405)
Taxation credit/(charge)	7,026	1,598	(965)	(4,799)	2,860
Reportable segment profit/(loss)	21,728	(5,979)	2,499	(2,218)	16,030
Assets					
Non-current	817,753	410,062	355,322	1,085,816	2,668,953
Current	137,484	38,513	18,465	316,134	510,596
Total	955,237	448,575	373,787	1,401,950	3,179,549
Liabilities					
Non-current	(699,119)	(430,020)	(356,014)	(1,229,578)	(2,714,731)
Current	(43,792)	(7,490)	(8,348)	(48,962)	(108,592)
Total	(742,911)	(437,510)	(364,362)	(1,278,540)	(2,823,323)
Interests in associates	7,481	26,848	–	15,226	49,555

¹ North America segment relates entirely to projects in Canada.

The revenue information above is based on the location of the concession.

Information about major customers

Revenue from all three customers which each represent more than 10% of the Group's total revenue provided approximately £137 million of revenue (including construction revenue) (2011 – £199.0 million from the same three customers). The Group has treated each Government entity and/or department as a separate customer.

7. Investment income

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Interest on bank deposits – non-recourse	18,233	32,172
Interest on bank deposits – recourse	169	178
Loans and receivables interest income – non-recourse	160,049	131,308
Loans and receivables – recourse	2,120	2,208
	180,571	165,866

Non-recourse financial assets and bank deposits are those which are held by a specific PFI project entity and are not readily available for transfer or use elsewhere within the Group.

8. Other gains

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Unrealised gains on financial assets	–	714
	–	714

No gains or losses have been recognised on financial assets measured at amortised cost other than as disclosed in note 9.

In 2011, 'Other gains' included unrealised foreign exchange losses, interest rate swap (loss)/gain and realised foreign exchange losses which have been reclassified to note 10 'Other net losses'.

9. Finance costs

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Interest on bank loans – non-recourse	136,490	138,909
Interest on bank loans – recourse	273	667
Other finance costs	7,854	6,766
Total finance costs	144,617	146,342

Non-recourse loans are those which are secured solely on a specific PFI asset and its future income (usually contained in a single entity). The terms of the finance agreements provide that the lender will not seek in any way to enforce repayment of either the principal or the interest from the rest of the Group and the Group is not obliged, nor does it intend to support any losses.

The cost associated with the recourse loan represents the interest costs on the corporate facility that was renewed in April 2011.

During the year, finance costs of £1.3 million (2011 – £4.5 million) have been capitalised in qualifying assets.

10. Profit before tax

Profit before tax for the year has been arrived at after charging:

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Asset management fees	16,369	13,144
Insurance	3,809	3,131
Amortisation of intangible assets	14,386	9,579
Other operating expenses	1,634	1,675
Operating expenses	36,198	27,529
Audit, taxation and accounting	1,168	671
Legal fees	563	616
Bank service charges	278	278
Other	478	591
Administrative expenses	2,487	2,156
Impairment of financial assets	90	6,286
Interest rate swap (gain)/loss ¹	(205)	3,322
Loss/(gain) on acquisition in stages	218	(415)
Realised foreign exchange losses	1,009	1,797
Unrealised foreign exchange losses	750	946
Other net losses	1,772	5,650
Total finance costs (note 9)	144,617	146,342

¹ Includes ineffective portion of foreign currency hedge of £0.1 million (2011: £0.2 million).

For the year ended 31 December 2012 the Group had one employee (2011 – one). As noted above, the Group incurred impairment losses of £0.1 million (2011 – £6.3 million) as a result of an assessed minor permanent reduction in the recoverability of one underlying financial asset.

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11. Auditors' remuneration

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Fees payable to the Company's auditors for the audit of the Company's annual accounts	35	45
Fees payable to the Company's auditors and their associates for other services to the Group:		
– The audit of the Company's subsidiaries pursuant to legislation	769	340
– Audit related assurance services	20	20
Total audit fees	824	405
Other fees		
– Regulatory reporting	97	–
– Other services	75	24
Total non-audit fees	172	24

12. Tax

The Company has obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and accordingly is subject to an annual charge of currently £600.

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Current tax:		
UK corporation tax – current year	1,328	1,474
UK corporation tax – prior year	(1,062)	(430)
Overseas tax	1,121	559
Overseas tax – prior year	78	(13)
	1,465	1,590
Deferred tax (note 25):		
UK – current year	(11,532)	(9,514)
UK – prior year	1,622	(552)
Overseas tax – current year	6,757	5,501
Overseas tax – prior year	784	57
	(2,369)	(4,508)
Withholding tax	79	58
	(825)	(2,860)

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group predominantly performs its operational activities within the United Kingdom and the headline UK tax rate of 24.5% (2011 – 26.5%) has therefore been used within the following reconciliation.

12. Tax continued

The (credit)/charge for the year can be reconciled to the profit as per the Consolidated Income Statement as follows:

	Year ended 31 December 2012		Year ended 31 December 2011	
	£'000s	%	£'000s	%
Profit before tax	26,788		13,170	
Tax at UK corporation tax rate of 24.5% (2011 – 26.5%)	6,563	24.50	3,490	26.50
Expenses/(income) not deductible/(assessable) in determining taxable profit	6,175	23.06	8,011	60.82
Asset impairments	22	0.08	150	1.14
Losses not recognised	27	0.10	424	3.22
Guernsey income not assessable	(8,966)	(33.47)	(6,712)	(50.96)
Application of overseas tax rates	295	1.10	(431)	(3.27)
Prior year adjustments	1,422	5.31	(938)	(7.12)
Associate undistributed reserves	(45)	(0.17)	(223)	(1.69)
Unrecognised losses utilised	(383)	(1.43)	–	–
UK rate change	(5,935)	(24.26)	(6,631)	(50.35)
Tax (credit)/charge and effective tax rate for the year	(825)	(5.18)	(2,860)	(21.71)

A reduction in the headline UK tax rate from 25% to 23%, effective 1 April 2013, was substantively enacted at 31 December 2012. The impact upon the current year has been a deferred tax credit of £5.9 million (2011 – £6.6 million) to the Consolidated Income Statement and a deferred tax charge of £2.3million (2011 – £2.9 million) to other comprehensive income.

A further 2% reduction was proposed in the December 2012 UK Autumn Statement, reducing the rate to 21% by April 2014. The 2013 UK Budget on 20 March 2013 announced a further reduction to 20% by April 2015. If these rate changes had been substantively enacted at 31 December 2012, the impact upon the current period would have been an additional deferred tax credit of £8.8 million to the Consolidated Income Statement and a deferred tax charge of £3.5 million to other comprehensive income.

In addition to the deferred tax charged to the Consolidated Income Statement, a deferred tax credit of £9.4 million (2011 – £42.5 million) relates to the movement in the fair value of the Group's interest rate swaps has been taken directly to other comprehensive income (note 25).

The Group's effective rate of tax is impacted by non-assessable income consistent with previous periods.

13. Distributions

The Board is satisfied that, in every respect, the solvency test as required by the Companies (Guernsey) Law, 2008, was satisfied for the proposed dividend and the dividend paid in respect of the year ended 31 December 2012.

The Board has approved interim distributions as follows:

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Amounts recognised as distributions to equity holders for the year ended 31 December ¹	36,879	27,875
Interim distribution for the period 1 January to 30 June 2012 was 3.000 pence per share (2011 – 2.925 pence per share ²)	21,253	14,165
Interim distribution for the period 1 July to 31 December 2012 ³ was 3.00 pence per share (2011 – 2.925 pence per share)	22,315	15,626

¹ Includes the 2011 interim distribution for the period 1 July to 31 December 2012.

² The interim distribution for the period was from 1 January to 30 June 2011.

³ The distribution for the period 1 July to 31 December 2012 has been approved by the Board on 27 March 2013 and has not been included as a liability in the balance sheet for the year ended 31 December 2012.

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14. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2012 £'000s	Year ended 31 December 2011 £'000s
Earnings		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	29,309	16,538
	Number	Number
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic and diluted earnings per share	622,834,422	496,624,899

The denominator for the purposes of calculating both basic and diluted earnings per share are the same as the Company had not issued any share options or other instruments that would cause dilution.

	Year ended 31 December 2012 pence	Year ended 31 December 2011 pence
Basic and diluted	4.71	3.33

15. Intangible assets

	Cost of Service Concessions £'000s	Bifurcated IFRIC 12 £'000s	Total £'000s
Cost			
At 1 January 2011	214,351	117,351	331,702
Additions in the year	8,146	31,303	39,449
At 31 December 2011	222,497	148,654	371,151
Additions in the year	16,130	42,729	58,859
At 31 December 2012	238,627	191,383	430,010
Amortisation			
At 1 January 2011	(27,997)	(1,578)	(29,575)
Charge for the year ended 31 December 2011	(7,993)	(1,586)	(9,579)
At 31 December 2011	(35,990)	(3,164)	(39,154)
Charge for the year ended 31 December 2012	(10,995)	(3,391)	(14,386)
At 31 December 2012	(46,985)	(6,555)	(53,540)
Carrying amount			
At 31 December 2011	186,507	145,490	331,997
At 31 December 2012	191,642	184,828	376,470

Cost of service concession intangible assets represent the right to future profits on the service element of the PFI concessions and are amortised over the remaining life of the PFI concessions.

