



HSBC Infrastructure Company Ltd

Annual Results for the year to 31 March 2009

Thursday 28 May 2009

www.hicl.hsbc.com

HSBC 



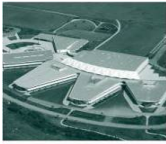
Agenda



Financial summary
Portfolio review & analysis
Financial review
Valuation and sensitivities
Outlook & strategy
Summary



Q&As



Financial highlights

All figures stated on an investment basis

Year to 31 March



Profit before valn. movement	£20.4m
Valuation movements	£(42.4)m
Loss before tax [#]	£(22.0)m



Second interim dividend	3.275p
Total dividend for the year	6.4p



NAV per share (before interim dividend)	110.5p
NAV per share (after interim dividend)	107.2p
Net debt	£57.7m

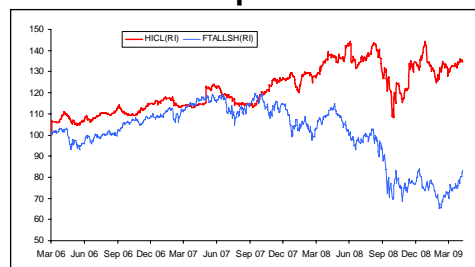
[#] Consolidated loss before tax was £12.4m & consolidated loss attributable to HICL was £14.1m

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Financial performance

- **Progressive distribution growth**
 - '07 - 6.1p ► '08 - 6.25p ► '09 - 6.4p
 - Target 7.0p by March 2013
- **Good cash generation – 1.26x cover**
- **Total expense ratio 1.74%**
- **NAV in line with January IMS guidance**
- **Total Return since launch 9.1% p.a.**



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On an Investment basis

NAV – in line with guidance

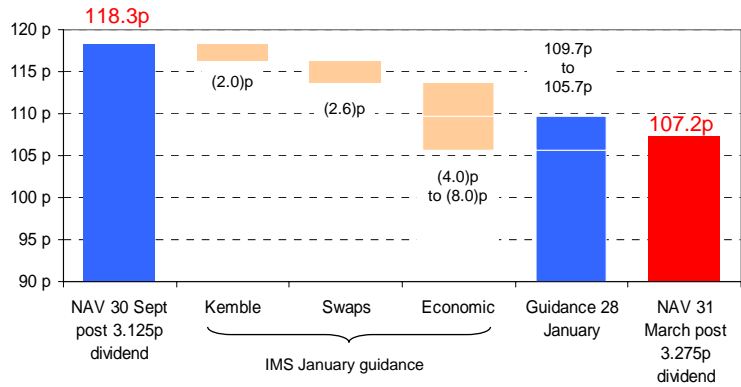
NAV drivers in the period

▶ Mark-to-market

- Kemble junior loan
- Group interest rate swaps

▶ Portfolio

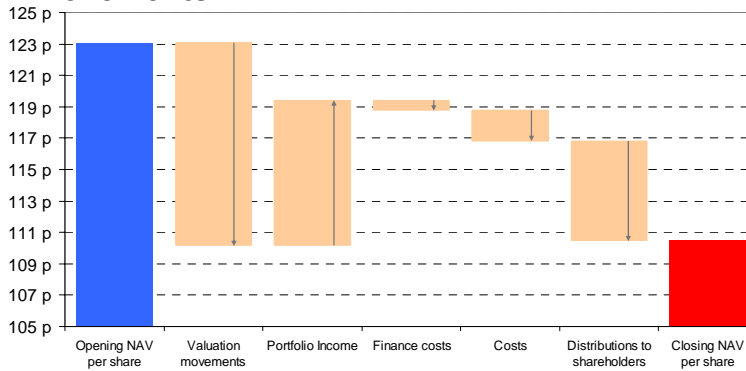
- Inflation
- Discount rates
- Deposit rates



On an Investment basis

NAV movements in the year

- Distributions covered by Portfolio income net of costs
- NAV reduction attributable to valuation movements





Highlights



- **Portfolio**
 - All operational
 - Operational performance in line with business plans
 - Cash receipts from all assets
- **Acquisitions in year**
 - One new asset
 - 5 incremental stakes
- **Equity**
 - C share In May – net £101.8m raised
 - Block listing August – net £4.4m raised (Sept & Feb)
- **Group debt**
 - £200m committed revolving facility
 - Capacity of circa £140m currently available

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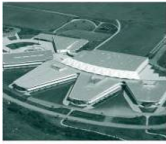
Portfolio overview



- **Portfolio as at 31 March 2009**
 - 28 investments - all EU located
 - All (except Kemble) PFI/PPP availability based income streams with public sector clients
 - All operational and earning income
- **Range of investment stakes in PFI projects from 36%¹ to 100%**
- **All project company debt hedged to interest rate risk**
- **Long term concessions with long term debt – no refinancing required**
 - Concession lengths 24.1 yrs², average debt 22.3 yrs²
- **Diverse spread of soft & hard FM contractors**

