



HSBC Infrastructure Company Limited ("HICL")

Introductory Presentation

September 2007



Contacts



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- **Web site** www.hicl.hsbc.com



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- **Why invest in HICL**
- **Introduction to Infrastructure**
- **UK PFI market**
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- **HSBC Infrastructure Company Ltd (“HICL”) and its management**
- **The HICL portfolio today, and last valuation**
- **HICL Investment Policy and Strategy**





HSBC Infrastructure Company Overview

- **Successfully listed in March 2006**
- **Targeting a steady yield with growth**
 - First year dividend of 6.1p paid (ahead of target 5.75p)
 - Targeting 7.0p in 6 to 9 years through steady growth
 - Long term IRR of 7 to 8%
- **Current portfolio of 21 investments**
 - Mainly operational PFI projects in UK & Europe
 - Managed by HSBC infrastructure equity team
- **Successfully acquired 6 new investments since launch**
- **Seeking further investments**
 - Using debt for acquisitions with aim of raising further capital in due course

Investment Examples



**Home Office
Headquarters**



**Colchester
Garrison**



**Dutch High Speed
Rail Link**



**Bishop Auckland
Hospital**

**Central Middlesex
Hospital**



**Sussex Police
Authority**





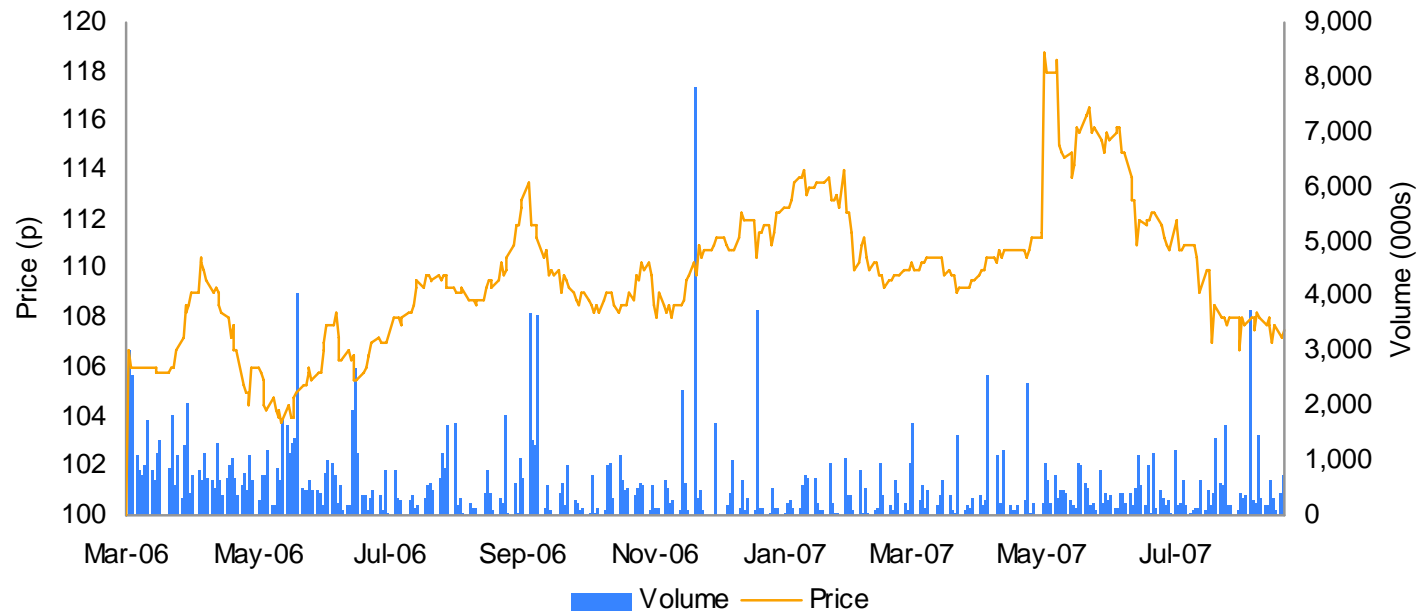
HICL differentiators

- **Majority of portfolio yielding**
- **First year dividend exceeded target**
- **HSBC team – solid track record since 1997**
- **Access to new investment opportunities through HSBC network**
- **Further potential to acquire minority stakes in existing investments**
- **No uncommitted cash – fund now geared**
- **Active asset management**



