



# **HSBC Infrastructure Company Limited**

## **Interim Results**

**Period to 30 September 2006**

21 November 2006

HSBC 



# Interims Results



# Gareth Craig





# Agenda



**Introduction**

**Gareth Craig**



**Operational Review**

**Tony Roper**

**Financial Highlights**

**Richard Crawford**



**Outlook**

**Tony Roper**

**Q&As**



# Interims Results



# Tony Roper





# Financial highlights

All figures stated on an investment basis

Period to 30 Sept 06



**Profit before valn. movement**

**£5.5m**

Valuation movements

£14.5m

Profit Before Tax<sup>#</sup>

£20.0m



**EPS**

**8.0p**

**Interim Dividend**

**2.875p**

**NAV per share**

**106.5p**

**Net cash**

**£61.8m**



<sup>#</sup> Consolidated Profit before tax over the period was £24.0m



## Portfolio - Key features



- 15 projects
- 13 projects fully operational



- Current projects:
  - Availability based
  - Government backed revenues



# Dutch High Speed Rail Link

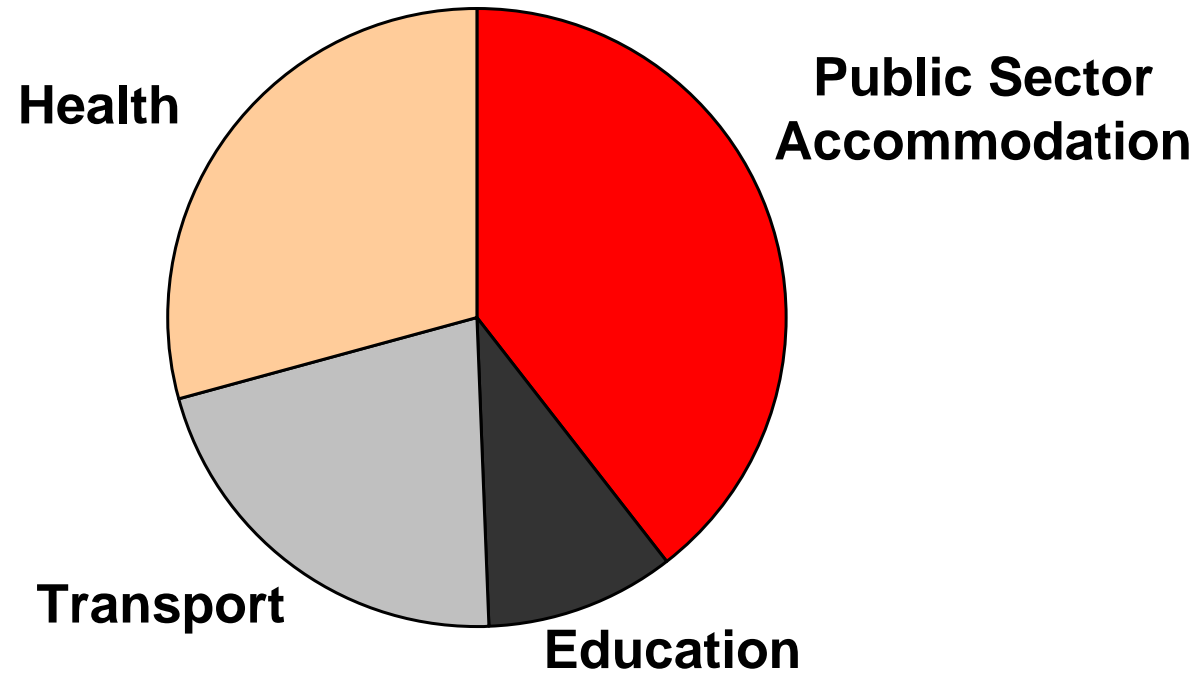


# Colchester Garrison





# Portfolio - Sector breakdown



By Valuation



# Portfolio - Overview



## Accommodation

Home Office

Colchester Garrison

Sussex Custodial Services

Exeter Crown Court

## Education

Health & Safety Laboratories

Conwy Schools

Helicopter Training Facility

Defence 6<sup>th</sup> Form College

## Health

Bishop Auckland Hospital

West Middlesex Hospital

Central Middlesex Hospital

Blackburn Hospital

Barnet Hospital

Stoke Mandeville Hospital

## Transportation

Dutch High Speed Railway



# Construction completions



## Accommodation

Home Office

Colchester Garrison

Sussex Custodial Services

Exeter Crown Court

## Education

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Dutch High Speed Railway

Blackburn Hospital

Barnet Hospital

Stoke Mandeville Hospital

Operational throughout the period

Construction phase completed in the period

Construction completed in the period



# Acquisitions



## Accommodation

Home Office

Colchester Garrison

Sussex Custodial Services

Exeter Crown Court

## Education

Health & Safety Laboratories

Conwy Schools

Helicopter Training Facility

Defence 6<sup>th</sup> Form College

Pinnacle Schools

## Health

Bishop Auckland Hospital

West Middlesex Hospital

Central Middlesex Hospital

Blackburn Hospital

Barnet Hospital

Stoke Mandeville Hospital

## Transportation

Dutch High Speed Railway

Conditional contract

£5.5m

Stake increased during period

£4.6m



# Governance



- **Board of Directors (3 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)