Bifurcated IFRIC 12 intangible assets represent the right to charge users of the infrastructure assets within a service concession and are amortised over the remaining 34 years of the concession from the date on which it is available for use.

16. Property, plant and equipment

	Land and buildings £'000s	Fixtures and equipment £'000s	Total £'000s
Cost			
At 1 January 2011	9,759	4	9,763
At 1 January 2012	9,759	4	9,763
At 31 December 2012	9,759	4	9,763
Accumulated depreciation and impairment			
At 1 January 2011	(1,674)	(2)	(1,676)
Charge for the year	(348)	(2)	(350)
At 1 January 2011	(2,022)	(4)	(2,026)
Charge for the year	(652)	—	(652)
At 31 December 2012	(2,674)	(4)	(2,678)
Carrying amount			
At 31 December 2011	7,737	—	7,737
At 31 December 2012	7,085	—	7,085

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17. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation as at 31 December 2012 and proportion of ownership is shown below:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %
Directly owned		
International Public Partnerships Lux 1 S.a.r.l	Luxembourg	100
Indirectly owned		
Abingdon Limited Partnership	UK	100
Access Justice Durham Limited	Canada	100
Building Schools for Future Investments LLP	UK	100
IPP CCC Limited Partnership	Ireland	100
AKS Betriebs GmbH and Co. KG	Germany	98
International Public Infrastructure Germany GmbH and Co. KG	Germany	100
International Public Partnerships Lux 2 S.a.r.l	Luxembourg	100
BBPP Alberta Schools Limited	Canada	75
Inspire Partnership Limited Partnership	UK	80
IPP (Aust) Limited	UK	100
IPP Bond Limited	UK	100
IPP (Moray Schools) Holdings Limited	UK	100
IPP North America S.a.r.l	Luxembourg	100
BPSL No. 2 Limited Partnership	UK	100
Calderdale Schools Partnership	UK	100
CHP Unit Trust	Australia	100
Derbyshire Courts Limited Partnership	UK	100
Derbyshire Schools Limited Partnership	UK	100
Derbyshire Schools Phase Two Partnership	UK	100
H&W Courts Limited	UK	100
Maesteg School Partnership	UK	100
Medicaste Amiens SAS	France	95
Norfolk Limited Partnership	UK	100
Northampton Schools Limited Partnership	UK	100
Northern Diabolo N.V.	Belgium	75
Pinnacle Healthcare (OAHS) Trust	Australia	100
Plot B Partnerships	UK	100
PPP Senior Funding Limited	UK	100
St. Thomas More School Partnership	UK	100
PPP Solutions (Long Bay) Partnership	Australia	100
PPP Solutions (Showgrounds) Trust	Australia	100
Strathclyde Limited Partnership	UK	100
TH Schools Limited Partnership	UK	100
TC Robin Rigg OFTO Limited	UK	100
TC Barrow OFTO Limited	UK	100
TC Gunfleet Sands OFTO Limited	UK	100
TC Ormonde OFTO Limited ¹	UK	100
Inspiredspaces Durham (Holdings 1) Limited ¹	UK	91
Inspiredspaces Nottingham (Holdings 1) Limited ¹	UK	82
Inspiredspaces STaG (Holdings 2) Limited ¹	UK	87
Inspiredspaces Wolverhampton (Holdings 1) Limited ¹	UK	82

¹ Investments or acquisitions made during the year. See note 36 for details of acquisitions, excluding asset purchases.

18. Interest in Joint Ventures

The Group's combined share of the assets and liabilities as at 31 December 2012 and income and expenses of the jointly controlled entities for the year ended 31 December 2012, which are equity accounted in the consolidated financial statements, are as follows:

	31 December 2012 £'000s	31 December 2011 £'000s
Share of the joint ventures' statement of financial position:		
Current assets	15,339	12,715
Non-current assets	18,229	1,542
Current liabilities	(13,052)	(11,915)
Non-current liabilities	(19,924)	(2,342)
Equity	592	–
Share of the joint ventures' revenue and profit:		
Revenue	60,886	59,821
Cost of sales	(60,128)	(58,078)
Administrative expenses	(364)	(1,552)
Finance costs	(82)	(140)
Profit before tax	312	51
Income tax expense	(21)	(51)
Profit for the period from continuing operations	291	–

On 30 December 2012, the Group acquired an additional 36% of the share capital in QED Luton (Challney) Holdings Limited (effective shareholding of 46%). QED Luton (Challney) Holdings Limited is the parent entity holding the PFI concession to design, build, finance, maintain and operate schools in Luton, UK.

The consideration paid for the acquisition of the share capital and investor loans was £1.6 million (share capital – £0.21 million and investor loans – £1.39 million).

Joint venture capital commitments are set out in note 38.

19. Interests in associates

A list of the significant investments in associates, including the name, country of incorporation and proportion of ownership interest is noted below.

Name	Country of Incorporation	Ownership interest	Date acquired
BeNEX GmbH	Germany	49%	31 October 2007
Axiom Education NSW No 2 Pty Ltd ¹	Australia	25%	20 December 2007
Catalyst Brescia S.r.l.	Italy	37%	24%–22 April 2008
			13%–31 July 2009
AH BB ELL Holdings Limited	UK	100% B Shares	9 May 2008
GoldlinQ Holdings Pty Ltd	Australia	26.67%	9 June 2011
Inspiredspaces Tameside (Holdings 1) Limited	UK	46%	30 June 2012
Inspiredspaces Tameside (Holdings 2) Limited	UK	46%	30 June 2012
Inspiredspaces STaG (Holdings 1) Limited	UK	49.5%	25 September 2012

¹ This entity has an accounting period ending 30 June which differs from the Group's accounting period of 31 December.

On 30 June 2012, the Group acquired an additional 36% of the issued Ordinary Shares in Inspiredspaces Tameside (Holdings 1) Limited and Inspiredspaces Tameside (Holdings 2) Limited, the parent entities holding the PFI concessions to design, build, finance, maintain and operate schools in Tameside, UK.

The consideration paid for the acquisition of the projects was £6.75 million (share capital – £0.70 million and investor loans – £6.05 million).

On 30 September 2012, the Group acquired an additional 36% of the issued Ordinary Shares in Inspiredspaces STaG (Holdings 1). Inspiredspaces STaG (Holdings 1) Limited is the parent entity holding the PFI concession to design, build, finance, maintain and operate schools in South Tyneside and Gateshead, UK.

The consideration paid for the acquisition of the project was £1.15 million (share capital – £0.22 million and investor loans – £0.93 million).

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19. Interests in associates continued

Summarised financial information in respect of the Group's associates is noted below:

	31 December 2012 £'000s	31 December 2011 £'000s
Share of amounts relating to associates		
Total assets	237,436	146,339
Total liabilities	(187,577)	(96,784)
Carrying value of interests in associates	49,859	49,555
Revenues	130,806	28,613
Share of results of associates	(1,290)	(405)

20. Available for sale financial assets

	31 December 2012 £'000s	31 December 2011 £'000s
Non-current		
Unlisted investments	30,197	25,936
	30,197	25,936

The investments above represent investments in unlisted equity securities that present the Group with opportunity for returns through dividend income and interest income. The fair values of these securities are based on discounted cash flow calculations.

Available for sale financial assets are carried at fair value with movements, other than impairments, being recorded in other comprehensive income. They are initially recognised at fair value upon acquisition and subsequently measured at fair value. The effective interest rate method allocates the interest income over the relevant period by applying the 'effective interest rate' to the carrying amount of the asset. The average effective interest rate, referred to in note 3, is 9.99% (2011 – 10.55%).

The increase in investments relates to the acquisition of an additional 0.15% interest in Angel Trains UK and fair value gains recognised on investments in the year.

Details of financial risks associated with these assets are contained in note 30.

21. Loans and receivables financial assets

	31 December 2012 £'000s	31 December 2011 £'000s
Loans and receivables – current	40,549	40,672
Loans and receivables – non-current	2,586,800	2,229,111
	2,627,349	2,269,783

Financial Assets – loans and receivables are carried at amortised cost. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method allocates the interest income over the relevant period by applying the 'effective interest rate' to the carrying amount of the asset. The average effective interest rate, referred to in note 3, is 6.79% (2011 – 7.17%). The income will be recognised over the life of the underlying PFI concessions based on this effective rate.