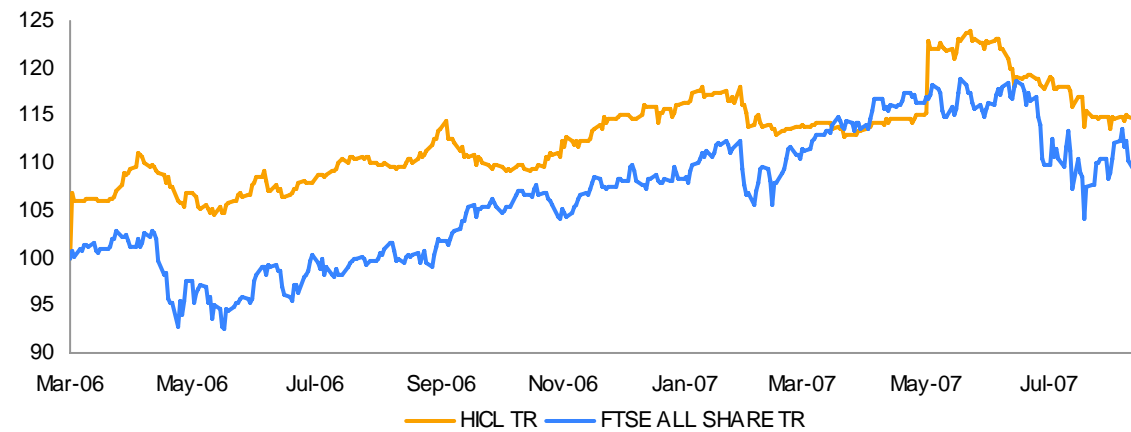
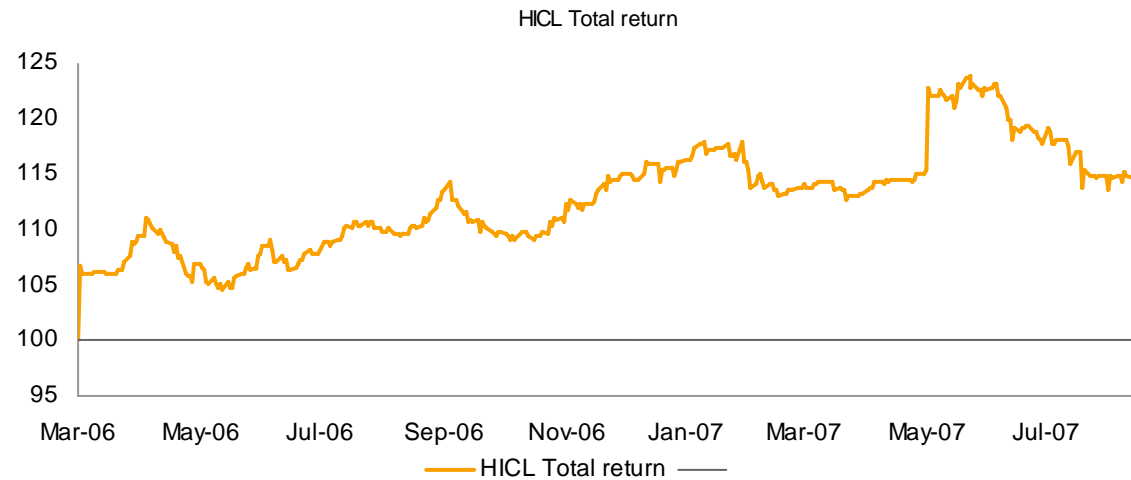
Share price performance

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





Total return





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What are infrastructure investments?