# Interims Results



# Richard Crawford





# Summary income statement

Period to 30 Sept 06

£m	Investment Basis	Consolidation Adjustments	IFRS Basis
Total income	7.5	21.2	28.7
Expenses & Finance Costs	(2.0)	(15.6)	(17.6)
<b>Profit before valuation mvt</b>	<b>5.5</b>	<b>5.6</b>	<b>11.1</b>
<b>Fair value movement</b>	<b>14.5</b>	<b>(1.5)</b>	<b>13.0</b>
Tax and minority interests	(0.0)	(2.7)	(2.7)
<b>Earnings</b>	<b>20.0</b>	<b>1.4</b>	<b>21.4</b>
<b>Earnings per share</b>	<b>8.0p</b>		<b>8.6p</b>



# Summary balance sheet



**As at 30 Sept 06**

£m	Investment Basis	Consolidation Adjustments	IFRS Basis
Investments at Fair Value	203.4	(22.4)	181.0
Non-Current Assets	-	205.7	205.7
Current Assets	99.9	14.3	114.2
<b>Total Assets</b>	<b>303.3</b>	<b>197.6</b>	<b>500.9</b>
<b>Total Liabilities</b>	<b>(37.2)</b>	<b>(194.0)</b>	<b>(231.2)</b>
Minority interests	0.0	(1.9)	(1.9)
<b>Net Assets</b>	<b>266.1</b>	<b>1.7</b>	<b>267.8</b>
<b>Net asset per share (before dividend)</b>	<b>106.5p</b>		<b>107.1p</b>



# Summary Cash Flow for the period

Period to 30 Sept 06



£m

Investment  
Basis

Cash from investments (net of WHT)

10.1

Operating costs outflow

(0.3)

Interest received from deposits

0.9

Net cash inflow before acq/financing

10.7



Cost of acquisitions

(195.0)

Share capital raised net of costs

246.1



Net cash at 30 September

61.8



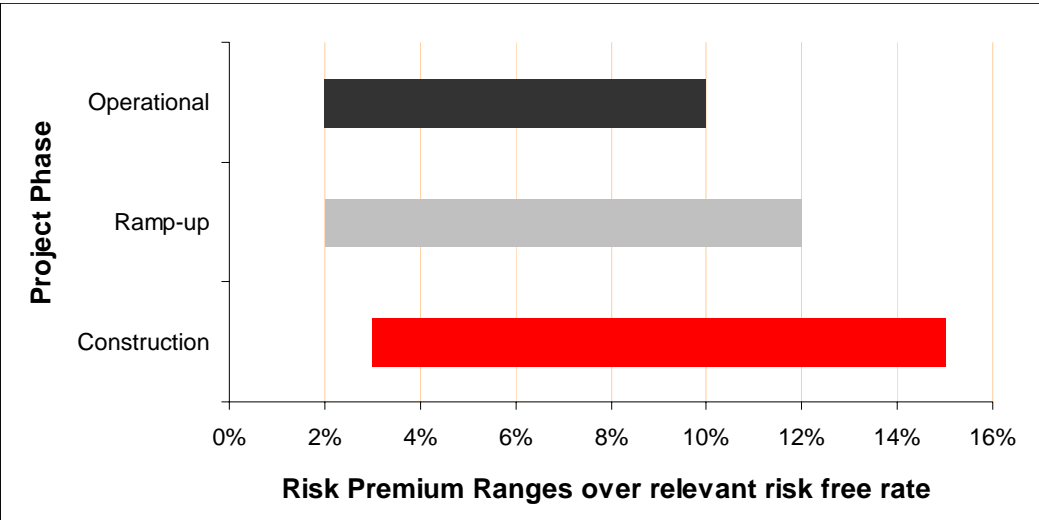
# Valuation methodology

- Discounted Cash Flow Methodology
- Investment cash flows
- Discount rate comprising risk free rate plus investment specific premium

# Discount Rates



Risk Components	Project Phase		
	Construction	Ramp Up	Operational
Asset Completion Risk	1.0% to 5.0%	0.0% to 2.0%	0.0%
Revenue Risk	0.0% to 5.0%	0.0% to 5.0%	0.0% to 5.0%
Project risk	2.0% to 5.0%	2.0% to 5.0%	2.0% to 5.0%
<b>Total Risk Premium ranges over relevant risk free rate</b>	<b>3.0% to 15.0%</b>	<b>2.0% to 12.0%</b>	<b>2.0% to 10.0%</b>



