



## HSBC Infrastructure Company Ltd

*Cazenove Listed Infrastructure Fund Conference*

Tuesday 24<sup>th</sup> March 2009

[www.hicl.hsbc.com](http://www.hicl.hsbc.com)



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### • Investment Adviser – HSFML

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- Oriel Securities Ltd
- Collins Stewart Europe Ltd

### • Administrator

- Dexion Capital (Guernsey) Ltd

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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 **£450.5m** Sept 2008 <sup>1</sup>

### Yield to date

First year (to Mar 07)	6.10p
Second year (to Mar 08)	6.25p
Interim (Sept 08)	3.125p

### Yield growth

Target 7.0p per share distribution by March 2013 <sup>2</sup>

### PFI/PPP concessions

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

<sup>1</sup> Updated NAV guidance given by Company in the IMS dated 28 Jan 2009

<sup>2</sup> Investors should note that no assurance or guarantee can be given that this will be achieved



## Overview (II)



- **Long-term investor in infrastructure projects**
  - predominantly in their operating phase
  - yielding steady returns
- **First infrastructure Investment Company to list on the LSE**
  - now part of the FTSE 250
- **Initial portfolio of 15 infrastructure projects**
  - Long-term concessions
  - Five assets in construction
  - Public sector clients
  - “Availability” income streams
- **Portfolio now comprises 28 investments, all operational**
  - Shareholding varies between 36% and 100%
  - Predominantly UK-based



## History

### First year – period end 31 March 2007

- Launch March 06 – raised £250m, purchased 15 investments worth £250m
- Acquired 2 new investments & 5 incremental stakes
- Interim 2.875p
- Second interim 3.225p

### Second year – period ending 31 March 2008

- New £200m fund level 5 year debt facilities
- Site visit January
- Acquired 10 new investments & 1 incremental stake
- Interim 3.05p
- Second interim 3.2p

### Third year – period ending 31 March 2009 (up to 18 March 09)

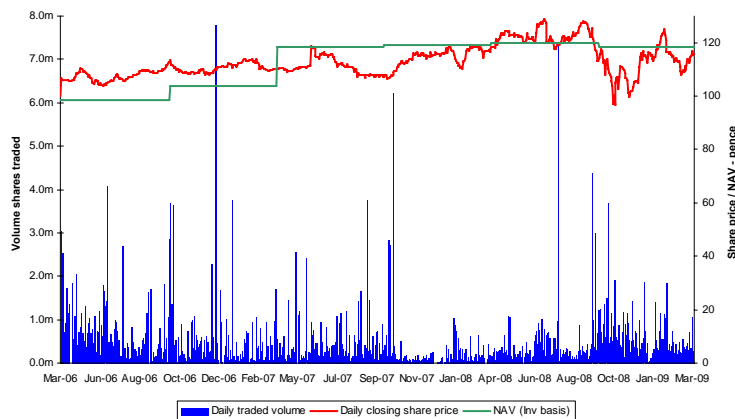
- Successful £103.6m C share raising in May
- Investor dinner September
- Site visit February
- Acquired 1 new investment & 2 incremental stakes
- Interim 3.125p (with scrip alternative)

### Forthcoming

- Preliminary results announcement May
- Second interim
- AGM August



## Performance



- **28 Jan 2009 Interim Management Statement – included update on NAV drivers**

Source : HSFML, Datastream - as at 18 March 2009  
 NAV on an investment basis treats all investments (inc. subsidiaries) on an investment basis – see Company's Annual Report and Consolidated Financial Statements for further details



## Strategy

- **Focus on**
  - current portfolio and
  - new quality investments
- **Existing portfolio**
  - Active management and monitoring
  - Good relationships
- **New investment opportunities**
  - Mainly PFI/PPP – UK and selectively overseas, including assets in construction
  - Very selective diversification if
    - ▶ similar risk / return characteristics
    - ▶ minimal exposure to economic assets
- **Careful selection and evaluation, as previously**

Taken for Sept 2008 Interim presentation

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## Current 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 <sup>th</sup> Form College	Blackburn	MPA SEL Police Stations
<b>Transport</b>	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	
<b>Utilities</b>	Wooldale Centre		
Kemble Water Junior Loan	Darlington Schools		
	Haverstock School		