1. On the Helicopter Training facility, the Group owns 21.8% of ProjectCo and 87% of AssetCo.
2. Based on weighted average, weighted by valuation as at 31 March 2009

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New Investments

- **July 2008**
 - 3 incremental stakes in 3 existing projects - £8.3m
 - Home Office ,Central Middlesex Hospital, West Middlesex Hospital
 - Now own 100% of these projects
- **August 2008**
 - 50% of Oxford John Radcliffe PFI hospital acquired for £18.0m
- **December 2008**
 - Incremental 30% stake in Barnet Hospital from Siemens for £2.7m
- **February 2009**
 - Incremental 19% stake in Barnet Hospital from Bouygues for £1.7m
- **Colchester Garrison final equity subscription - £20.5m**
- **Total of £51.2m invested (£30.7m acquisitions)**

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Diversified portfolio

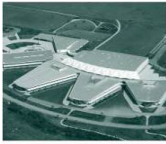
Accommodation	Education	Health	Law & Order
Home Office	Health & Safety Labs	Bishop Auckland	Sussex Custodial
Colchester Garrison	Conwy Schools	West Middlesex	Exeter Crown Court
Health & Safety HQ	Helicopter Training	Central Middlesex	GMPA Police Stations
	Defence 6 th Form College	Blackburn	MPA SEL Police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

Key:

- Portfolio at 31 March 2008
- Additional stakes
- Acquired in August 08

As at 28 May 2009

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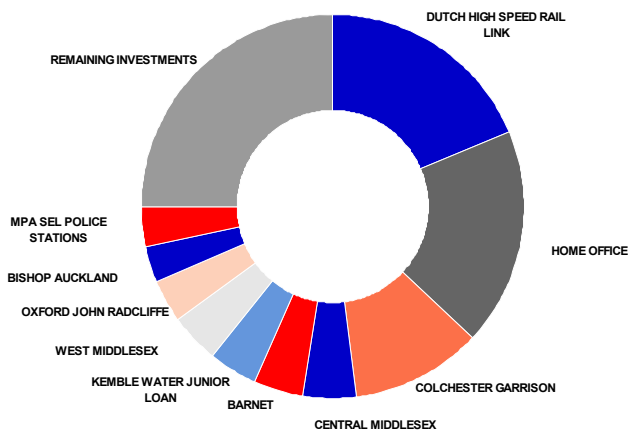
Diversified portfolio - holdings

PROJECT	Group Holdings		
	Equity	Subdebt	Mezzanine debt
Ten largest investments			
Barnet Hospital	100.0%	100.0%	100.0%
Bishop Auckland Hospital	36.0%	37.0%	100.0%
Central Middlesex Hospital	100.0%	100.0%	
Colchester Garrison	42.0%	42.0%	
Dutch High Speed Rail Link	37.5%	37.5%	
Home Office	100.0%	100.0%	
Kemble Water Junior Loan	—	—	3.6%
MPA SEL Police Stations	50.0%	50.0%	
Oxford John Radcliffe PFI Hospital	50.0%	50.0%	
West Middlesex Hospital	100.0%	100.0%	
Remaining investments			
Blackburn Hospital	50.0%	50.0%	
Conwy Schools	90.0%	90.0%	
Darlington Schools	50.0%	50.0%	
Defence Sixth Form College	45.0%	45.0%	
Durham and Cleveland Firearms Training Centre	50.0%	50.0%	
Ealing Schools	50.0%	50.0%	
Exeter Crown Courts	90.0%	90.0%	
GMPA Police Stations	50.0%	50.0%	
Haverstock Schools	50.0%	50.0%	
Health & Safety Laboratory	80.0%	90.0%	
Helicopter Training Facility	86.6%	11.9%	
Health & Safety HQ	21.8%	21.8%	
MPA Specialist Training Centre	50.0%	50.0%	
North Tyneside Schools	50.0%	50.0%	
Pinnacle Schools, Fife	40.0%	40.0%	100.0%
Stoke Mandeville Hospital	90.0%	90.0%	
Sussex Custodial Centre	82.4%	82.4%	
Wooldale Centre	50.0%	50.0%	