Loans and receivables balances include Pound Sterling denominated loans of £1,052.0 million (2011 – £728.4 million), £177.6 million (2011 – £172.1 million) denominated in Euros, £1,059.3 million (2011 – £1,019.2 million) denominated in Australian dollars and £338.4 million (2011 – £350.0 million) denominated in Canadian Dollars. The increase at the end of the year relates to new investments and acquisitions (note 36) during the year and additional capital costs of projects in construction.

22. Cash and cash equivalents

There has been an increase in cash and cash equivalents from 31 December 2011 of £7 million primarily due to the acquisition of additional projects during the year offset by construction activity on Royal Children's Hospital which is financed by structured bond financing arrangements.

Cash includes £348,827,493 (2011 – £378,847,680) which is held by non-recourse PFI project entities and is restricted.

All cash and cash equivalents are exposed to floating rate interest rate risk.

The currency profile of cash and cash equivalents was:

	31 December 2012 £'000s	31 December 2011 £'000s
Sterling	166,093	103,110
Australian Dollars	196,969	271,608
Canadian Dollars	23,477	17,193
Euro	40,050	27,698
	426,589	419,609

23. Bank loans

All bank loans (including bonds) are separately secured solely on a specifically related PFI concession and its future income stream with the exception of the corporate debt facility of £100 million provided to the Company by The Royal Bank of Scotland Limited and National Australia Bank Limited.

In April 2011, the Company renewed the £100 million corporate debt facility with the existing providers. The amount undrawn at 31 December 2012 was £100 million. The interest rate margin on the corporate facility is 225 basis points over Libor. The loan facility matures on 8 May 2014 and is secured over all of the assets of the Company.

The terms of the PFI concession finance agreements provide that the lender cannot seek in any way to enforce repayment of either principal or interest from the rest of the Group.

For Group funding, the financial covenants are in respect of annual debt service cover ratios and loan to value calculations. There is significant headroom on all of these covenants. For project debt (which is non-recourse to the Group) covenants are usually in respect of historical and future annual debt service ratios in the range of 1.08 times and 2.49 times respectively.

	31 December 2012 £'000s	31 December 2011 £'000s
Bank loans/bonds	2,543,487	2,386,821
The borrowings are repayable as follows:		
Within one year	69,788	42,533
In the second year	50,944	38,371
In the third to fifth years inclusive	195,992	168,885
After five years	2,226,763	2,137,032
	2,543,487	2,386,821
Less: Amount due for settlement within 12 months (shown under current liabilities)	(69,788)	(42,533)
Amount due for settlement after 12 months	2,473,699	2,344,288

	31 December 2012 £'000s	31 December 2011 £'000s
Analysis of borrowings by currency:		
31 December	2,543,487	2,386,821
Bank loans/bonds – Australian Dollar	1,157,239	1,200,981
Bank loans – Pounds Sterling	695,069	541,450
Bank loans/bonds – Canadian Dollar	325,034	337,049
Bank loans – Euro	366,145	307,341

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23. Bank loans continued

	31 December 2012 £'000s	31 December 2011 £'000s
Analysis of borrowings by interest rate profile:		
Fixed rate	308,940	310,879
Floating rate	2,234,547	2,075,942
Bank loans/bonds	2,543,487	2,386,821
The weighted average interest rates paid were as follows:		
Bank loans – floating rate	5.42%	4.65%
Bank loans/bonds – fixed rate	5.53%	5.53%

The Directors estimate the fair value of the Group's borrowings as follows:

	31 December 2012 £'000s	31 December 2011 £'000s
Bank loans	2,654,264	2,482,047

The fair value of the Group's borrowings has been determined by taking the repayment and interest cash flows associated with the loan or bond and discounting these at an appropriate current market rate for a similar instrument. At 31 December 2012, the weighted average range of discount rates applied was between 2.6% and 6.9% (2011 – 1.8% and 6.1%).

24. Derivative financial instruments

	31 December 2012 £'000s	31 December 2011 £'000s
Interest rate swaps	353,981	271,066
CPI/RPI swaps	2,283	7,137
Foreign currency swaps	286	1,224
	356,550	279,427
Derivative financial instruments – assets	1,632	–
Derivative financial instruments – liabilities	(358,182)	(279,427)

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Long-term swap contracts with nominal values of £1,112 million (2011 – £884 million) have fixed interest payments at an average rate of 4.57% (2011 – 4.46%) for periods linked to the term of underlying concessions up until 2036 and have floating interest receipts at the relevant inter bank rate.

The net fair value of swaps entered into at 31 December 2012 is estimated at negative £353.9 million (2011 – negative £271.1 million). These amounts are based on market values of equivalent instruments at the respective balance sheet dates. All of these interest rate swaps are designated as cash flow hedges. The after tax increase in the fair value for the year ended 31 December 2012 of £23.9 million (2011 – £107.6 million – after tax increase) has been deferred in other comprehensive income. The fair value adjustment does not impact the Consolidated Income Statement or Consolidated Cash Flow Statement. The fair value reduction reflects further reductions in market variable rates of interest compared to fixed rates contracted through the interest rate swap agreements.

CPI/RPI swaps

The Group uses CPI swaps to manage its exposure to inflationary movements on the bonds issued in relation to the Royal Children's Hospital concession. CPI linked swaps with no net nominal value have CPI linked payments for periods up until 2021 and have CPI linked receipts for the duration of the project. CPI linked swaps are used to hedge two equal and opposite bond values of AUD250 million.

The CPI swaps with a fair value at 31 December 2012 of £2.6 million liability (2011 – £2.7 million liability) have not been hedge accounted for based on the assumption that the swap is to have a shorter life than the hedged item (the borrowings will be refinanced in 2021 whereas the swap will be terminated) which will give rise to ineffectiveness. The swap movement for the year was a loss of £9,000 (2011 – £507,000 loss) which has been recognised in profit and loss. The remainder of the movement for the year is in respect of foreign exchange translation.

The Group also uses RPI swaps to manage its exposure to RPI-linked revenues received on its offshore transmission projects. The Group has entered into floating to fixed RPI swaps whereby it has swapped a portion of its RPI-linked revenue in order to service senior debt commitments. RPI-linked swaps with notional values of £7.8 million (2011 – £nil) are for periods up until 2032.

24. Derivative financial instruments continued

The net fair value of the RPI swaps entered into at 31 December 2012 is £0.3 million asset (2011 – £4.4 million liability).

Foreign exchange forward contracts

To reduce the Group's exposure to movements in foreign currency the Group has a number of forward foreign exchange contracts; during the year the Group has not entered into any new forward foreign exchange contracts. The Group has hedged highly probable revenue from its overseas operations that are derived in Australian Dollars, Canadian Dollars and Euro. All of these forward foreign exchange contracts are designated and effective as cash flow hedges. The nominal value of the forward foreign exchange contracts at 31 December 2012 is £0.8 million (2011 – £5.6 million). The fair value of these foreign exchange contracts at 31 December 2012 is £0.3 million liability (2011 – £1.2 million) and has been deferred in other comprehensive income.

25. Deferred tax

The following are the deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current year:

	Accelerated tax relief in respect of financial assets £'000s	Intangible asset £'000s	Fair value of interest rate swaps £'000s	Tax losses £'000s	Financing costs £'000s	Total £'000s
At 1 January 2012	123,622	53,108	(76,342)	(44,410)	(104)	55,874
Charge/(credit) to income	9,099	(1,719)	23	(7,556)	3,720	3,567
Impact of UK rate change – income	(5,004)	(1,463)	19	512	–	(5,936)
(Credit)/charge to other comprehensive income	(714)	(817)	(9,404)	691	(253)	(10,497)
Impact of UK rate change – other comprehensive income	–	–	2,326	–	–	2,326
On acquisition of subsidiaries	7,908	4,543	(9,903)	(410)	–	2,138
At 31 December 2012	134,911	53,652	(93,281)	(51,173)	3,363	47,472

	Accelerated tax relief in respect of financial assets £'000s	Intangible asset £'000s	Fair value of interest rate swaps £'000s	Tax losses £'000s	Financing costs £'000s	Total £'000s
At 1 January 2011	104,123	54,690	(36,563)	(31,745)	(607)	89,898
Charge/(credit) to income	15,669	(2,279)	95	(11,297)	(65)	2,123
Impact of UK rate change – income	(4,574)	(1,666)	(514)	123	–	(6,631)
Charge/(credit) to other comprehensive income	39	–	(42,516)	60	(15)	(42,432)
Impact of UK rate change – other comprehensive income	–	–	2,892	–	–	2,892
On acquisition of subsidiaries	8,365	2,363	264	(1,551)	583	10,024
At 31 December 2011	123,622	53,108	(76,342)	(44,410)	(104)	55,874

The balance of deferred tax liability is represented on the balance sheet as deferred tax assets £36.1 million (2011 – £24.6 million) and deferred tax liability £83.5 million (2011 – £80.5 million).