Key:

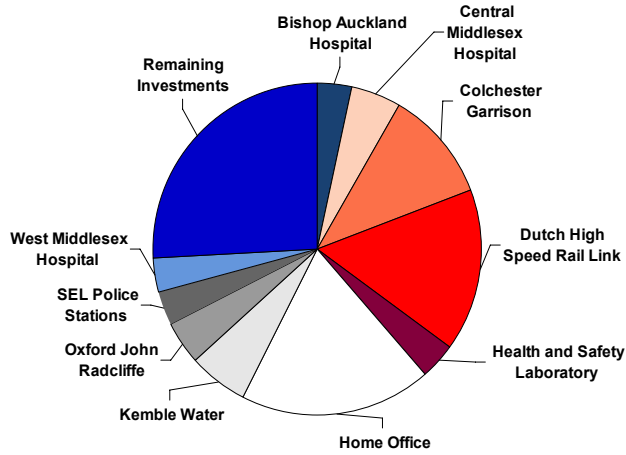
- Initial Portfolio
- Additional stakes
- Acquired since launch

As at 18 March 2009

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## Portfolio breakdown



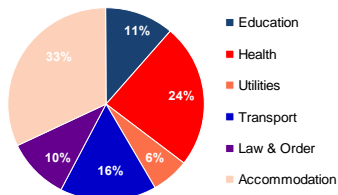
Source : HICL, by value, as at 30 September 2008

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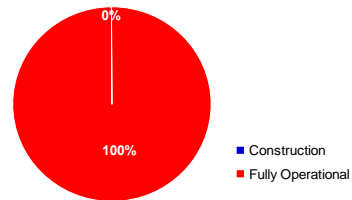


## Portfolio analysis

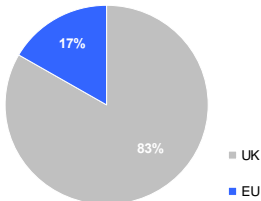
### Sector analysis



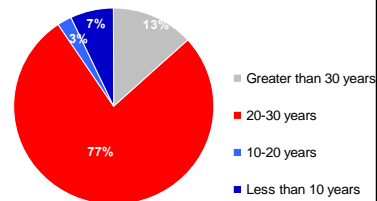
### Investment status



### Geographic location



### Concession length



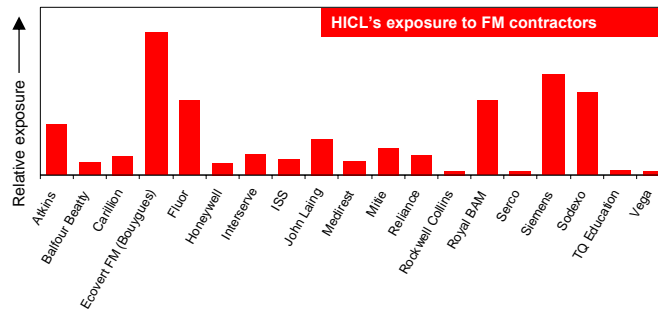
Source : HICL, by value, as at 30 September 2008

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## Counterparty exposure

- An operational PFI project's key counterparties are typically:
  - Public sector clients
  - Facilities management sub-contractors
  - Monolines
  - Banks, Swap counterparties
  - Insurers



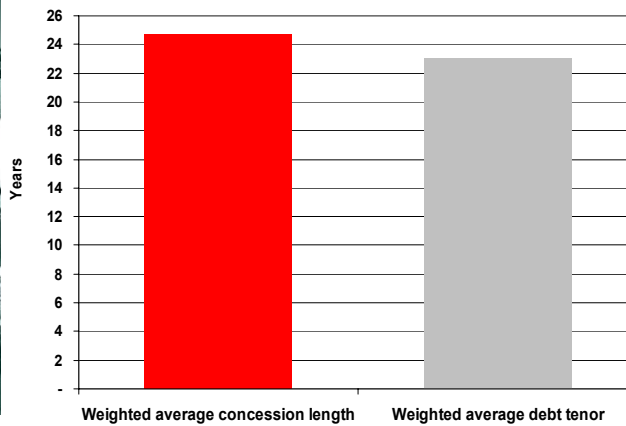
Source : HICL  
By value, as at 30 September 2008