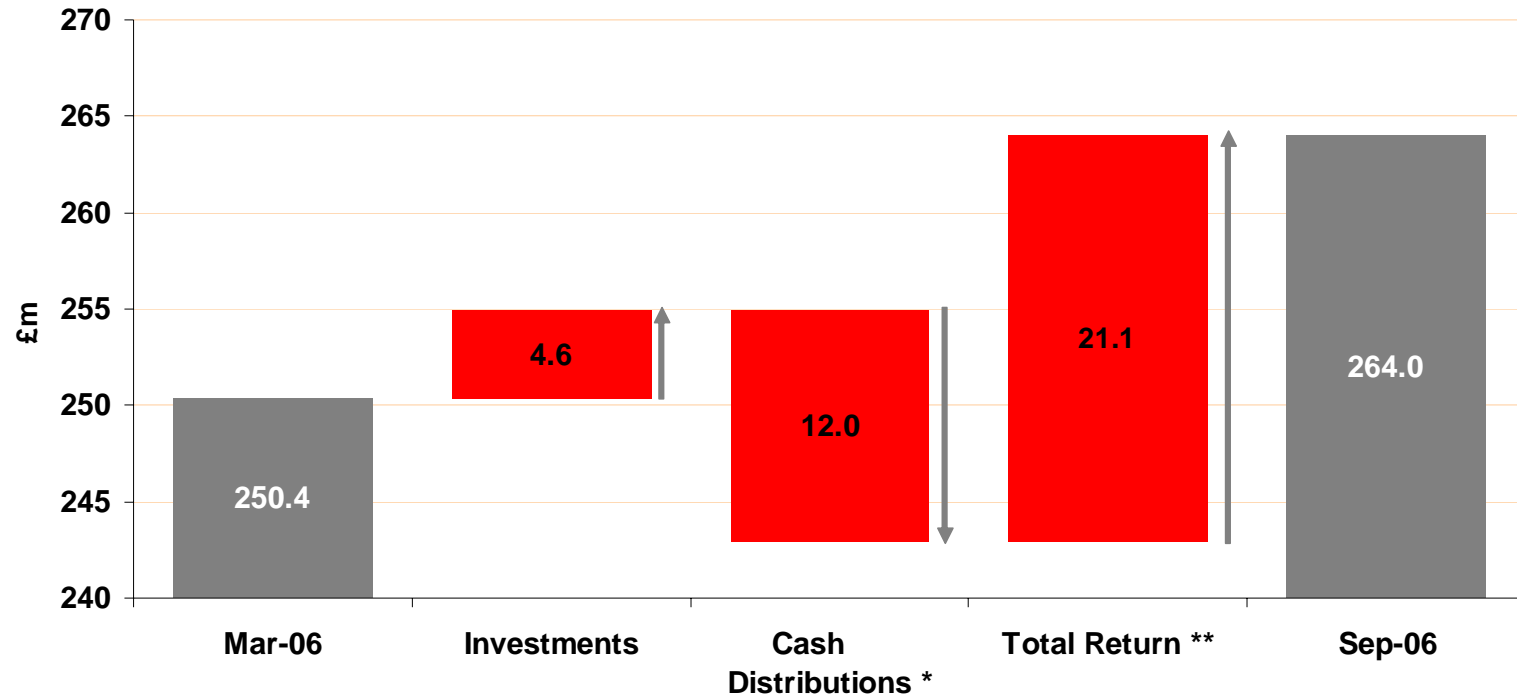
**Portfolio range as at 30 Sept 06 (incl. risk free rate)**

**7.4% to 8.6%**

**Weighted average (incl. risk free rate)**

**7.9%**

# Analysis of change in valuation



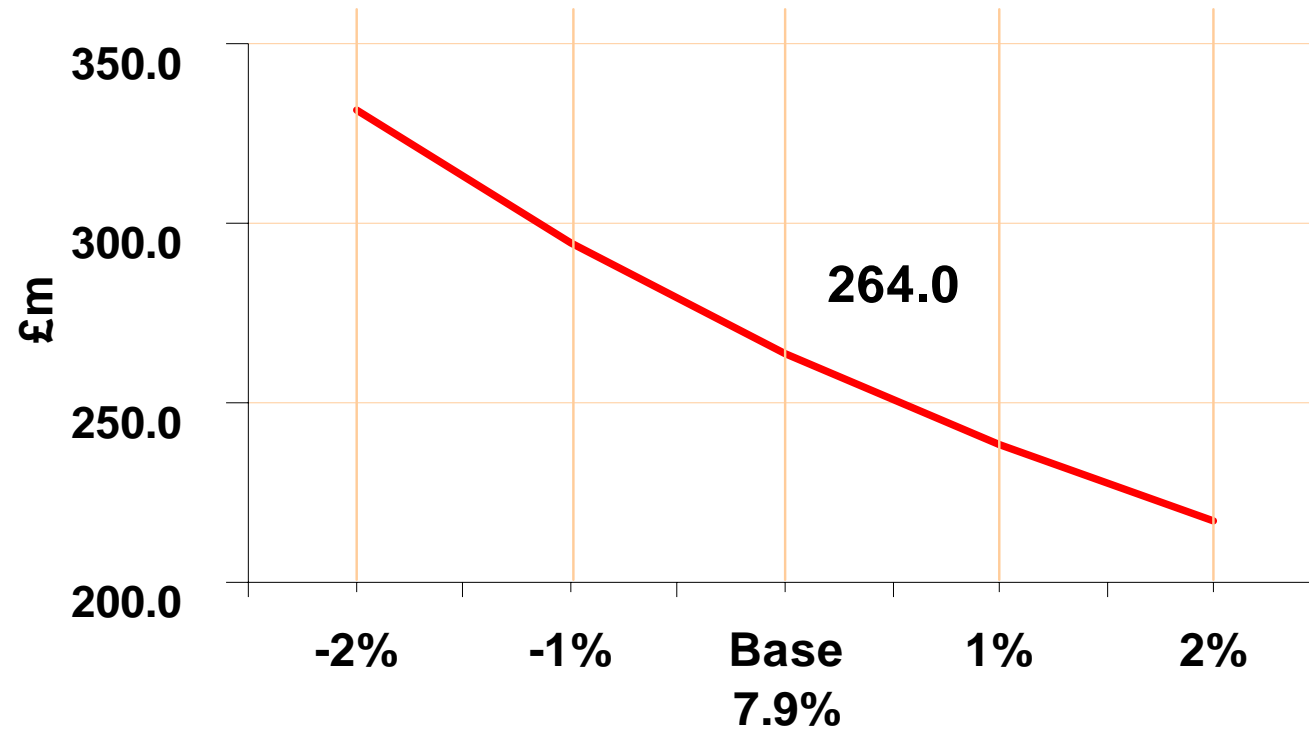
\*Grossed up for withholding tax to be recovered of £1.9m