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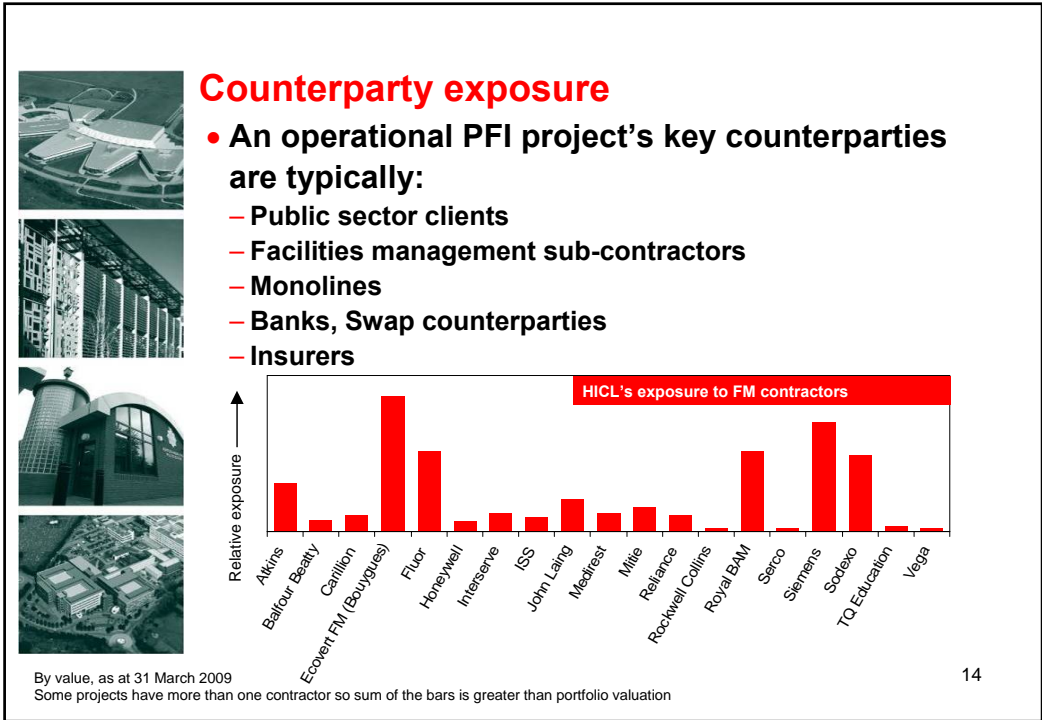
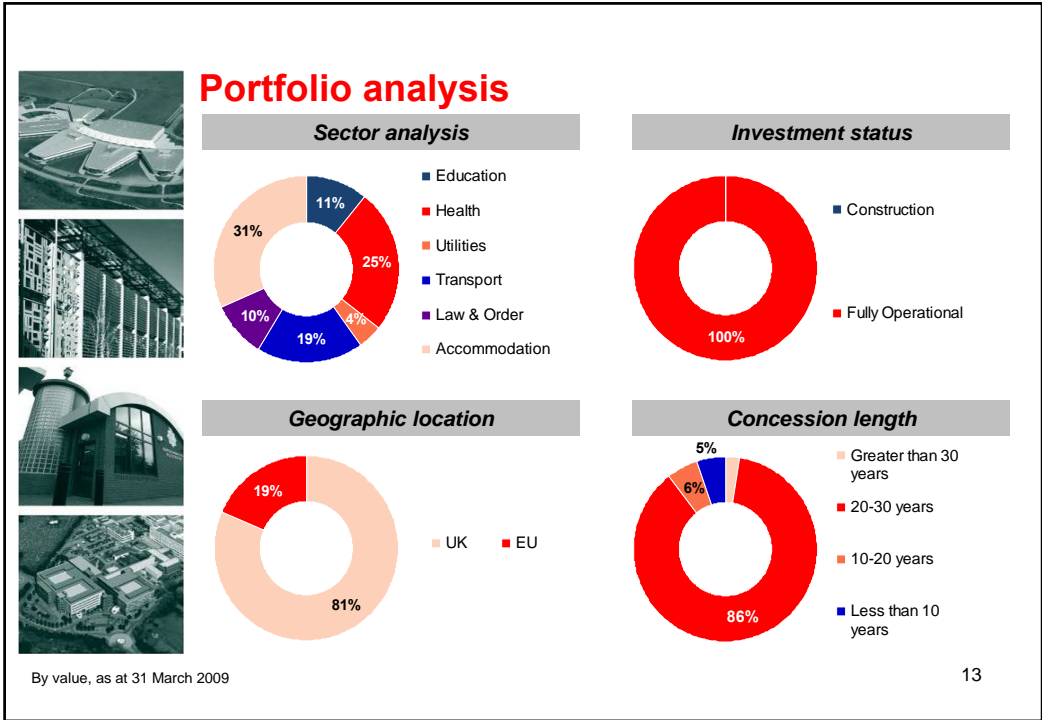