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## Project tenors

- All PFI/PPP projects have long term funding in place



As at 30 September 2008

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## Valuation methodology

- Consistent approach
- Discounted Cash Flow Methodology
- Investment cash flows
- Discount rate comprising risk free rate plus investment specific premium
  - For UK 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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## Discount rates

- Range from 7.6% to 10.8% (7.6% to 8.3% ex Kemble)
- Weighted average rate of 7.9% (7.9% ex Kemble)



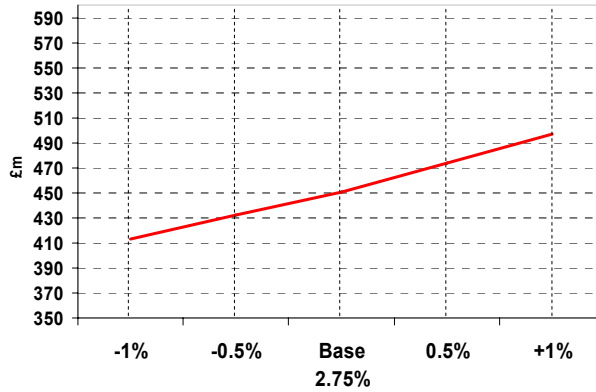
As at 30 September 2008

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## Inflation correlation

- UK PFI/PPP projects' incomes<sup>1</sup> linked to RPI or RPIX<sup>2</sup>
- Positive correlation



As at 30 September 2008

Analysis based on 10 largest PFI/PPP investments

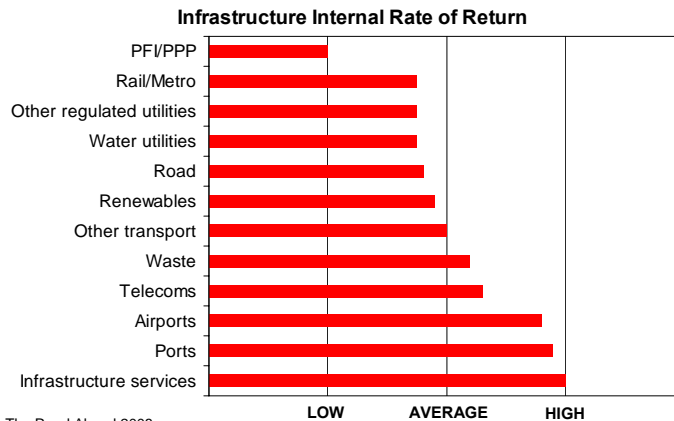
- Some project income fully indexed, whilst others partially indexed
- Retail Price Index and Retail Price Index excluding Mortgage Interest Payments

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## PFI/PPP risk/return within infrastructure sector

- Fund managers' expectations of returns indicate the perceived level of risk for various infrastructure asset classes



Source: Deloitte & Touche – The Road Ahead 2008

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## **Economic downturn is vindicating PFI/PPP's resilience**

- In a recent study (January 09), Moody's have confirmed a stable outlook for the European, Australian and Canadian PFI/PPP sectors.
  - Projects generally well insulated from the credit crisis
  - Underlying ratings generally resilient across the asset class
  - Wrapped ratings have fallen where monoline guarantor ratings have fallen and for 11 projects, the underlying rating is now stronger than that of the monoline
- The key concern is about the projects' counterparty risk
  - ongoing financial exposure, whether through swaps, loan facilities or investment contracts
  - exposure to potential contractors' default: initial financial close due diligence should have ensured that structuring provides sufficient liquidity to support the project while the defaulting contractor is being substituted



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## **PFI Project Case Study**

- **Oxford John Radcliffe PFI project**
- **Acquired by HICL in August 2008**
- **Acquired from Carillion plc**



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## Oxford John Radcliffe – site layout



Main Hospital

A&E

New West Wing

New Children's Hospital

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## Project Timeline



- OJEC 2001
- Preferred bidder 2002
- Signed 2003
- Construction completed 2006
- Fully operational 2007
- HICL acquires interest 2008
- Concession ends 2036