The following deferred tax assets are not recognised by the Group at the balance sheet date:

	£'000s
At 31 December 2010	(786)
Utilised during the year	–
Current year losses not recognised	(424)
Prior year adjustment	273
UK rate change	50
At 31 December 2011	(887)
Utilised during the year	391
Current year losses not recognised	(27)
UK rate change	68
At 31 December 2012	455

A deferred tax asset has not been recognised in respect of these losses as sufficient taxable profits are not expected to be generated in the near future to utilise the losses.

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26. Trade and other receivables

	31 December 2012 £'000s	31 December 2011 £'000s
Trade receivables	42,562	44,405
Prepayments and accrued income	8,226	5,910
	50,788	50,315

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

27. Operating leases

Operating lease rental income during the year was £2.1 million (2011 – £2.1 million) which represents the availability fees on a PFI/PPP service concession. The carrying amount of the leased property was £7.1 million as at 31 December 2012 (2011 – £7.7 million). The concession has committed lease rental revenue until 2025 with a break clause option exercisable by the client in 2015. At 31 December 2012 the future minimum operating lease rentals receivable were:

	31 December 2012 £'000s	31 December 2011 £'000s
Amounts receivable under operating leases		
Within one year	2,023	2,014
In the second to fifth years	9,106	9,064
After five years	9,351	10,592
	20,480	21,670

28. Trade and other payables

	31 December 2012 £'000s	31 December 2011 £'000s
Trade creditors	17,955	12,254
Accrued liabilities	38,684	30,959
Deferred income	254	200
Other creditors	25,091	20,213
	81,984	63,626

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade creditors and accruals principally comprise amounts outstanding for facility management fees and ongoing costs. The average credit period for trade purchases is 30 days (2011 – 30 days). No interest is charged on outstanding balances.

29. Provisions

	31 December 2012 £'000s	31 December 2011 £'000s
Non-current		
Balance as at 1 January	11,474	–
Arising during the year	6,330	11,474
Unwinding of discount on decommissioning	485	–
Balance as at 31 December	18,289	11,474

Non-current provisions are in relation to decommissioning costs associated with the four offshore transmission projects acquired as assets rather than business combinations. The Group is committed to decommissioning the offshore electricity transmission platforms and certain transmission cables at the end of the relevant regulated revenue generating periods.

29. Provisions continued

The timing of the amounts settled in respect of these provisions are uncertain and dependent on various factors that are not always within the Groups control.

The timing of decommissioning is contingent upon any re-powering of the relevant associated wind farm to which the transmission assets relate and therefore the potential for the transmission assets to be used beyond the initial revenue generating periods. In such circumstances, the costs of decommissioning would be expected to be deferred until such time as would be agreed in any subsequent terms. However, the current assumption is that it is too uncertain to assume the wind farms will be re-powered and, therefore decommissioning costs have been assumed to be incurred at the earliest most likely dates.

30. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balances. The capital structure of the Group consists of non-recourse debt and the Group's corporate facility, and includes the borrowings, disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 31 to 35. The Group aims to deliver its objective by investing available cash and using leverage whilst maintaining sufficient liquidity to meet on-going expenses and dividend payments. The Group's investment policy is set out on pages 24 to 26 of the Annual Report.

Gearing ratio

The Group's Investment Advisor reviews the capital structure on a semi-annual basis. As part of this review, the Investment Advisor considers the cost of capital and the risks associated with each class of capital. As stated in the initial public offering prospectus, the Group has committed to a maximum gearing ratio of 50% (excluding non-recourse project level debt) as the proportion of recourse debt to portfolio valuation.

As at the date of this Annual Report all debt was non-recourse project level debt with the exception of the corporate debt facility which is secured over all the assets of the Company.

Categories of financial instruments

	31 December 2012 £'000s	31 December 2011 £'000s
Financial assets		
Available for sale financial assets		
Unlisted investments	30,197	25,936
Financial assets at fair value	30,197	25,936
Derivative instruments in designated hedge accounting relationships		
Financial assets at fair value	1,632	–
Financial asset loans and receivables		
PFI project financial assets	2,545,115	2,197,587
Subordinated debt	82,234	72,196
Trade and other receivables (excluding prepayments)	42,562	44,405
Cash and cash equivalents	426,589	419,609
Financial assets at amortised cost	3,096,500	2,733,797
Total financial assets	3,128,329	2,759,733

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30. Financial instruments continued

	31 December 2012 £'000s	31 December 2011 £'000s
Financial liabilities		
Derivative instruments in designated hedge accounting relationships		
Financial liabilities at fair value	358,182	279,427
Financial liabilities at amortised cost		
Trade and other payables (excluding deferred income)	81,730	63,426
Bank loans	2,543,487	2,386,821
Financial liabilities at amortised cost	2,625,217	2,450,247
Total financial liabilities	2,983,399	2,729,674

Financial risk management objectives

The Group's Investment Advisor provides advice to the Group and also, as operator of International Public Partnerships Limited Partnership (IPP LP), coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of risks by using derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. In line with the lending requirements under project agreements for PFI/PPP type investments there is generally a requirement for the underlying project entity to either enter a fixed rate loan agreement for the life of the concession or, if a variable interest rate loan is agreed, an interest rate swap agreement is entered into at the commencement of the loan. The effect of the interest rate swap is to mitigate interest rate risk that the underlying project entity may be exposed to. As a result, the Group has minimal exposure to any change in interest rates. The Group may also enter forward foreign exchange contracts to mitigate foreign exchange risk.

Sensitivities around the Group's exposure to foreign currency movements and interest rates are detailed in the note below. There has been no change during the year to the manner in which the Group manages and measures the risks.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts based on the expected timing of these. Generally, the Group intends to cover forward foreign exchange payments and receipts for up to a four year period. As at 31 December 2012 the Group had entered into foreign exchange contracts in accordance with the Group's Treasury Policy.

30. Financial instruments continued

The following table details the forward foreign currency ('FC') contracts outstanding as at 31 December 2012:

As at 31 December 2012

	Average exchange rate 2012	Foreign currency 2012 £'000s	Notional value 2012 £'000s	Fair value 2012 £'000s
Outstanding contracts				
Cash flow hedges				
Buy Pound Sterling				
Less than 12 months	1.0000	764	764	(286)
1 to 4 years	1.0000	–	–	–

	Average exchange rate 2012	Local currency 2012 £'000s	Notional value 2012 £'000s	Fair value 2012 £'000s
Outstanding contracts				
Sell Euro				
Less than 12 months	–	–	–	–
1 to 4 years	–	–	–	–
Sell Canadian Dollars				
Less than 12 months	–	–	–	–
1 to 4 years	–	–	–	–
Sell Australian Dollars				
Less than 12 months	1.9147	1,657	764	(286)
1 to 4 years	–	–	–	–
Forward foreign exchange liability				(286)

As at 31 December 2011

	Average exchange rate 2011	Foreign currency 2011 £'000s	Notional value 2011 £'000s	Fair value 2011 £'000s
Outstanding contracts				
Cash flow hedges				
Buy Pound Sterling				
Less than 12 months	1.0000	4,016	4,016	(837)
1 to 4 years	1.0000	1,595	1,595	(386)

	Average exchange rate 2011	Local currency 2011 £'000s	Notional value 2011 £'000s	Fair value 2011 £'000s
Outstanding contracts				
Sell Euro				
Less than 12 months	1.1302	1,709	1,512	69
1 to 4 years	–	–	–	–
Sell Canadian Dollars				
Less than 12 months	–	–	–	–
1 to 4 years	1.792	1,493	831	(111)
Sell Australian Dollars				
Less than 12 months	1.9147	5,299	2,504	(906)
1 to 4 years	1.9147	1,657	764	(275)
Forward foreign exchange liability				(1,223)

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30. Financial instruments continued

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Currency risk arises in financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. Currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

The carrying amounts of the Group's foreign currency denominated monetary financial instruments at the reporting date are set out in the table below:

	Liabilities		Assets	
	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s
Euro	(382,842)	(312,298)	278,207	253,639
Canadian Dollar	(329,805)	(340,066)	364,124	368,441
Australian Dollar	(1,174,598)	(1,233,698)	1,276,947	1,332,790

These balances relate to monetary loans to subsidiaries held predominantly to cover future equity investments.

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the following countries:

- Belgium, France, Ireland, Italy and Germany (Euro currency);
- Canada (CAD Dollar currency); and
- Australia (AUD Dollar currency);

The following tables detail the Group's sensitivity to a 10% increase in the Sterling exchange rate against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably possible change in foreign exchange rates.

The sensitivity analysis below includes only outstanding foreign currency denominated monetary financial instruments and adjusts their translation at the year end for a 10% change in foreign currency rates against Sterling. A negative number below indicates a decrease in profit and other equity where Sterling strengthens 10% against the relevant currency.