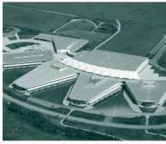
Diversified portfolio – by valuation



By value, as at 31 March 2009

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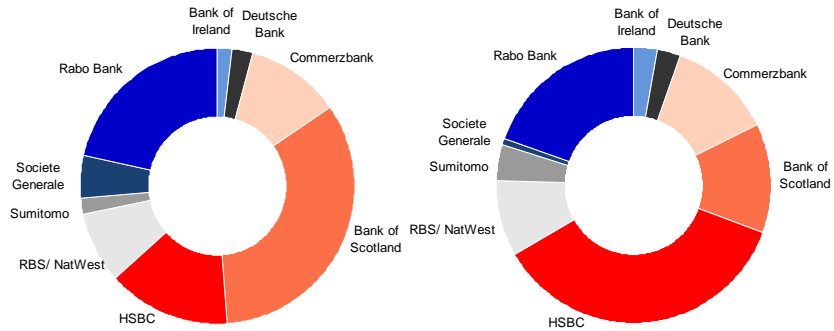


PFI projects - cash deposit banks



Exposure to banks by deposit value

Exposure to banks by project value



PFI/PPP projects only. Based on analysis by the Investment Adviser at 31 March 2009. The Deposit Value chart looks at all deposits made by projects (regardless of the Group's percentage holding) at 31 March 2009. The Project Value chart considers this exposure related to the Directors' Valuation of the portfolio as at 31 March 2009.



Asset management



- All projects now operational
- Active management
- Main areas of management
 - Service delivery
 - Client liaison
 - Counter party & supply chain performance
 - Operational efficiencies
 - Variations
- Colchester – land sale receipt
- Dutch HSRL – pre train operation system/line retesting
- Evaluation/plan re world wide debt cap



Summary income statement

£m	Year to 31 March 2009			Year to 31 March 2008		
	Investment basis	Consolidation adjustments	IFRS Basis	Investment basis	Consolidation adjustments	IFRS Basis
Total revenue income	29.5	88.6	118.1	25.5	28.1	53.6
Expenses & Finance Costs	(9.1)	(91.0)	(100.1)	(10.4)	(27.3)	(37.7)
Profit/(loss) before valuation movement	20.4	(2.4)	18.0	15.1	0.8	15.9
Fair value movements	(42.4)	12.0	(30.4)	4.5	(11.2)	(6.7)
Tax and minority interests	-	(1.7)	(1.7)	-	(2.4)	(2.4)
(Loss)/Earnings	(22.0)	7.9	(14.1)	19.6	(12.8)	6.8
(Loss)/Earnings per share	(6.8)p		(4.3)p	7.8p		2.7p

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Expenses & Finance Costs

£m	Year to 31 March 2009	Year to 31 March 2008
	Investment basis	Investment basis
Interest income	0.4	1.0
Interest expense	(2.7)	(5.0)
Investment Adviser	(5.3)	(5.1)
Auditor - KPMG - for the Group	(0.2)	(0.1)
Directors	(0.1)	(0.1)
Other expenses	(1.2)	(1.1)
Expenses & Finance Costs	(9.1)	(10.4)

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Summary balance sheet



£m	As at 31 March 2009			As at 31 March 2008		
	Investment basis	Consolidation adjustments	IFRS Basis	Investment basis	Consolidation adjustments	IFRS Basis
Investments at Fair Value	445.7	(165.6)	280.1	417.4	(32.7)	384.7
Other non-current assets	-	850.8	850.8	-	206.4	206.4
Working capital	(3.5)	(4.1)	(7.6)	(2.6)	(9.4)	(12.0)
Net cash/(borrowings)	(57.7)	(505.2)	(562.9)	(105.6)	(143.2)	(248.8)
Other non-current liabilities	(10.8)	(169.4)	(180.2)	(1.4)	(23.1)	(24.5)
Minority interests	-	(4.1)	(4.1)	-	(3.6)	(3.6)
Net Assets	373.7	2.4	376.1	307.8	(5.6)	302.2
NAV per share (before dividend)	110.5p		111.1p	123.1p		120.9p

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Summary Cash Flow for the year



£m	Year to 31 March 2009	Year to 31 March 2008
Net borrowings at start of year	(105.6)	(16.4)
Cash from investments	31.5	24.0
Operating costs outflow	(5.0)	(5.9)
Interest (paid) / received	(3.1)	(2.0)
Net cash inflow before acq/financing	23.4	16.1
Cost of new investments	(51.9)	(82.0)
Forex movements on borrowings/hedging	(11.6)	(7.6)
Share capital raised net of costs	106.2	-
Distributions paid	(18.2)	(15.7)
Net borrowings	(57.7)	(105.6)

Forex movement includes both cash settlement and revaluation of euro borrowings at year end.