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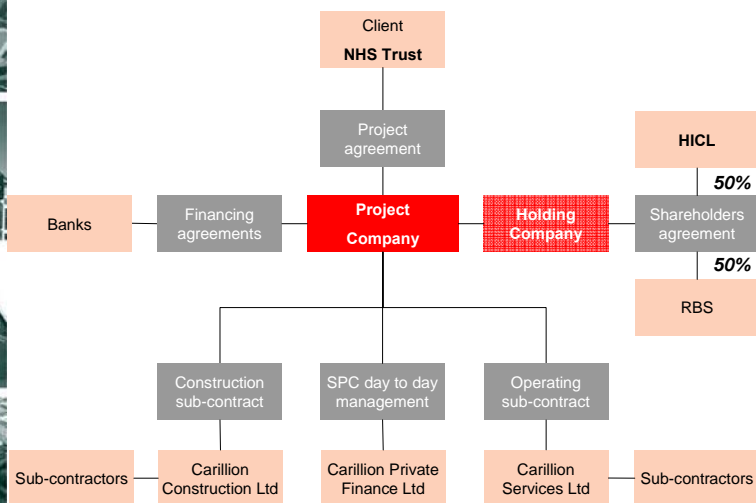
## Facilities

- **A dedicated children's hospital**
  - an outpatient department
  - a new children's radiology department
  - a paediatric assessment centre
- **New Adult Centre**
  - the neurosciences unit (neurology and neurosurgery, neurophysiology, neuro-psychology, neuro-radiology)
  - specialist surgery (ENT, plastic surgery, craniofacial surgery, the Oxford Eye Hospital)
  - critical care facilities for specialist surgery and neurosurgery
  - a new day surgery unit
  - state of the art operating theatres
  - University of Oxford facilities

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## Oxford John Radcliffe contractual structure



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## Project Agreement



- Concession of 30 years post construction\*
- Once built, contractual monthly payments for serviced facilities, subject to:
  - RPI annual indexation
  - Performance deductions
  - Un-availability deductions
- Agreement covers items such as:
  - Specification of services to be provided and relevant quality/quantity thresholds
  - Variation mechanics
  - Dispute resolution procedures
  - Termination events and compensation payments
  - Handback criteria

*\*Construction was completed in December 2006*

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## Key Funding terms

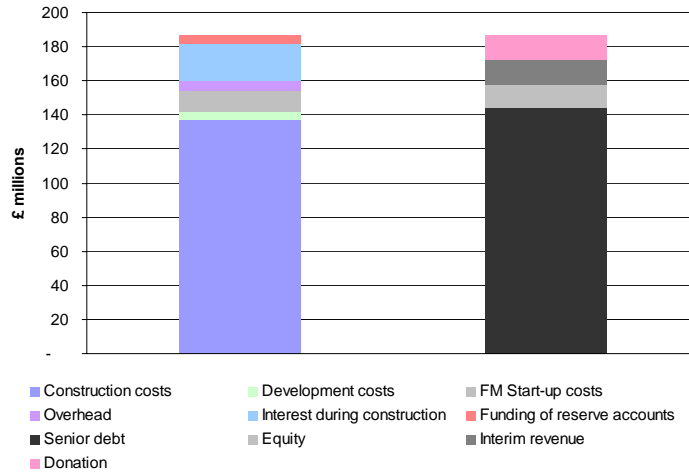


- Senior Debt (£152m facility)
  - Margins
    - 100 bps during construction
    - Currently 90bps
    - All in rate of 6.09% pa
  - Tenor
    - 31 years
    - 2 year tail
- Loan stock (£13.3m)
  - 12.5% fixed coupon
- Senior Debt fully hedged at fixed rate
- RPI swap to hedge inflation sensitivity
- Debt : shareholder funds – 92% : 8%

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## Sources & Uses, during construction



Source: HSFML

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## Services

- **Estates Services**
  - Building maintenance
  - Grounds maintenance
- **Catering**
- **Portering**
- **Linen & laundry**
- **Housekeeping**
- **Help desk**
- **Retail**
- **Coffee bars**