\*\*Total return comprises income return £6.6m plus valuation uplift of £14.5m

Reconciliation to IFRS Fair Value (£m)	
Directors' valuation	264.0
Reconciliation to statutory accounts:	
Subscription obligations outstanding	-60.6
Elimination of subsidiary investment	-22.4
IFRS Investments at Fair Value	181.0

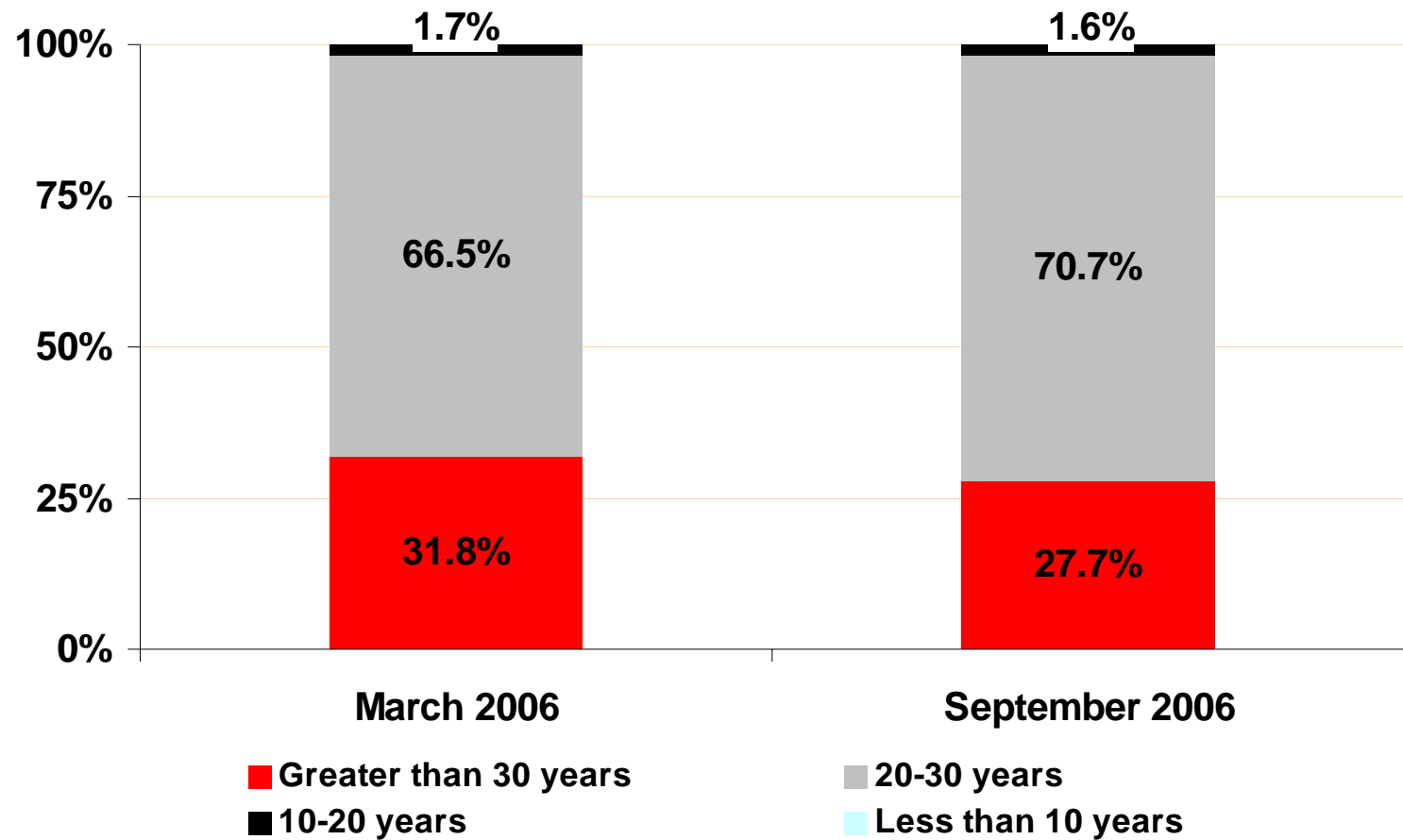


# Sensitivity of valuation to discount rate





# Portfolio valuation by concession length remaining





# Interims Results



# Tony Roper





# Strategy for growth

- **Extracting value from existing investments**
  - Reducing costs
  - Enhancing revenues
  - Follow-on investments
  - Gearing
- **New investments**
  - Increased gearing
  - Further share issues