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Valuation methodology

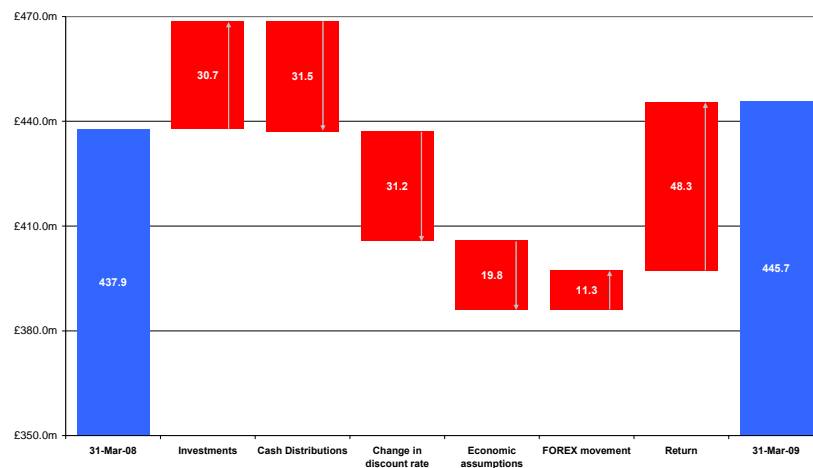
- Consistent approach
- Non traded - DCF methodology
- Traded - Kemble – market quotation
- Investment cash flows
- Discount rate comprising risk free rate plus investment specific premium
 - For risk free, average of 20 and 30 year gilts (matching concession lengths)
- Semi annual valuation & NAV:
 - Carried out by Investment Adviser
 - Approved by Directors
 - Independent third party opinion for Directors

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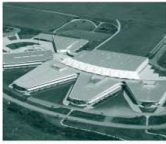
Analysis of change in Directors' valuation

Valuation movements



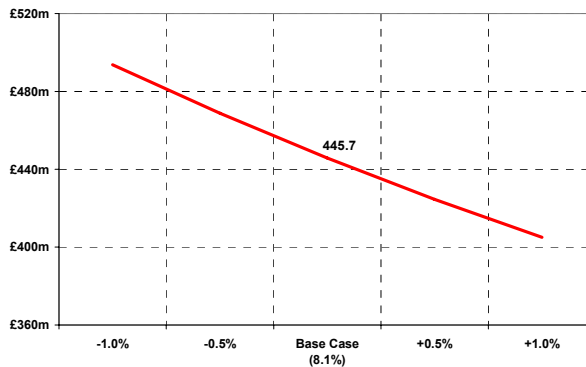
To reconcile to the IFRS investments at fair value as at 31 March 2009, the elimination of subsidiaries of £165.6m must be deducted
 The valuation of £437.9m at 31 March includes £20.5m of undrawn loanstock commitments

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Discount rates

- Range from 7.8% to 22.4% (7.8% to 8.6% ex Kemble)
- Weighted average rate of 8.3% (8.1% ex Kemble)



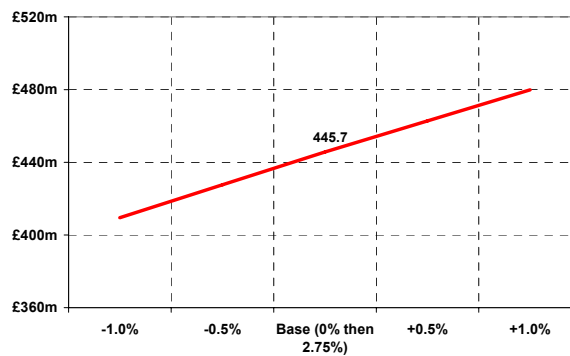
Analysis based on the 27 PFI/PPP investments

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Positive inflation correlation

- Assumption: 0.0% pa to March 2011, 2.75% thereafter (2008 : 2.75% pa)
- UK PFI/PPP projects' income¹ linked to RPI or RPIX²



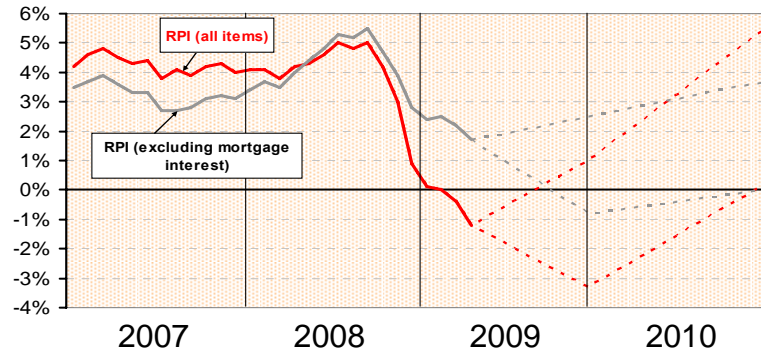
1. Some project income fully indexed, whilst others partially indexed
 2. Retail Price Index and Retail Price Index excluding Mortgage Interest Payments
 Analysis based on 10 largest PFI/PPP investments

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UK RPI – actual & forecast

- Rapid decline in last 6 months
- Wide range of forecasts
- Valuation assumptions – simple proxy of possible outcomes