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## **Benchmarking & Market testing**

- Commences in 2010 and every 5 years thereafter
- All services other than Estates Services and Help desk
- Benchmarking initially, client option to market test.
- Project Co responsible for managing and co-ordinating Market Testing



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## **Performance monitoring**

- Helpdesk logs all problems
- Rectification times
- Service Response times
- Service Failure points
- Unavailability deductions – areas weighted
- Service failures passed to FM contractor
- Unavailability deductions passed down unless Project Co caused
- All payment deductions to date passed down to sub-contractors



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## Revenue basics



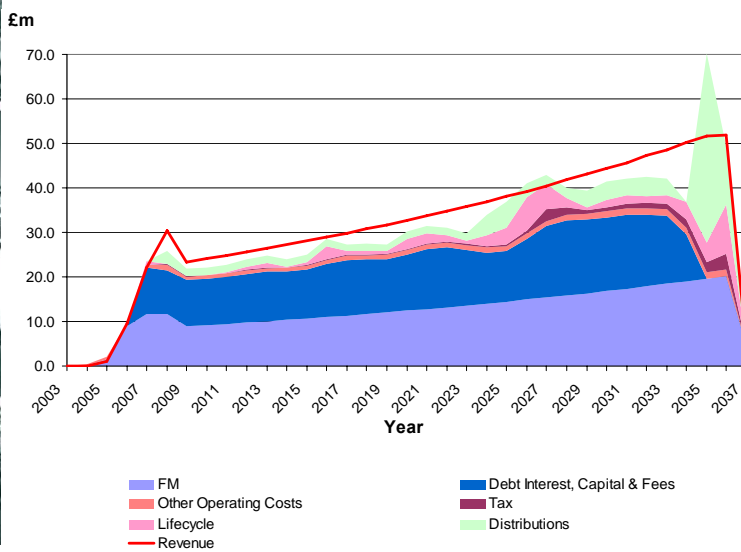
- Single monthly unitary fee from client
- NPV of base case revenue £206m
- Variable monthly payments for meals and utilities – passed down to FM contractor
- Base revenue of £19.0m pa (incl. variations)
- Annual indexation - RPI index is RPI (all items)
- Base date of April 2002
- Sub-contract indexation is similar

$$mSP = [(ASP_n \times NM/NY) + VA + EP + WP] - \Sigma D(FE) - \Sigma D(QF)$$

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## Revenue and costs – cashflows



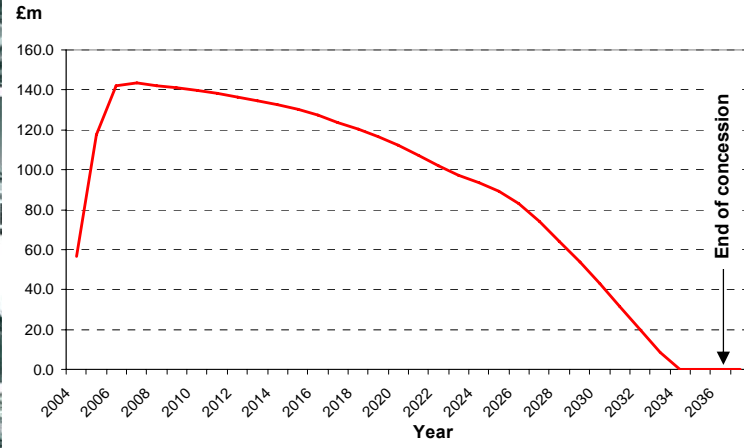
Source: HSFML: Taken from current financial model

Investors should note that no assurance or guarantee can be given that these cashflows will be achieved

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## Forecast debt outstanding