## HICL investment policy

- **At least 65% portfolio in yielding assets**
  - Operational public sector assets
  - Proven user demand assets
  - Regulated utility assets
- **Up to 35% can be invested in**
  - User demand assets – ramp up phase
  - Construction phase
  - Other infrastructure investments / funds
- **UK, Europe and America current focus**



## Market environment

- **Increased demand for infrastructure assets**
  - Ageing population – high yielding /defensive assets for retirement
  - PF search for long duration assets to match liabilities
- **Large supply of infrastructure assets**
  - Huge infrastructure investment needs
  - Financial constraints on government spending
  - Opportunistic restructuring of corporate portfolios



## Summary



- **Successful listing**
- **First Infrastructure Investment Company**
- **Sound initial period**
- **Excellent platform on which to grow**





# Appendix

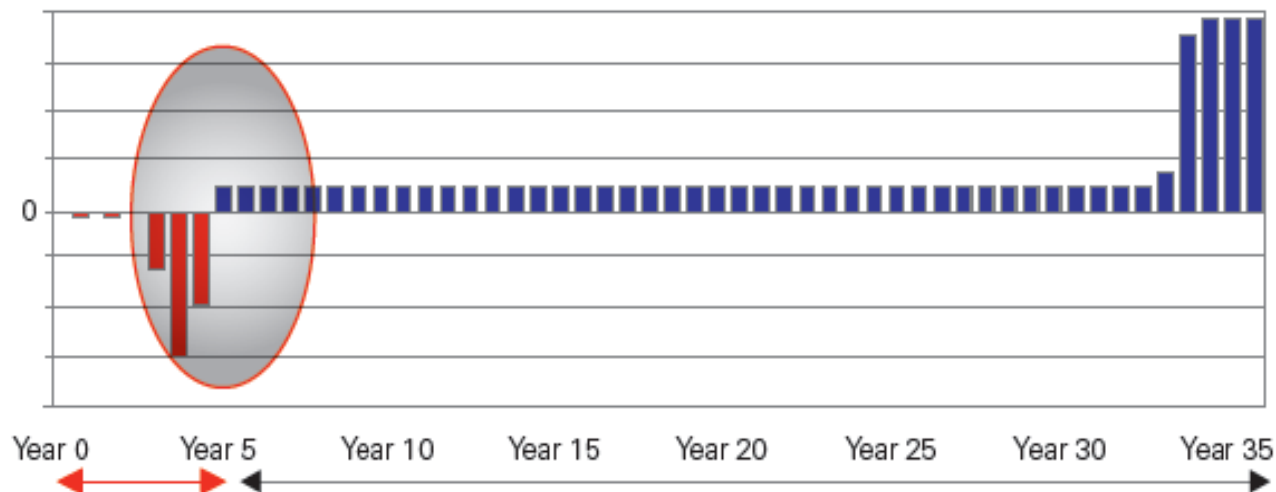


# Infrastructure investment funds

Most infrastructure funds in Europe have so far been structured as private funds; HICL was the first infrastructure investment company to be listed on the London Stock Exchange