For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Euro currency		AUD Dollar currency		CAD Dollar currency	
	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s
Profit/(loss) before tax	9,512	5,333	(9,304)	(9,008)	(3,120)	(2,580)

The reasons for the foreign currency impacts are the exposure of the Group to foreign exchange fluctuations as a result of holding multi-currency financial instruments. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk, as the year end exposure does not reflect the exposure during the year.

In addition, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing at the balance date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve.

The following table details the Group's sensitivity to a 10% increase and decrease in the Sterling exchange rate against the relevant foreign currencies for foreign operations. The sensitivity table adjusts for the exchange rates prevailing at the balance date as applied to the assets and liabilities of the Group's foreign operations and the average rate for the year applied to the income and expense items for a 10% change in foreign currency rates against Sterling. A positive number below indicates an increase in net assets and profit where Sterling strengthens 10% against the relevant currency.

30. Financial instruments continued

For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on net assets and profit, and the balances below would be negative.

	Euro currency impact		CAD Dollar currency impact		AUD Dollar currency impact	
	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s
Impact on net assets	2,900	(1,106)	(1,991)	(943)	(1,844)	(12,341)
Impact on profit	(799)	(598)	310	250	787	(222)

Interest rate risk management

The Group has limited exposure to interest rate risk as the underlying borrowings within the Group are either fixed rate loans or an interest rate swap agreement is entered into to mitigate any fluctuations in interest rates. It is generally a requirement under a PFI/PPP concession that any borrowings are matched against the life of the concession. Hedging activities are aligned with the period of the loan, which also mirrors the concession period and are highly effective. The Group's corporate facility is unhedged on the basis it is utilised as an investment bridging facility and therefore drawn for a relatively short period of time. Therefore, the Group is not exposed to cash flow risk due to changes in interest rates over its variable rate borrowings. The fixed rate borrowings are carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

The Group's exposures to interest rate movements on financial assets are detailed in the interest rate sensitivity analysis section of this note.

The Group's derivative financial instruments and certain available for sale financial assets are exposed to fair value movements due to changes in interest rates.

Interest rate sensitivity analysis

A sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. A 0.5% (2011 – 0.5%) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group's available for sale financial assets comprise service concession financial assets that fall within the following categories and have the following values:

Unlisted equity investments not exposed to interest rate risk amount to £30.2 million (2011 – £25.9 million).

The Group's loans and receivable financial assets comprise fixed rate financial assets that are being carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

If interest rates had been 0.5% higher and all other variables were held constant, the Group's:

- profit for the years ended 31 December 2012 and 2011 would not be materially impacted as the interest rate risk associated with floating rate liabilities has been significantly mitigated through interest rate swap agreements; and
- net assets and other equity reserves would increase/decrease by £67.8 million and increase/decrease by £73.3 million respectively (2011 – increased by £46.6 million/decreased by £59.0 million respectively) as a result of the changes in the fair value of the interest rate swap agreements, if the interest rate was 0.5% higher/lower.

The Directors note that due to interest rate movements in the year the valuation of interest rate swaps have moved by £82.8 million (2011 – £141.2 million) of which £41.9 million (2011 – £114.4 million) relates to swaps in existence at the previous Balance Sheet date, the remainder was entered into as part of the new acquisitions in that year. The Directors used a reasonably possible estimate that interest rates are unlikely to change by more than plus or minus 50 basis points over the next year.

A sensitivity analysis for monetary assets at 31 December 2012 using a 0.5% increase and a 0.5% decrease in the average interest rate would result in an increase in profit of £15.4 million (2011 – £15.8 million) and a decrease of £15.4 million (2011 – £15.8 million) respectively.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate yield curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

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30. Financial instruments continued

The following tables detail the notional principal amounts of interest rate swap contracts outstanding as at the reporting date:

Cash flow hedges (floating to fixed rate debt)

As at 31 December

	Average contract fixed interest rate		Notional principal amount		Fair value liability	
	2012 %	2011 %	2012 £'000s	2011 £'000s	2012 £'000s	2011 £'000s
Outstanding receive floating pay fixed contracts						
Total	4.57	4.46	1,112,161	878,106	353,981	279,428

All interest rate swap contracts exchange floating rate interest amounts for fixed rate interest amounts. These are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating rate interest payments on debt impact profit or loss.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and PFI/PPP concessions are entered into with government or quasi government or other public or equivalent low risk bodies.

Receivables consist of a small number of government or quasi government counterparties that are spread across a diverse geographical area. The Group does not have any significant credit risk exposure to any single non-government or quasi government or similar counterparty. In relation to offshore transmission investments, the Group is protected in accordance with the Energy Act 2004 in the event of an insolvency of the National Electricity Transmission System Operator. The Group is exposed to credit risk on liquid funds, cash held on deposit and financial instruments. The Group mitigates this risk by only transacting with banking counterparties with high credit ratings assigned by international credit rating agencies (currently with Moody's ranging between Aa1 and A1). The Group has considered the creditworthiness of facilities managers and construction sub-contractors, the availability of alternative sub-contractors in the event of default and Group policy is only to deal with creditworthy contractors. Refer to note 23 for further details on the corporate debt facility.

As at 31 December 2012, the Group's maximum exposure to credit risk over financial assets owed by government or similar parties represents the carrying amount of £3.1 billion (2011 – £2.7 billion) as disclosed earlier in this note.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In April 2011, the Group renewed the corporate debt facility in order to allow the Group greater flexibility in respect of accepting investment opportunities as they arise. As at 31 December 2012, the Group had drawn down none of the £100 million facility.

30. Financial instruments continued

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liabilities	Weighted average effective interest rate %	Less than 1 year £'000s	1–2 years £'000s	3–5 years £'000s	5+ years £'000s	Total £'000s
2012						
Non-interest bearing		67,649	–	–	–	67,649
Variable interest rate instruments	5.39%	155,374	155,441	471,479	2,779,027	3,561,321
Fixed interest rate instruments	5.53%	23,777	21,877	65,372	434,363	545,389
		246,800	177,318	536,851	3,213,390	4,174,359
2011						
Non-interest bearing		63,626	–	–	–	63,626
Variable interest rate instruments	4.81%	142,148	145,494	522,458	2,761,454	3,571,554
Fixed interest rate instruments	5.53%	22,971	22,993	69,221	495,462	610,647
		228,745	168,487	591,679	3,256,916	4,245,827

The cash flows set out above in respect of variable rate instruments are presented gross of the effect of the associated interest rate swap referred to in note 24.

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Assets	Weighted average effective interest rate %	Less than 1 year £'000s	1–2 years £'000s	3–5 years £'000s	5+ years £'000s	Total £'000s
2012						
Cash and cash equivalents		426,589	–	–	–	426,589
Non-interest bearing		39,376	–	–	–	39,376
Fixed interest rate instruments	6.86%	221,825	229,122	717,002	4,372,882	5,540,831
		687,790	229,122	717,002	4,372,882	6,006,796
2011						
Cash and cash equivalents		419,609	–	–	–	419,609
Non-interest bearing		44,405	–	–	–	44,405
Fixed interest rate instruments	7.17%	197,807	190,280	604,805	4,271,159	5,264,051
		661,821	190,280	604,805	4,271,159	5,728,065

The Group expects to meet its other obligations from existing cash balances, operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

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30. Financial instruments continued

	Less than 1 month £'000s	1–3 months £'000s	3 months to 1 year £'000s	1–5 years £'000s	5+ years £'000s	Total £'000s
31 December 2012						
Interest rate swaps						
Net payments	4,373	10,855	25,178	159,983	363,318	563,707
Currency swaps						
Gross payments	–	–	764	–	–	764
	4,373	10,855	25,942	159,983	363,318	564,471
31 December 2011						
Interest rate swaps						
Net payments	3,644	7,525	19,902	119,708	301,100	451,879
Currency swaps						
Gross payments	–	–	4,016	1,595	–	5,611
	3,644	7,525	23,918	121,303	301,100	457,490

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include equity shares.
- The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current market data.

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount		Fair value	
	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s
Financial assets				
Loans and receivables	2,627,349	2,269,783	2,581,104	2,705,502
Financial liabilities				
Bank loans at fixed interest rates	308,940	310,879	419,716	406,986

Assumptions used in determining fair value of financial assets and liabilities

The fair value of the Group's loans and receivables has been determined using discounted cash flow methodology. In determining the discount rate, consideration is given to a number of market factors including, but not limited to, the prevailing risk free rate, an appropriate project specific risk premium and recent transactions that have similar characteristics.

At 31 December 2012 for project debt (which is non recourse to the Group) covenants are usually in respect of historic and future annual debt service cover ratios in the range of 1.08 times and 2.49 times respectively.