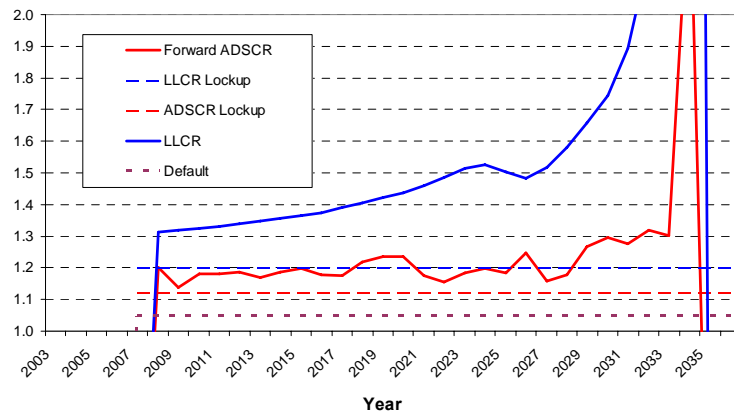


Source: HSFML: Taken from current financial model

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## Debt Ratios



ADSCR – Annual Debt Service Cover Ratio  
LLCR – Loan Life Cover Ratio

Source: HSFML: Taken from current financial model

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## Key Equity risks

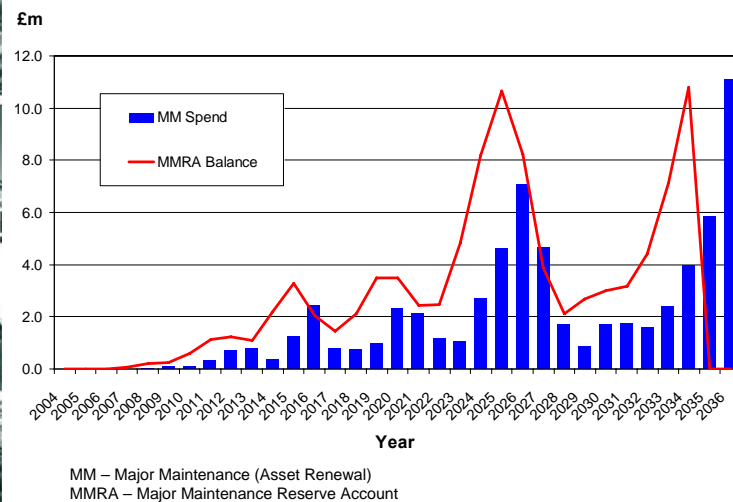
- **Performance deductions**
  - when not passed on to subcontractors
- **Major Maintenance forecasts**
  - Costs and timing – risk & opportunity
- **SPV costs, insurance & overheads**
- **Counterparty default**
- **Accounting standards & tax changes**
- **Inflation/deposit rates**
- **Change in Law**



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## Major Maintenance



Source: HSFML: Taken from current financial model

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## Insurance

- Various policies cover:

- Project company
- Authority
- Sub-contractors (and their sub-contractors)
- Senior funders
- Third parties

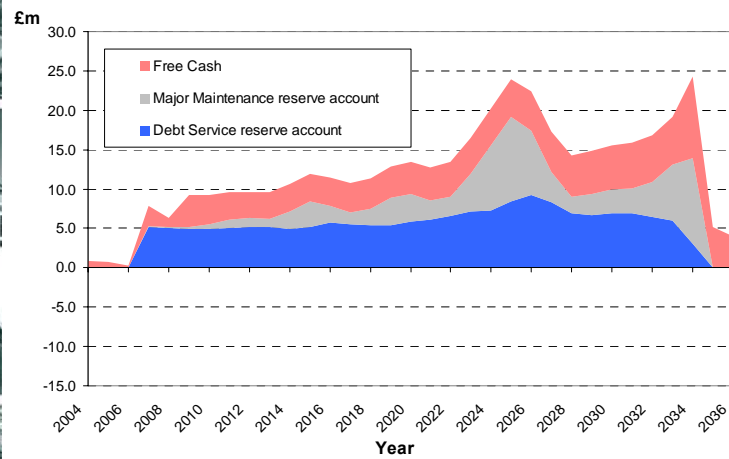
- Risks insured:

- Contractor's all risk
- Third-party liability
- Delay in start-up
- Property damage
- Business interruption