Sectors

- Typically investments in Project Companies with contracts to construct and/or operate infrastructure assets such as:



Public sector infrastructure*

- Essential public assets such as government accommodation, hospitals and schools, typically with pre-determined revenues

Regulated utilities

- Power, gas transmission, water and waste etc, with revenues that may be affected by price regulation

User demand assets

- Roads, airports, ports, railways etc, where revenues typically depend on usage and may be exposed to competition



Tenure

- Long-term contracts with entitlement to ~ 20 to 60 year revenues

Financing

- “Infrastructure Equity” (equity and subordinated debt) and senior debt or bonds

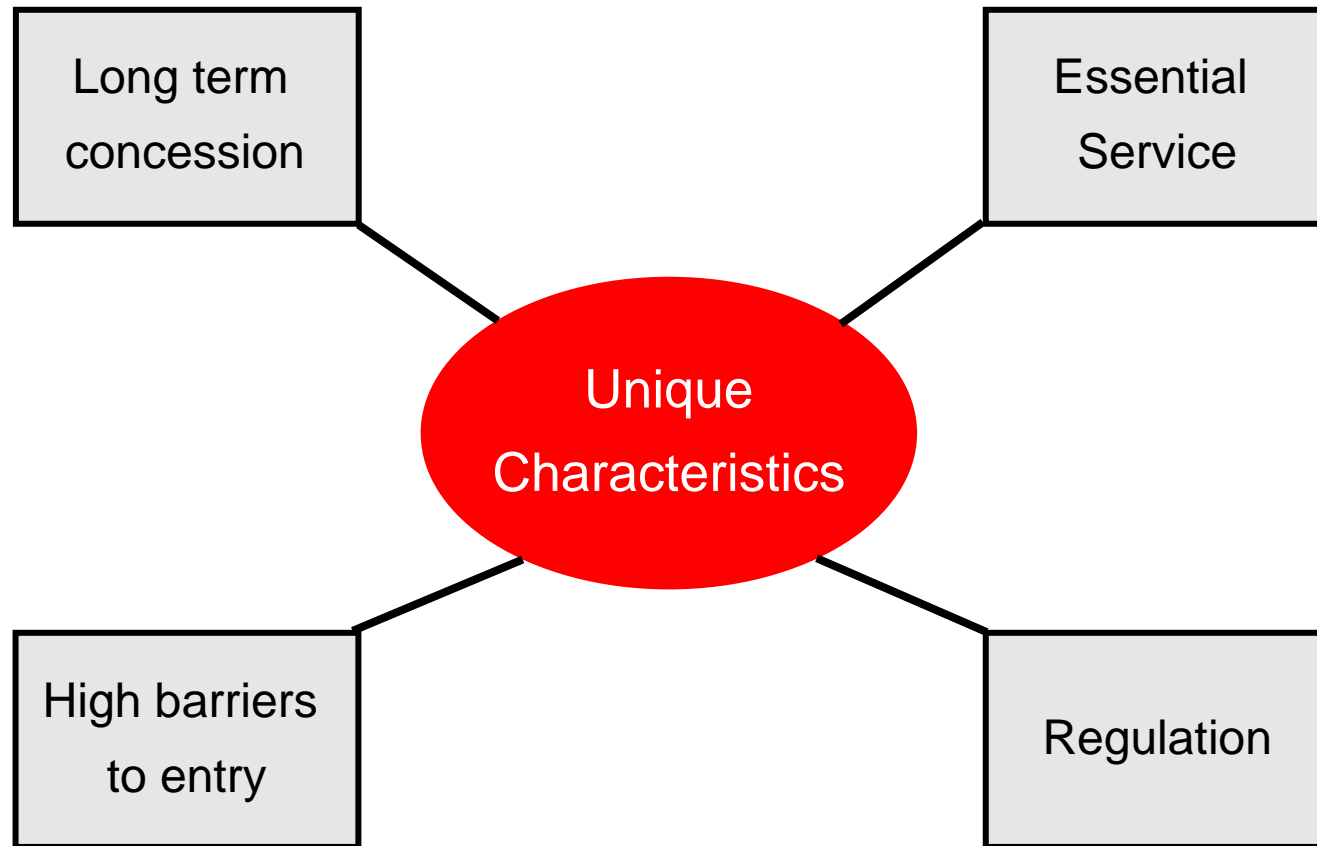


**The public-sector backed infrastructure market in the UK is referred to as the Private Finance Initiative (PFI) or Public Private Partnerships (PPP)*



Infrastructure Characteristics

Infrastructure assets are often defined by their asset characteristics rather than by reference to specific sectors

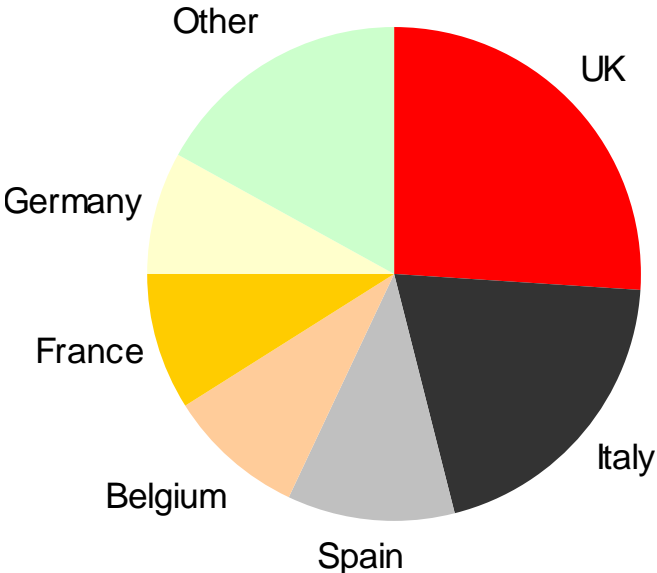


European infrastructure

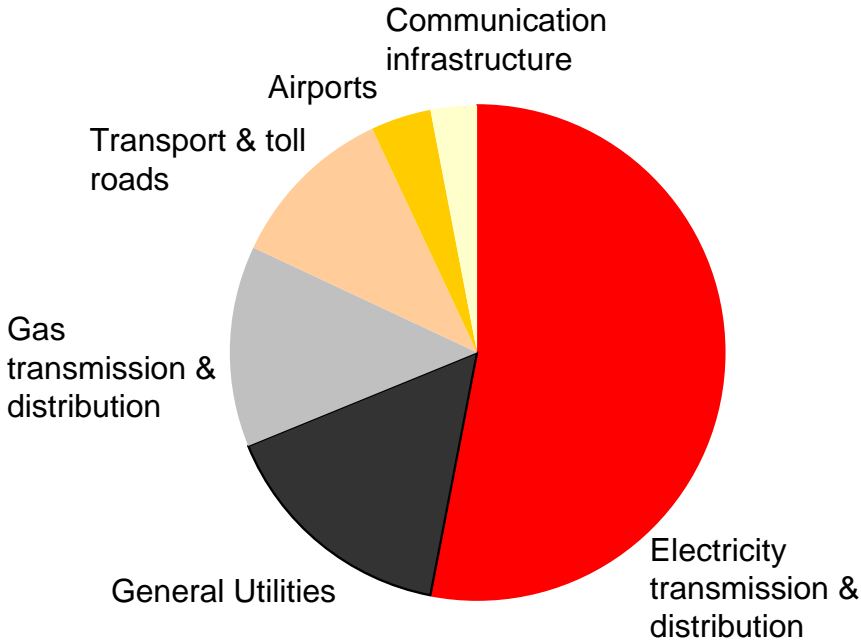
Estimated European market size of €130 billion