The fair value of the fixed rate bank loans has been calculated using discounted cash flow methodology. The discount rate used reflects changes in the LIBOR rates and lending margins.

At 31 December 2012, the weighted average range of discount rates applied was 2.6% to 6.9% (2011 – 1.8% to 6.1%).

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

30. Financial instruments continued

	2012			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Available for sale financial assets	–	–	30,197	30,197
Total	–	–	30,197	30,197
Derivative financial liabilities	–	356,550	–	356,550
Total	–	356,550	–	356,550

	2011			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Available for sale financial assets	–	–	25,936	25,936
Total	–	–	25,936	25,936
Derivative financial liabilities	–	279,428	–	279,428
Total	–	279,428	–	279,428

Reconciliation of Level 3 fair value measurements of financial assets:

	Available for sale Unlisted equities 2012 £'000s	Available for sale Unlisted equities 2011 £'000s
Balance at 1 January	25,936	17,667
Total gains or losses:		
– in income statement	36	(1,308)
– in other comprehensive income	4,734	–
Investments/(transfer to subsidiary undertaking)	(509)	9,577
Balance at 31 December	30,197	25,936

The table above only includes financial assets. There were no financial liabilities subsequently measured at fair value on Level 3 fair value measurement bases.

All gains and losses included in other comprehensive income relate to unlisted equities held at the balance sheet date.

Significant assumptions used in determining fair value of financial assets and liabilities**Unlisted shares**

The financial statements include holdings in unlisted shares which are measured at fair value (note 20). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value a risk adjusted weighted average discount factor of 9.99% (2011 – 10.56%) is used. If these inputs to the valuation model were 0.5% higher/lower while all the other variables were held constant, the carrying amount of the shares would decrease/increase by £0.7 million (2011 – decrease/increase by £1.0 million).

31. Share capital

	31 December 2012 shares '000s	31 December 2011 shares '000s
On issue 1 January	534,234	479,040
Issued for cash	172,043	48,428
Issued as a scrip dividend alternative	5,305	6,766
On issue at 31 December – fully paid	711,582	534,234

At present, the Company has one class of Ordinary Shares which carry no right to fixed income.

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31. Share capital continued

For the year ended 31 December 2012

In June 2012, 2,149,168 new Ordinary Shares of 0.01p each fully paid were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the six months ended 31 December 2011.

Also in June 2012, the Group raised an additional £200 million of equity through its Placing and Offer for Subscription of 172,043,011 Ordinary Shares at an issue price per share of 116.25p (ex dividend).

In October 2012, 3,155,528 new Ordinary Shares of 0.01p each fully paid were issued as a scrip dividend alternative in lieu of cash for the interim dividend in respect of the six months ended 30 June 2012.

The total number of Ordinary Shares in issue at 31 December 2012 was 711,581,898.

Share capital

	31 December 2012 £'000s	31 December 2011 £'000s
Opening balance	259,763	198,259
Issue of Ordinary Equity Shares	206,367	61,971
Expenses on issue of Ordinary Shares	(3,076)	(467)
Balance at 31 December	463,054	259,763

32. Revaluation reserve

	31 December 2012 £'000s	31 December 2011 £'000s
Opening balance	361	—
Revaluation of available for sale assets	4,734	361
Closing balance	5,095	361

33. Hedging and translation reserve

	31 December 2012 £'000s	31 December 2011 £'000s
Opening balance	(158,335)	(48,443)
Net movements in foreign currency reserve and cash flow hedged derivative financial instruments	(29,542)	(109,892)
Closing balance	(187,877)	(158,335)

34. Other distributable reserve

	31 December 2012 £'000s	31 December 2011 £'000s
Opening balance	219,360	247,235
Dividends paid	(36,879)	(27,875)
Balance at 31 December	182,481	219,360

On 19 January 2007, the Company applied to the Royal Court of Guernsey, following the initial placing of shares, to reduce its share premium account in order to provide a distributable reserve to repurchase its shares if and when it is considered beneficial to do so by the Directors. Following court approval, the distributable reserve account was created.

35. Retained earnings

	31 December 2012 £'000s	31 December 2011 £'000s
Opening balance	33,360	16,822
Net profit for the year	29,309	16,538
Closing balance	62,669	33,360

36. Acquisition of subsidiaries**Acquisitions in 2012**

On 26 September 2012, the Group acquired 100% of the share capital (including investor loans) of BSF Newco Limited (previously Carillion Private Finance Education Limited) for cash consideration of £14.26 million, including the cost of acquisition of £0.12 million.

BSF Newco Limited is the holding entity for 100% of the A class shares of four PFI projects. Prior to this acquisition, the Group already held interests ranging from 9% to 14% of the share capital in the underlying PFI projects. This transaction has been accounted for by the purchase method of accounting.

The acquiree's identified assets and liabilities that meet the conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date.

All amounts shown below are at fair value.

At 26 September 2012

	£'000s
Cash consideration for equity interest	2,130
Cash consideration for subordinated debt	12,131
Total consideration	14,261
Fair value of the Group's equity interest before the business combination	583
	14,844
	£'000s
Financial asset loans and receivables	193,500
Trade and receivables	6,740
Cash and cash equivalents	13,522
Intangible assets	18,930
Trade and other payables	(6,545)
Bank loans and derivative financial instruments	(221,092)
Deferred tax liability	(2,138)
Total identifiable net assets	2,917
Fair value of subordinated debt acquired	12,131
Non-controlling interest	(422)
	14,626
Loss recognised in the Consolidated Income Statement	218
	14,844

The acquired group contributed £2.07 million in revenue and loss before tax of £0.24 million for the period between the date of acquisition and 31 December 2012. Loss on acquisition in stages recognised during the year is included within Other net losses in the Consolidated Income Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. Acquisition of subsidiaries continued

Acquisitions in 2011

- On 31 March 2011, the Group acquired 80.1% of the issued share capital of Inspire Partnership Holdings Limited for cash consideration of £2.1 million, including the cost of acquisition of £0.2 million. As a result of this acquisition the Group acquired total assets of £17.7 million and total liabilities of £15.8 million.
- On 6 May 2011, the Group acquired an additional 50% of the issued share capital of PPP Solutions (Long Bay) Nominee Pty Ltd and 50% of the partnership capital and existing partnership loans of PPP Solutions (Long Bay) Partnership for cash consideration of £6.7 million, including the cost of acquisition of £0.04 million (fair value of Group's equity interest before acquisition of £8.5 million). As a result of this acquisition the Group acquired total assets of £31.2 million and total liabilities of £15.8 million.
- On 6 May 2011, the Group acquired an additional 50% of the issued share capital and existing shareholder loan notes of PPPS Showgrounds Pty Ltd for cash consideration of £3.3 million, including the cost of acquisition of £0.2 million (fair value of Group's equity interest before acquisition of £3.8 million). As a result of this acquisition the Group acquired total assets of £73.3 million and total liabilities of £65.9 million.
- On 12 August 2011, the Group acquired 100% of the partnership interests (including investor loans) in Building Schools for the Future LLP from the Department for Education and Partnerships UK for cash consideration of £58.4 million, including the cost of acquisition of £1.3 million. As a result of this acquisition the Group acquired total assets of £59.3 million and total liabilities of £0.9 million.

37. Notes to the cash flow statement

	31 December 2012 £'000s	31 December 2011 £'000s
Profit for the year after taxation	27,613	16,030
Adjusted for:		
Investment revenue recognised in income statement	(18,402)	(32,350)
Share of profits of joint ventures	(291)	–
Share of losses of associates	1,290	405
Interest on bank loans (finance costs)	144,617	146,342
Depreciation of plant, property and equipment	652	350
Amortisation of intangible assets	14,386	9,579
Income tax credit recognised in income statement	(825)	(2,860)
Other gains	(3,523)	(5,614)
Impairment of financial assets	90	6,286
Operating cash flows before movements in working capital	165,607	138,168
Decrease/(increase) in receivables	3,934	(47,046)
Increase in payables	(1,099)	(29,185)
Cash generated by operations	168,442	61,937
Income tax paid	(2,252)	(3,650)
Interest paid	(136,894)	(131,022)
Net cash outflow from operating activities	29,296	(72,735)

Cash and cash equivalents held by the Group are short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

38. Contingent liabilities

The Group has commitment to provide ongoing working capital facilities to certain underlying BSFI investment entities. The total undrawn amount of these facilities as at 31 December 2012 was £0.9 million (2011 – £0.9 million).

The Directors have not identified any contingent liabilities at the date of this Report.

39. Events after the balance sheet date

On 15 January 2013, the Company raised an additional £40 million of equity through an existing Tap facility of 32,258,065 new Ordinary Shares. The shares were issued at a price of 124.0p per share bringing the total number of shares on issue at the date of this Report being 743,839,963.