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## Cash deposits

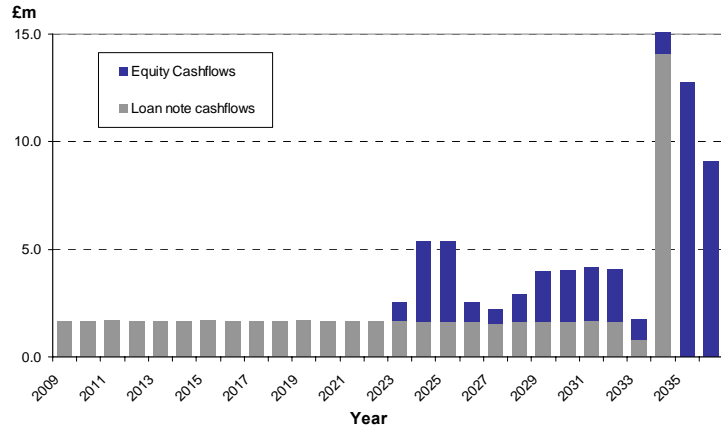


Source: HSFML: Taken from current financial model

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## Forecast\* shareholder cashflows



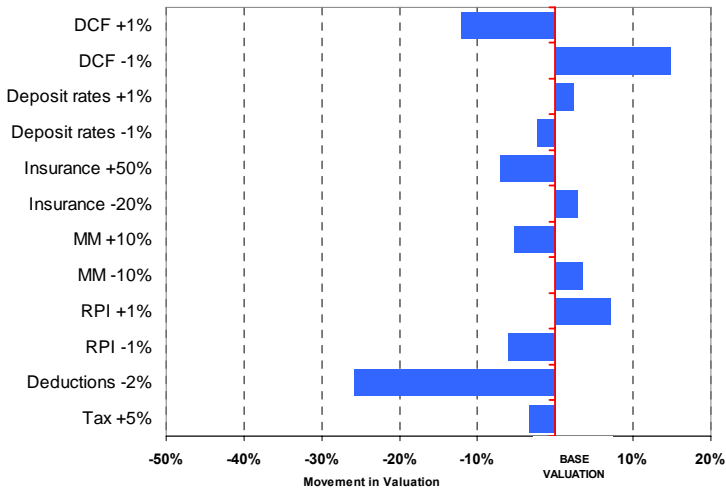
Source: HSFML: Taken from current financial model

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\*Investors should note that no assurance or guarantee can be given that these cashflows will be achieved



## Sensitivity analysis



Sensitivities are applied to all remaining years of the concession (ie RPI +1% is an increase in the RPI assumption for each remaining year of an additional 1% pa)

Deductions of 2% pa assumes these deductions are not passed down to sub-contractors.

MM is major maintenance (asset renewal) forecast spend

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Source: HSFML: Taken from current financial model



## **Enhancement opportunities**

- Seeking efficiencies whilst delivering services to required service level standards and quality
- Financial and Operations – cost optimisation
- Income generation
- Client variations



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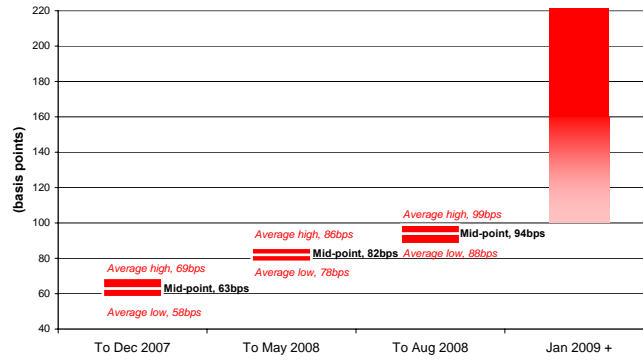
## **Appendices**

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## Change in UK PFI debt margin terms