+ Cash flow from investment £

- Initial Capital investment £



Construction phase

Operational phase

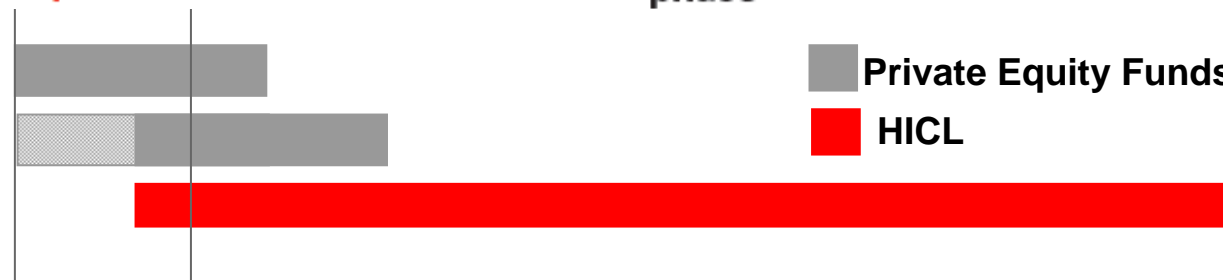
Primary projects

Secondary projects

“Tertiary / operational” projects

Private Equity Funds

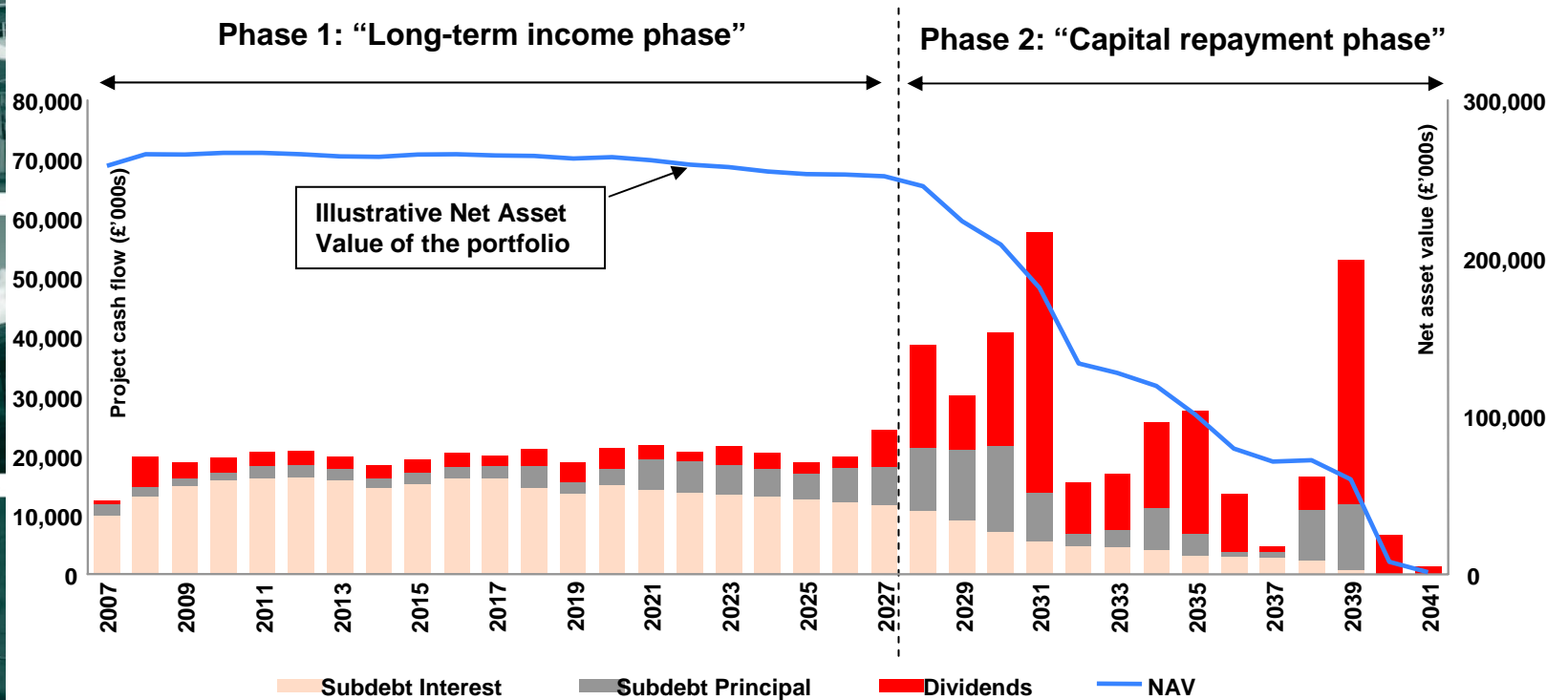
HICL





# Illustration of expected future cash flows

Long term Distributable Cash Flows with capital preservation ...



The Net Asset Value is a function of the present value of the expected future cash flows, no "hurdle rate"

Subscription obligations are not shown

Source: HSFML



# Inflation protection characteristics

*Returns on Infrastructure Equity tend to vary as inflation rates vary:*



- Revenues and costs are often fixed in relation to specific inflation indices, protecting real returns for investors.
- Expectation for cash flows from the Initial Portfolio assume long-term inflation rates, generally of 2.5% p.a.
- Sensitivity analyses indicate that an increase or decrease of 1 per cent over or under this assumption would result in an increase or decrease in the nominal IRR from the Initial Portfolio of an average of c. 0.5% p.a.
- The effects of inflation on returns on the Infrastructure Equity may only occur over the longer-term, as the benefits are released through the reserves of the Project Companies over time.





# Summary of investment policy and strategy

*Yield growth and value enhancement by extracting value from the Initial Portfolio and making new investments ...*



Initial Portfolio	7-8%	Long term IRR target	Acquisitions
<ul style="list-style-type: none"> <li>• Reducing Project Company costs</li> <li>• Revenue enhancements</li> <li>• Follow-on investments</li> <li>• Gearing and re-financing</li> <li>• Monitoring and managing risks</li> </ul>	<p>1.25% - 2.25%</p>	<p>Enhancing yield from Initial Portfolio and acquisitions</p>	<ul style="list-style-type: none"> <li>• Secondary public sector infrastructure assets</li> <li>• User demand assets and regulated utilities</li> <li>• Construction phase assets</li> <li>• Financed by further equity share capital and/or prudent use of leverage</li> </ul>
	<p>5.75%</p>	<p>Initial dividend yield (on issue price)</p>	