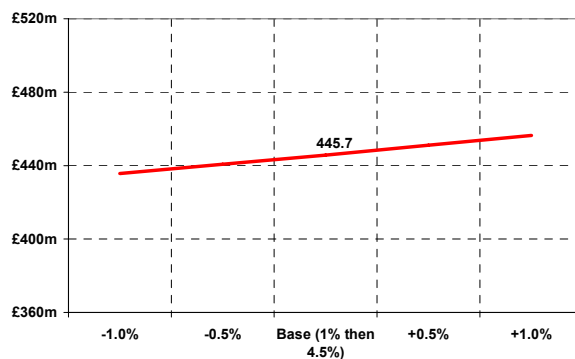
Source – Office for National Statistics, HM Treasury a comparison of independent forecasts April 2009

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Deposit rate sensitivity

- Assumption: 1.0% pa to March 2011, 4.5% thereafter (2008 : 5.0% pa)
- PFI/PPP projects have cash deposits.



Analysis based on 10 largest PFI/PPP investments
Changing all future periods assumption from the base assumption - all other assumptions unchanged.

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NAV reconciliation



for the year to 31 March 2009

Opening NAV (post 3.2p final dividend)

Funds raised (net of expenses)

Revenue return

Capital return

Interim dividend

NAV at 31 March 2009

Second Interim dividend declared

NAV at 31 March (post dividend)

NAV (£m)

NAV per share
(pence)

	Investment basis	Investment basis
Opening NAV (post 3.2p final dividend)	299.8	119.9
Funds raised (net of expenses)	106.5	0.5 ¹
Revenue return	20.4	6.3
Capital return	(42.4)	(13.1)
Interim dividend	(10.5)	(3.1)
NAV at 31 March 2009	373.7	110.5
Second Interim dividend declared	(11.1)	(3.3)
NAV at 31 March (post dividend)	362.6	107.2

1. 0.5p accretion due to issue of shares at a premium and use of 325.1m average shares in issue

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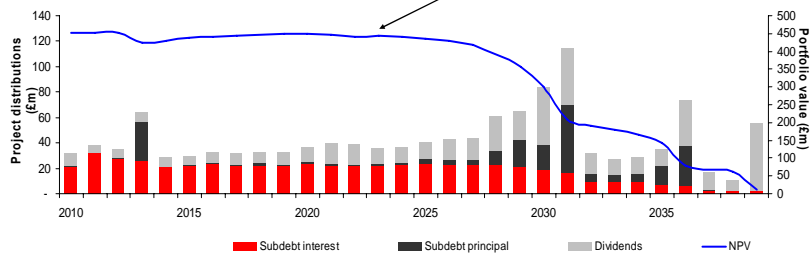


Future cashflows

• Illustration of expected future cashflows¹



Portfolio valuation² of the portfolio at any time is a function of the present value of the expected future cash flows³



- The illustration represents a target only and is not a profit forecast. There can be no assurance that this target will be met.
 - Portfolio valuation assumes a Euro to Sterling exchange rate of 0.93 and a weighted average discount rate of 8.3 per cent. per annum. These assumptions and the valuation of the current portfolio may vary over time.
 - The valuation is of the current portfolio for 28 investments and does not include other assets or liabilities of the Group, and assumes that during the period illustrated above (i) no new investments are purchased, (ii) no existing investments are sold, and (iii) the Group suffers no material liability to withholding taxes, or taxation on income or gains.
- The spike in 2013 is the expected repayment of principal on the Kemble Water Junior Loan.

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Infrastructure challenges

- **Economic climate has:**
 - separated out performance of different infrastructure assets types,
 - impacted on valuations, and
 - exposed over-reliance on short term debt
- **PFII/PPP/P3 has proved more resilient**
 - Primary pipelines affected – deal closing slower
 - Primary returns – higher debt costs and hence equity returns.
 - No refinancings required
 - Valuations
 - Increases in discount rates
 - Deflation and low deposit rates

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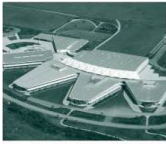


Market – Group focus

- **PPP/PFI/P3**
 - Countries still developing their pipelines at different rates:
 - UK, Canada, Australia, Ireland, France, Germany, Eastern Europe
 - More opportunities for equity investment in construction phase
- **Operational renewable energy**
 - More opportunities with contractual revenues
 - Wind farms, solar parks, hydro schemes in EU
 - Risk / return pricing looking more attractive
- **Regulated utilities**
- **Infrastructure debt**
- **Core ‘economic’ infrastructure**
 - eg toll roads, bridges, airports
 - Debt for leveraged acquisitions limited, some project debt available
 - Valuations now lower and more prudent
 - Number of disposals by ‘distressed vendors’
- **Non-core infrastructure**
 - eg ferries, motorway service stations, care homes
 - Revenue forecasting more difficult
 - Achieving business plans more challenging
 - Possible covenant breaches