On 24 January 2013, the Company announced the construction completion of the Liverpool Central Library and Archive which is expected to be open to the public in May 2013.

40. Disclosure – service concession arrangements

The Group operates 33 Consolidated service concession arrangements in the Accommodation, Custodial, Energy and Transport sectors. The concessions vary on the nature of the asset but typically require the construction and operation of an asset during the concession period. The concession may require the acquisition or replacement of an existing asset or the construction of a new asset. The operation of the accommodation based assets normally includes the provision of facilities management services such as cleaning, catering, caretaking, security, maintenance, and lifecycle. At the end of the concession period on the majority of the concessions the assets are returned back to the concession provider. However on seven of the projects the Group has a right to retain the asset.

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

The table overleaf sets out the Group's economic interests in PFI concessions that are consolidated within the financial statements. All economic interests reflect an investment in the capital of the underlying project.

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Project	Short description of concession arrangements
Abingdon Police Station	Design, construct, finance and provision of facilities management to a police facility including HQ, station and training base for Thames Valley Police Authority.
Access Justice Durham	Design, construction, financing and provision of services for a new courthouse facility in Durham, Ontario, Canada.
Alberta Schools	Design, construction, financing and provision of services for 18 new schools throughout Edmonton and Calgary, Canada.
Amiens Hospital Project	Design, construct, finance and operate an instrument sterilisation facility at Amiens, France.
Bootle Government Offices	Design, construct, finance and provision of facilities management to fully serviced accommodation in Bootle for the occupation of HM Revenue & Customs.
Calderdale Schools	Design, construct, finance and provision of facilities management to five schools in Calderdale.
Derbyshire Magistrates Courts	Design, construction, financing and provision of facilities management services to two courthouses in Derbyshire.
Derbyshire Schools Phase 1	Design, build, finance and provision of facilities management services to two secondary schools in Derbyshire.
Derbyshire Schools Phase 2	Design, build, finance and provision of facilities management services to two secondary schools in Derbyshire.
Diabolo Project	Design, construction, financing and subsequent operation of a rail link in Belgium.
Dublin Criminal Courts	Design, construction, financing and subsequent operation of a courthouse Dublin, Ireland.
Hereford & Worcester Magistrates Courts	Design, construction, financing and subsequent operation of four courthouses in Hereford & Worcester.
Inspiredspaces Durham BSF	Design, redevelop, financing and subsequent operation services of schools in Durham county, UK.
Inspiredspaces Nottingham BSF	Design, redevelop, financing and subsequent operation services of schools in Nottingham, UK.
Inspiredspaces STaG BSF	Design, redevelop, financing and subsequent operation services of schools in South Tyneside & Gateshead County, UK.
Inspiredspaces Wolverhampton BSF	Design, redevelop, financing and subsequent operation services of schools in Wolverhampton, UK.
Liverpool Central Library & Archive Project	Design, build, finance and provision of facilities management services for the Central Library and Archive facility in Liverpool, England.
Long Bay Prison & Forensic Hospital	Design, construction, financing and subsequent operation of prison and forensic hospital in Sydney, Australia.

Start date	End date	No of years	Construction value	Key contractual details
25 March 2000	9 March 2030	30 years	£6.9m	Development value of approximately £8m. Retains an insignificant residual value in buildings/land
2 March 2007	30 November 2039	30 years	£98.0m	Concession payment basis is both availability and service performance-based
15 September 2008	30 September 2040	32 years	CAD490m	An associated company of one member of the construction JV is a 25% equity holder in this project
1 January 2008	31 July 2026	19 years	£7.1m	Concession payment basis is both availability and service performance-based
17 July 2000	16 July 2025	25 years	£4.1m	Public Sector Client has an option to break in 2015. Retains an insignificant residual value in buildings/land
31 August 2004	17 March 2030	26 years	£44.6m	Start date applies to first operational school – Savile Park Primary
4 June 2003	2 September 2028	25 years	£21.3m	Authority has option to extend Concession date by 5 years
28 March 2003	28 March 2029	26 years	£25.3m	Concession payment basis is both availability and service performance based
13 February 2006	12 February 2032	26 years	£28.3m	Concession payment basis is both availability and service performance based
2 October 2007	30 June 2047	40 years	€285m	Concession has both availability and an element of demand based revenue
18 April 2007	30 June 2035	25 years	£105.0m	Concession payment basis is both availability and service performance based
3 March 2003	5 March 2025	22 years	£23.5m	Concession payment basis is both availability and service performance based
14 August 2009	3 January 2036	27 years	£42.1m	Concession payment basis is both availability and service performance based
13 June 2008	31 August 2034	26 years	£35.3m	Concession payment basis is both availability and service performance based
21 December 2009	4 September 2036	27 years	£21.4m	Concession payment basis is both availability and service performance based
30 April 2010	4 September 2037	27 years	£43.5m	Concession payment basis is both availability and service performance based
19 July 2010	7 November 2037	27 years	£40.8m	Concession payment basis is both availability and service performance based
1 August 2006	31 May 2034	28 years	AUD147m	Concession payment basis is both availability and service performance based

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Project	Short description of concession arrangements
Maesteg Schools Project	Design, build, finance and provision of facilities management services for new build schools in Maesteg, Wales.
Melbourne Showgrounds	Design, construction, financing and subsequent operation of the redevelopment of Melbourne showgrounds in Australia.
Northamptonshire Schools	Design, construct (being a mixture of new build and refurbishment), finance and provision of facilities management services in respect of 30 existing schools and 11 new build schools in Northamptonshire.
North Wales Police HQ	Design, construction, financing and subsequent supply of facilities management services to the North Wales Police HQ.
Norfolk Police HQ	Design, construct, finance and subsequent provision of facilities management services of serviced accommodation for a new HQ and ancillary facilities to the Norfolk Police Authority.
Orange Hospital	Design, build, finance and provision of facilities management services to the Orange Hospital.
Pforzheim Schools	Build, finance and provision of facilities management services in respect to two new secondary schools buildings and outside facilities in the City of Pforzheim.
Royal Children's Hospital	Design, build, finance and provision of facilities management services to the Royal Children's Hospital.
Strathclyde Police Training Centre	Design, build, finance and provision of facilities management services to the Strathclyde Police Training Centre.
St Thomas More School	Design, construction, financing and provision of facilities management services to St Thomas More School.
TC Barrow OFTO	Finance, operate and maintain onshore/offshore substations, onshore and under-sea cables connecting the mainland electricity grid network to offshore wind-farms.
TC Gunfleet Sands OFTO	Finance, operate and maintain onshore/offshore substations, onshore and under-sea cables connecting the mainland electricity grid network to offshore wind-farms.
TC Ormonde OFTO	Finance, operate and maintain onshore/offshore substations, onshore and under-sea cables connecting the mainland electricity grid network to offshore wind-farms.
TC Robin Rigg OFTO	Finance, operate and maintain onshore substations, onshore and under-sea cables connecting the mainland electricity grid network to offshore wind-farms.
Tower Hamlets Schools	Design, construction (mix of new build and refurbishment) and provision of facilities management services in respect of 27 schools in Tower Hamlets.

Start date	End date	No of years	Construction value	Key contractual details	
29 July 2008	30 September 2033	25 years	£17.6m	Concession payment basis is both availability and service performance based	
1 July 2005	1 August 2031	26 years	AUD 103m	Concession payment basis is both availability and service performance based	
31 December 2005	31 December 2037	32 years	£191.3m	Payments increase as schools are completed	
1 March 2004	8 December 2028	24 years	£13.2m	Concession payment basis is both availability and service performance based	
17 December 2001 (operational services), 15 January 2002 (full service)	16 December 2036	35 years	£22.5m	Authority has option to extend for a further 15 years and a second option to extend for a further 15 years thereafter. Project retains an insignificant residual value in buildings	
21 December 2007	21 December 2035	28 years	AUD170m	Concession payment basis is both availability and service performance based	
11 September 2009	11 September 2039	30 years	€47.1m	Concession payment basis is both availability and service performance based	
20 December 2007	31 December 2036	29 years	AUD1.4 bn	Concession is a two stage project that includes new building and refurbishment of the existing facility. The payment basis is availability based	
17 October 2001	16 October 2026	25 years	£18.9m	Concession payment basis is both availability and service performance based. Retains an insignificant residual value in buildings/land	
28 March 2003	28 March 2028	25 years	£12.9m	Concession is a two stage project that includes new building and refurbishment of the existing facility. The payment basis is availability based	
27 September 2011	27 March 2030	18.5 years	£33.5m	Concession payment basis is both availability and service performance based. Retains an insignificant residual value in buildings/land	
19 July 2011	19 July 2031	20 years	£49.0m	Concession payment basis is both availability and service performance based	
10 July 2012	9 July 2032	20 years	£103.9m	Concession payment basis is based both on availability and service performance	
2 March 2011	2 March 2031	20 years	£65.0m	Concession payment basis is based both on availability and service performance	
28 June 2002 (contract start date), June 2007 (construction completion)	27 August 2027	25 Years	£74.1m	Under the concession the unitary payment commenced at financial close. There is provision for the sale of surplus land following the completion of the redevelopment	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. Related party transactions

During the period, Group companies entered into certain transactions with related parties who are not members of the Group and who are related parties by reason of being in the same group as Amber Infrastructure Group Holdings Limited, which is the ultimate holding company of the Investment Advisor, Amber Fund Management Limited ('AFML').