# The HSBC Infrastructure Investment team

*Leading participant in the UK / European infrastructure market with proven track record*

## Investment committee



**Werner von Guionneau**  
*HSIL, CEO*



**Gareth Craig**  
*Head of Infrastructure*



**Tony Roper**  
*HICL*



## Team profile

- 34 projects (signed and preferred bidder) with **aggregate value in excess of £5bn**
- Investing in infrastructure as principal **since 1997** and for Funds since 2001
- **Broad skill base** incl. private equity, structured finance, construction and facilities management
- More than **125 years' combined experience** in the PFI/PPP sector; over 60 years with HSBC

## Prior funds

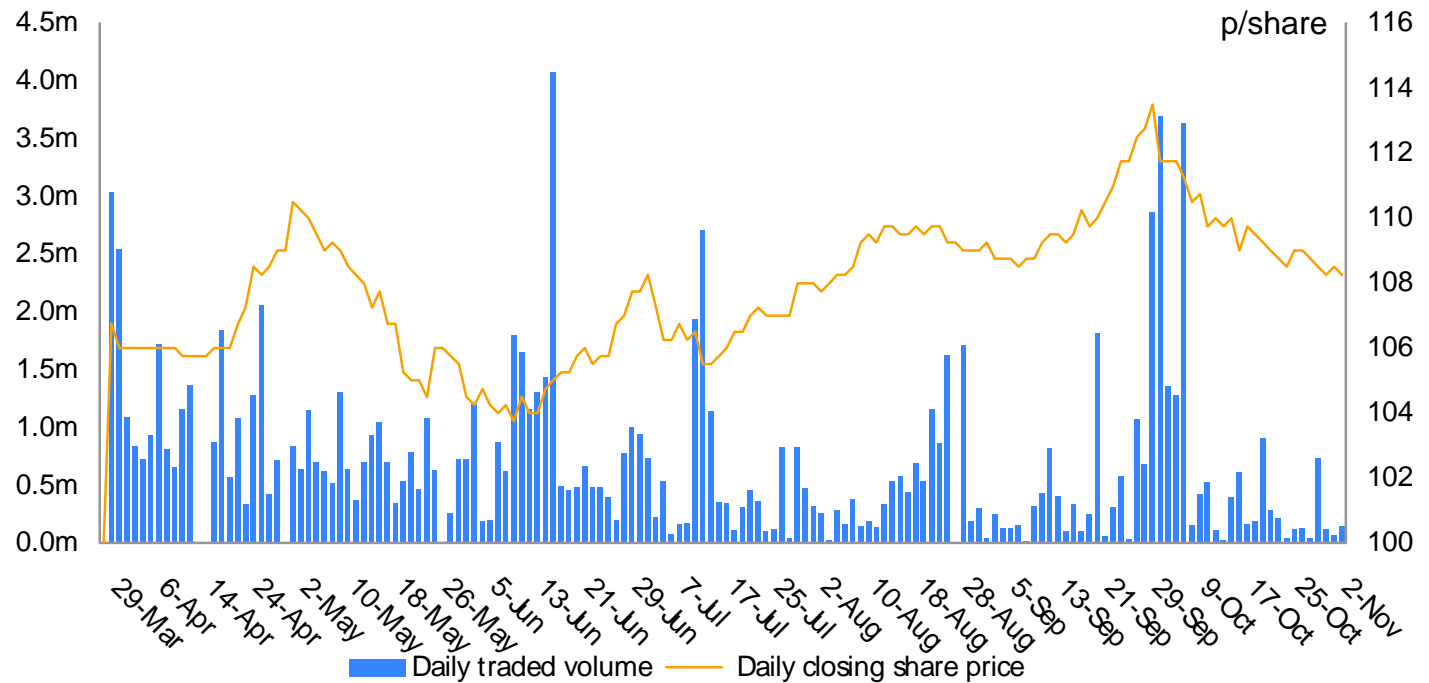
- HSBC Infrastructure Fund I (2001); £125 million; return target exceeded
- HSBC Infrastructure Fund II (2004); £300 million; not yet exited





# Share price performance

*The share price has maintained a consistent premium rating despite the relatively volatile market conditions.*