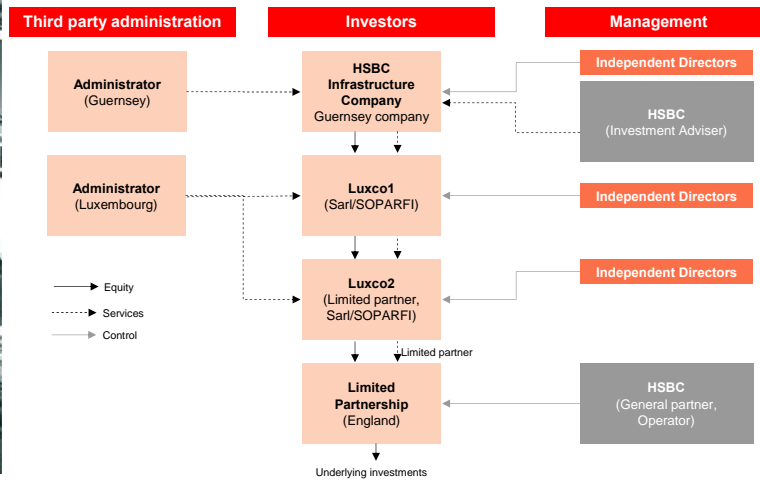
Change in margins for UK PPP projects with availability based payment mechanisms



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



## Group structure diagram





## 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 lives in the U.K., is an experienced banker and financial services practitioner and is currently a director of the Derbyshire Building Society. He was previously General Manager of HSBC Bank plc where he was responsible for commercial and corporate banking (including specialised and equity finance and rail finance) and then special projects. Before that, Graham was Chief Executive of Forward Trust Group and Chairman of First Direct, a division of HSBC Bank plc.

*Sarah Evans, Director*



Sarah Evans qualified as a Chartered Accountant in 1979 and is currently a director of two funds of hedge funds and two AIM-listed investment funds. 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. She is a resident of Guernsey and a member of the Institute of Directors.

*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 1999 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

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## HSFML Adviser team

**Werner von Guionneau**  
CEO  
Inv Committee<sup>1</sup>

**Tony Roper**  
Director  
Inv Committee<sup>1</sup>

**Chris P Gill**  
Deputy CEO & Head of Infrastructure  
Inv Committee<sup>1</sup>

**Richard Sem**  
Investment Director  
Inv committee<sup>1</sup>

**Keith Pickard**  
Portfolio Director  
Inv Committee<sup>1</sup>

**Gareth Craig**  
Executive Director  
Inv Committee<sup>1</sup>

**Sandra Lowe**  
Director, Investor Relations

**Erwan Fournis**  
Investment Director  
Inv Committee<sup>1</sup>

**James O'Halloran**  
Senior Portfolio Manager

<sup>1</sup> member of the HSFML HICL Investment Committee



## HSFML Asset management team

**Phillip Cooper**



Phillip is a Chartered Builder and joined HSBC as Asset Management Director in 2005. During Phillip's 30 year career in contracting he has gained considerable experience working with both the Public and Private sectors in the UK and overseas. In the Middle East he managed the construction on a new palace and residence in Oman and a glass-bottle factory in Africa. Further experience was gained working for Costain and Mowlem and subsequently at Board level with Trafalgar House and Hochtief. Phillip has been involved in PPP/PFI projects almost since their inception in the early 1990s. During the last 15 years he has been worked on Health, Defense, Education and Housing sector projects. Within the Hochtief Group Phillip started up two PFI Businesses and an FM Business.

**Geoff Quaife**



Geoff joined HSBC as a member of the infrastructure asset management team in 2007. He has responsibilities in the management of existing infrastructure projects and in supporting the acquisition of new projects in both the primary and secondary markets. A Chartered Quantity Surveyor and member of the British Institute of Facilities Management, Geoff commenced his career in private practice and has over 25 years experience in property related industries with the last 8 years being in the PFI sector. Prior to joining the HSBC team he was Commercial Director of MITIE PFI Ltd with responsibilities for PFI schemes at both the building and operational phases.

**Mark Wayment**



Mark joined HSBC in 2008 from Infinis, the UK's largest independent Renewable Energy power generator. At Infinis, he was responsible for the Landfill Gas, Biomass and Onshore Wind sectors. Prior to joining Infinis, Mark worked for 6 years at NIBC Bank and developed the Bank's Project Equity business within the UK PFI and European PPP markets. As a Director of the project companies in which NIBC had invested equity, he was also responsible for the corporate governance, asset management and financial performance of this portfolio of investments including schools and hospitals. Previously Mark had spent 19 years at Costain Group Plc. Mark has an MBA from Henley Management College and is a Chartered Engineer and Member of the Institution of Civil Engineers (MICE).



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