Under the Investment Advisory Agreement ('IAA'), AFML was appointed to provide investment advisory services to the Company including advising the Company as to the strategic management of its portfolio of investments.

AFML is a subsidiary company of Amber Infrastructure Group Holdings Limited ('Amber Group'), in which Mr G Frost is a Director and also a substantial shareholder.

As Mr G Frost is also a Director of International Public Partnerships Limited (the 'Company'), International Public Partnerships Lux 1 Sarl, (a wholly owned subsidiary of the Company) and the majority of other companies in which the Company indirectly has an investment; the transactions with the Amber Group are considered related party transactions under IAS 24 'Related Party Disclosures'.

The emoluments for Mr G Frost are paid to his employer, Amber Infrastructure Limited.

The amounts of the transactions in the year that were related party transactions are set out in the table below.

	Amounts paid to related parties in Income Statement		Amounts paid to related parties in Balance Sheet ¹		Amounts owing to related parties in Balance Sheet ²	
	For the year ended 31 December 2012 £'000s	For the year ended 31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s	31 December 2012 £'000s	31 December 2011 £'000s
Amber Fund Management Ltd (a)	1,022	1,447	–	–	–	–
International Public Partnerships GP Limited (b)	9,418 ³	7,545 ³	–	–	5,324	3,976
Amber Asset Management Limited (c)	2,972	1,737	89	48	–	774
Amber Australia Pty Ltd (d)	2,072	1,219	–	1,591	–	311
Amber GmbH (e)	242	257	–	–	–	–
ANALLC (f)	643	555	–	–	17	–
Amber Infrastructure Ltd (g)	177	384	–	7,148	–	–
Total	16,546	13,144	89	8,787	5,341	5,061

¹ Represents amounts paid to related parties to acquire or make investments or advisory fees associated with investments which are subsequently recorded in the balance sheet.

² Represents debtors and creditors outstanding with related parties at each balance sheet date.

³ Represents 100% base priority profit share, no incentive priority profit share due.

- a. AFML, the Investment Advisor, is a related party of the Group. The aggregate fees payable to AFML in its capacity as Investment Advisor includes both base and performance fees, however the amount is reduced by any base or performance fees that have been paid (or are due and payable) to International Public Partnerships GP Limited (see (b)). The amounts paid to AFML for the year ended 31 December 2012 was £1,021,891 (2011 – £1,447,000) and relates to advisory fees.

Material provisions of the Investment Advisory Agreement include that AFML is entitled to a Base Fee in each year at the annual rate of 1.2 per cent per annum of the Gross Asset Value less project specific liabilities of the Investment Portfolio. AFML is also entitled to an Incentive Fee in respect of each Incentive Period equal to 20% of the excess (if any) of the Ordinary Share Return over the Benchmark Return (as defined in the Investment Advisory Agreement) in the Incentive Period, provided that the Incentive Fee shall only be payable if and to the extent that the change in the Ordinary Share Return Index in the relevant Incentive Period is greater than the change in the Benchmark Return Index. The Investment Advisory Agreement may be terminated by either party giving to the other five years' notice of termination, expiring at any time after 15 years from the date of the IAA.

During the year, the Company and the Investment Advisor agreed that from 30 June 2012, the Base Fee payable to the investment Advisor would reduce to 1% per annum in respect of the Gross Asset Value of the Company's operational projects that exceeds £750 million (calculated in accordance with the principles detailed in the Investment Advisor's Report and being those projects that have fully completed their construction stages and have been certified as being fully operational by the relevant counterparty and senior lender).

For Gross Asset Values less than £750 million and for non-operational projects the Base Fee payable to the Investment Advisor remains unchanged at 1.2% per annum. There is no change to the Incentive Fee arrangements with the Investment Advisors.

41. Related party transactions continued

The IAA may also be terminated immediately by either party: (a) if the other party fails to make a payment when due which is not paid within 30 days of being notified of the failure to make a payment; or (b) in the case of the material breach by the other party which remains unremedied for 30 days after such party has been notified of the breach or, if such breach is not capable of remedy, if the breaching party fails to offer compensation in respect of such breach which is reasonably acceptable to the other party. In addition, subject to the Shareholders passing an ordinary resolution directly to the Directors to terminate the IAA, the Company can terminate the IAA by giving one year's written notice to the Investment Advisor in either of the following circumstances: (a) if at any time after the expiry of five years from the date of the IAA, the Benchmark Return Index outperforms the Ordinary Share Index by more than 3 per cent in at least eight out of the immediately preceding 10 quarterly periods unless the reason for the out performance of the Benchmark Return Index was to a material extent caused by the occurrence of an event of force majeure; or (b) if at any time a material (in number of and seniority) of employees in the Amber group's infrastructure and project finance group cease to be employed by any member of the Amber group and are not replaced (before the end of the one year written notice period) by suitably qualified other staff who will enable the services to be provided under the IAA in a manner at least comparable to that in which the services were provided prior to the occurrence of such event.

Material provisions of this agreement include that the Operating Agreement may be terminated by either the Partnership or the Operator giving to the other five years' notice of termination, expiring at any time after 15 years from the date of the Operating Agreement. The Operating Agreement may also be terminated immediately by the Partnership or the Operator: (a) if the other party fails to make a payment when due which is not paid within 30 days of being notified of the failure to make a payment; or (b) in the case of the material breach by the other party which remains unremedied for 30 days after such party has been notified of the breach or, if such breach is not capable of remedy, if the breaching party fails to offer compensation in respect of such breach which is reasonably acceptable to the other party. The Partnership can terminate the Operating Agreement immediately in any of the following circumstances: (a) on the insolvency or analogous event occurring in respect of the Operator; (b) if the Operator is no longer permitted by applicable laws, rules and regulations to provide its services under the Operating Agreement; and (c) if the Investment Advisor is removed or replaced in accordance with the IAA, save that in the case of (a) and (b), the General Partner shall, if so required by Amber Fund Management Limited, novate the Operating Agreement in favour of another member of the Amber Group that is reasonably acceptable to the Limited Partner, who is not insolvent and who can provide the services in accordance with relevant laws and regulations.

- b. International Public Partnerships GP Limited is a related party of the Group. This company was acquired by the Amber Group of companies on 23 June 2009 and as General Partner pursuant to the Deed of Limited Partnership dated 10 October 2006, between the General Partner and the Limited Partner (International Public Partnerships Lux 2 Sarl.) is entitled to a Base Priority Profit Share and an Incentive Priority Profit Share that is calculated in accordance with the IAA. In part settlement of the performance fee that was payable at 31 December 2009, 40% of the value was accepted in shares by the Investment Advisor, being £3.4 million. As a result, Amber Infrastructure Limited (AIL) received 2,991,220 Ordinary Shares of the Company on 5 May 2010 at 114.1 pence per share. This shareholding helps strengthen the alignment of interests between the Company and the Investment Advisor. As at 31 December 2012 AIL still held these shares and received dividends in respect of these.
- c. Amber Asset Management Limited (registered in England and Wales) is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and has various asset management agreements with the underlying PFI concession companies of the Group to provide asset management services.
- d. Amber Australia Pty Limited (registered in NSW, Australia) is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and has various asset management agreements with the underlying PFI concession companies of the Group to provide asset management services in Australia.
- e. Amber GmbH is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and has a services agreement with International Public Partnerships Infrastructure Group & Co KG.
- f. Amber North America LLC ('ANALLC') is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor and asset management agreements in place with the underlying PFI concession companies of the Group to provide asset management services.
- g. Amber Infrastructure Limited is a related party of the Group pursuant to having Amber Infrastructure Group Holdings Limited as its ultimate holding company in common with the Investment Advisor.
- h. During the year dividends of £nil (2011 – £0.2 million) were received from joint ventures and associates and as shown in notes 18 and 19, a further £1.1 million was invested in equity accounted investments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. Related party transactions continued

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with Directors

The following Directors have purchased shares from the Company as part of the capital raising of New Ordinary Shares. These were acquired in June 2012 (2011 – nil shares were purchased).

Director	Number of New Ordinary Shares
Keith Dorrian	7,262
Carol Goodwin	10,000
Rupert Dorey (including spouse)	100,000
Giles Frost	25,000
Total purchased	142,262

Remuneration paid to the Non-Executive Directors is disclosed on page 33.

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