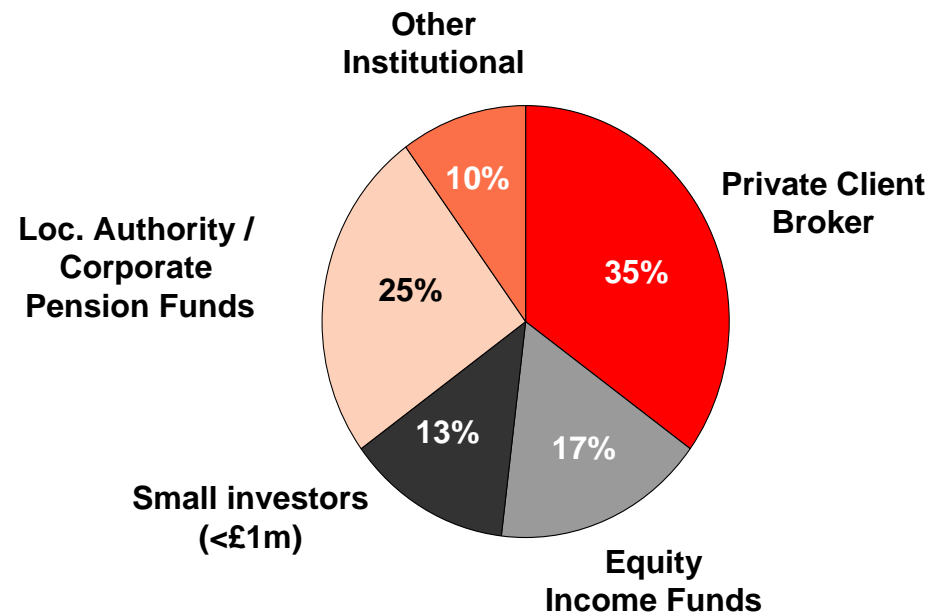
Source : Datastream (20 November 2006)



# HICL investor base

*A diversified investor base supporting liquidity of share register*

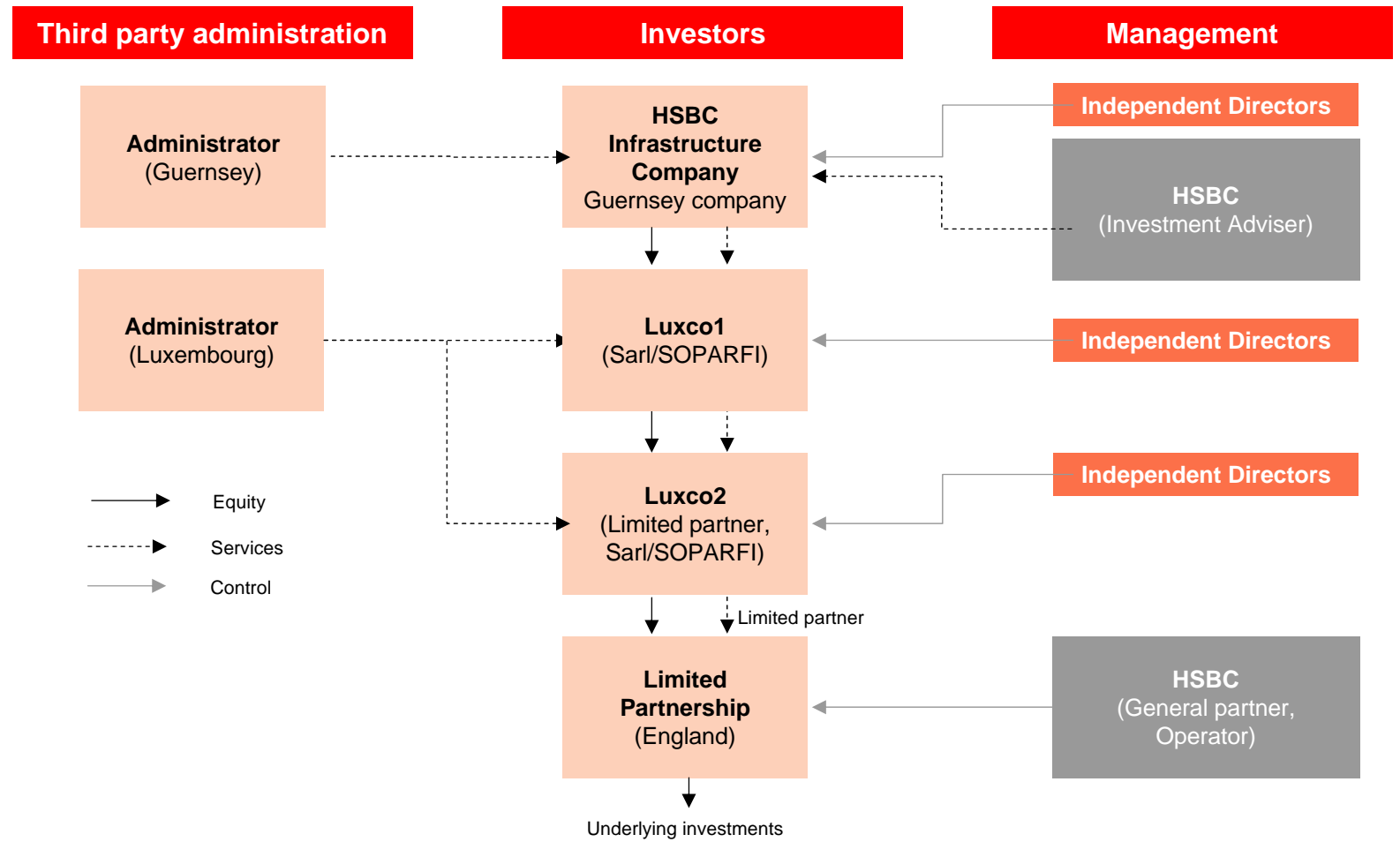
## Breakdown by investor type



*Breakdown as at 16 October 2006*



# Group structure diagram





# Typical infrastructure project structure