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Investment strategy



- **Historically:**
 - Mainly UK PFI
- **Now:**
 - PFI/PPP/P3 opportunities - UK, EU, N. America & Australia
 - Assets in construction
- **Appetite for:**
 - Infrastructure investments with similar risks/return characteristics to PFI/PPP
 - Operational wind farms, solar parks, hydro schemes
 - Regulated utilities
 - Selectively, infrastructure debt
- **Possibly, in due course:**
 - Demand-type infrastructure, where income proven
 - Only when valuations stabilise, robust financing, revenue forecasts reliable
- **Consistent with investment strategy in April 2008 C Share Prospectus**

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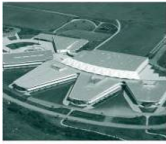
HICL plans for 2009/2010



- **Acquire attractively priced investments**
 - PFI/PPP/P3 assets in construction and fully operational
 - Focused geographical diversification as opportunities arise
 - Selective asset diversification
- **Continue to add value through active management**
- **Consider further equity raising when appropriate**
- **Grow distributions to 7p target¹ by 2013**
- **Grow NAV through suitable acquisitions**

1. The 7p distribution target is consistent with statements made at time of launch and in April 2008 C Share Prospectus. This is a target only and not a profit forecast. There can be no assurance that this target will be met or that the Company will make any distributions whatsoever.

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Summary



- Good portfolio operational performance
- Solid cash generation
- PFI/PPP asset values impacted by economic forecasts & discount rates
- Pipeline of new investment opportunities

- Second interim dividend of 3.275p
- Total of 6.4p for the year
- Yield of 5.7%¹
- Scrip dividend alternative

1. Based on 31 March 2009 closing share price

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Annual results



Home Office
Headquarters



Colchester
Garrison



Dutch High Speed
Rail Link



Exeter
Courts



S E London
Police Stations



Sussex
Custodial



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Appendix

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Overview

Company

Guernsey registered Investment Company, launched March 2006

Management

Board of 4 independent directors
Investment Adviser – HSFML, part of HSBC Holdings plc

Current Portfolio

28 investments (27 PFI/PPP), all operational
Directors' Valuation **£445.7m** March 2009

Yield to date

First year (to Mar 07)	6.10p
Second year (to Mar 08)	6.25p
Third year (to Mar 09)	6.40p

Yield growth

Target 7.0p per share distribution by March 2013 ¹

PFI/PPP concessions

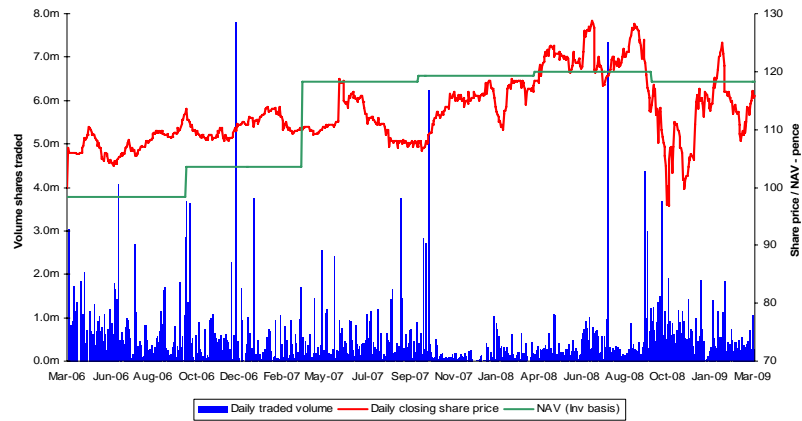
Long term concessions, partially inflation linked, with public sector or government backed revenue streams

¹ Investors should note that no assurance or guarantee can be given that this will be achieved

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Share price history



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Governance

- Board of Directors (4 non-executive Directors)
 - Adherence to strategy
 - Raising cash proceeds (equity or debt)
- Investment Adviser / Operator (HSFML)
 - Day-to day management of portfolio
 - Utilisation of cash proceeds
 - Full discretion over acquisitions and disposals (through Investment Committee)

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HICL Board

Graham Picken, Chairman



Graham Picken is an experienced banker and financial practitioner and has been Chairman of the Company since its launch. Most recently a non executive director of the Derbyshire Building Society, he was appointed Chief Executive of the Derbyshire in February 2008 and led the society to a merger with Nationwide Building Society in December 2008, standing down at the end of March 2009. Until 2003, Graham's career spanned over thirty years with Midland and HSBC Banks.

Sarah Evans, Director



Sarah Evans qualified as a Chartered Accountant in 1979 and is a director of several other listed investment funds, as well as two unlisted funds of hedge funds. She is a member of the Institute of Directors. Sarah spent over six years with the Barclays Bank PLC group from 1994 to 2001. Prior to joining Barclays, Sarah ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 Sarah was with Kleinwort Benson, latterly as head of group finance.

Henri Grisius, Director



Henri lives in Luxembourg and is the founder and managing partner of RSM Henri Grisius & Associates S.a.r.l., as well as the director of a number of companies active in the venture capital industry. Henri is a former partner of Ernst & Young and before that was director of Dewaay Luxembourg S.A., a financial institution and registered stockbroker, where he was responsible for the wealth management and UCITS divisions of the business.

John Hallam, Director



John lives in Guernsey, is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PricewaterhouseCoopers, having retired in 1989 after 27 years with the firm spent both in Guernsey and in other countries. John was, until January 2006, Chairman of the Guernsey Financial Services Commission and is currently a director of a number of financial services companies, some of which are listed on the LSE



HSFML Adviser team



*Werner
von Guionneau
CEO
Inv Committee¹*



*Tony
Roper
Director
Inv Committee¹*



*Chris P Gill
Deputy CEO &
Head of
Infrastructure
Inv Committee¹*



*Richard
Sem
Investment
Director
Inv committee¹*



*Keith
Pickard
Portfolio Director
Inv Committee¹*



*Gareth
Craig
Executive Director
Inv Committee¹*



*Sandra
Lowe
Director, Investor
Relations*



*Erwan
Fournis
Investment
Director
Inv Committee¹*

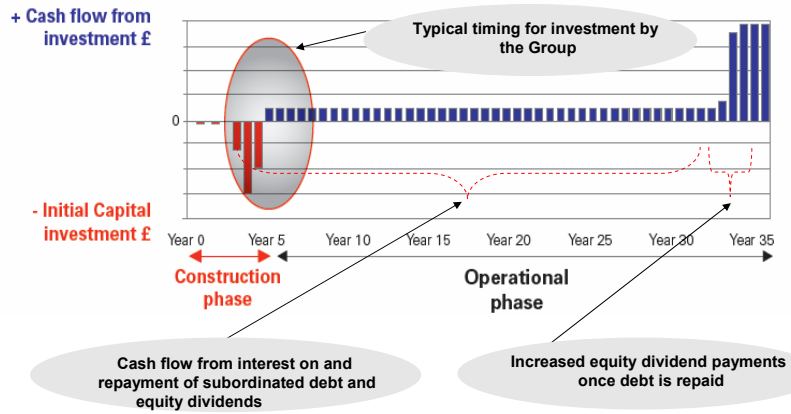


*James
O'Halloran
Senior Portfolio
Manager*



Investment cash flow profile over a typical project's life

Regular cash flow commences after completion of construction ...

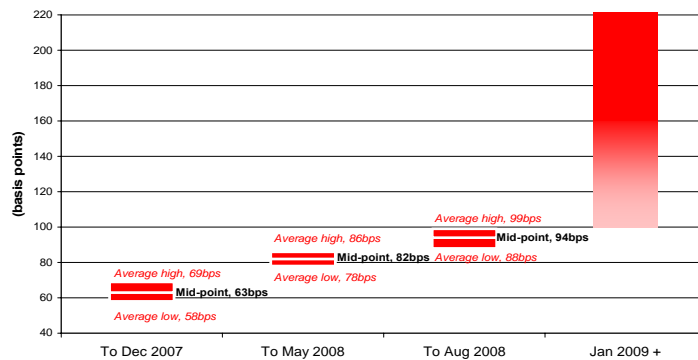


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Change in UK PFI debt margin terms

Change in margins for UK PPP projects with availability based payment mechanisms

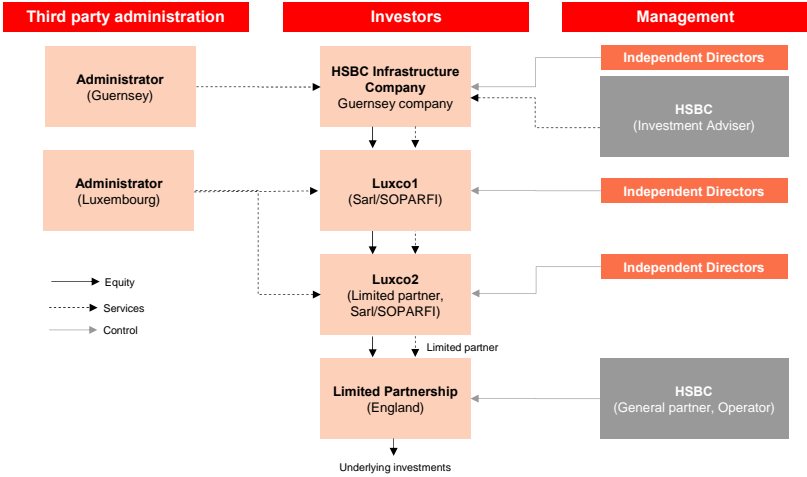


Source: Ernst & Young, October 2008, HSFML for 2009

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Group structure diagram



Typical infrastructure project structure