By geography



By sector



Source : Macquarie (Jan 03 – Feb 06) – OECD countries

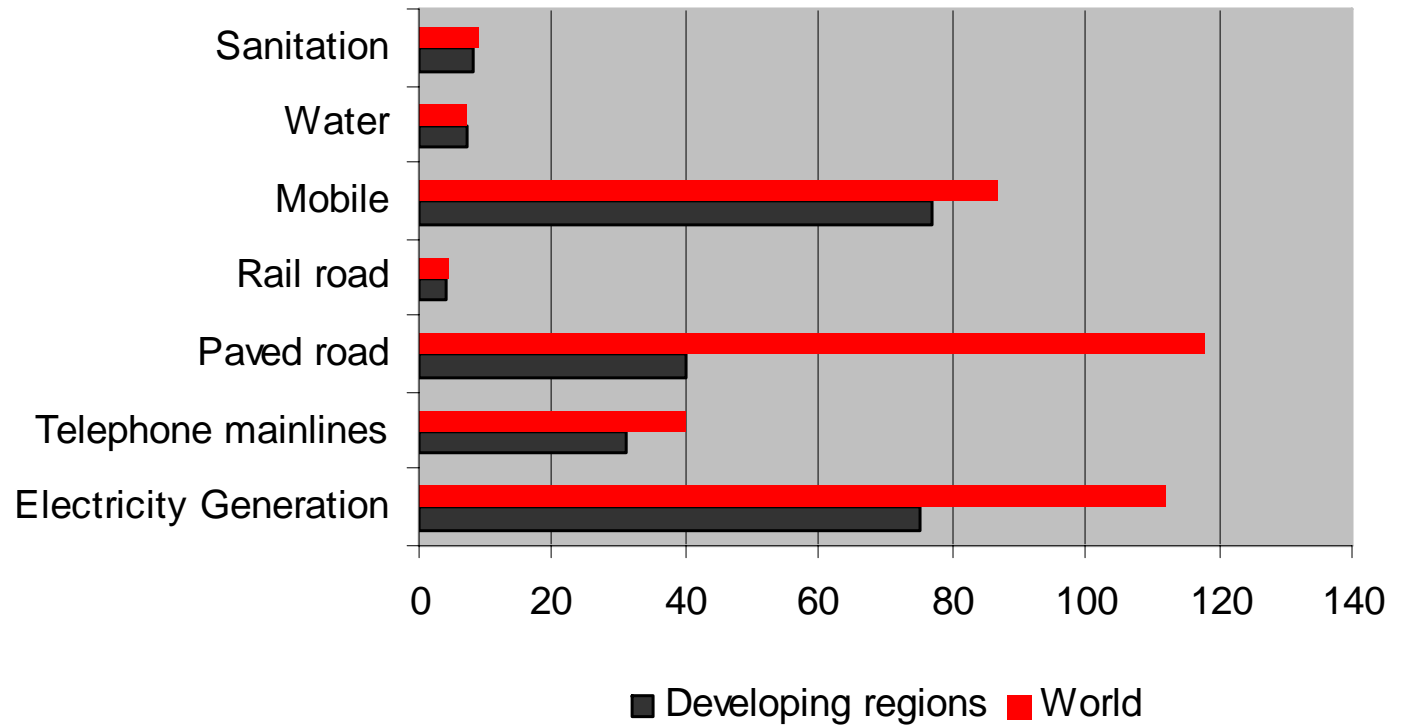


World infrastructure

Private sources of capital increasingly tapped as governments and incumbent providers are capital constrained



Expected annual investment needs – 2005 - 2010 (\$bn)



Source : World Bank, August 2006

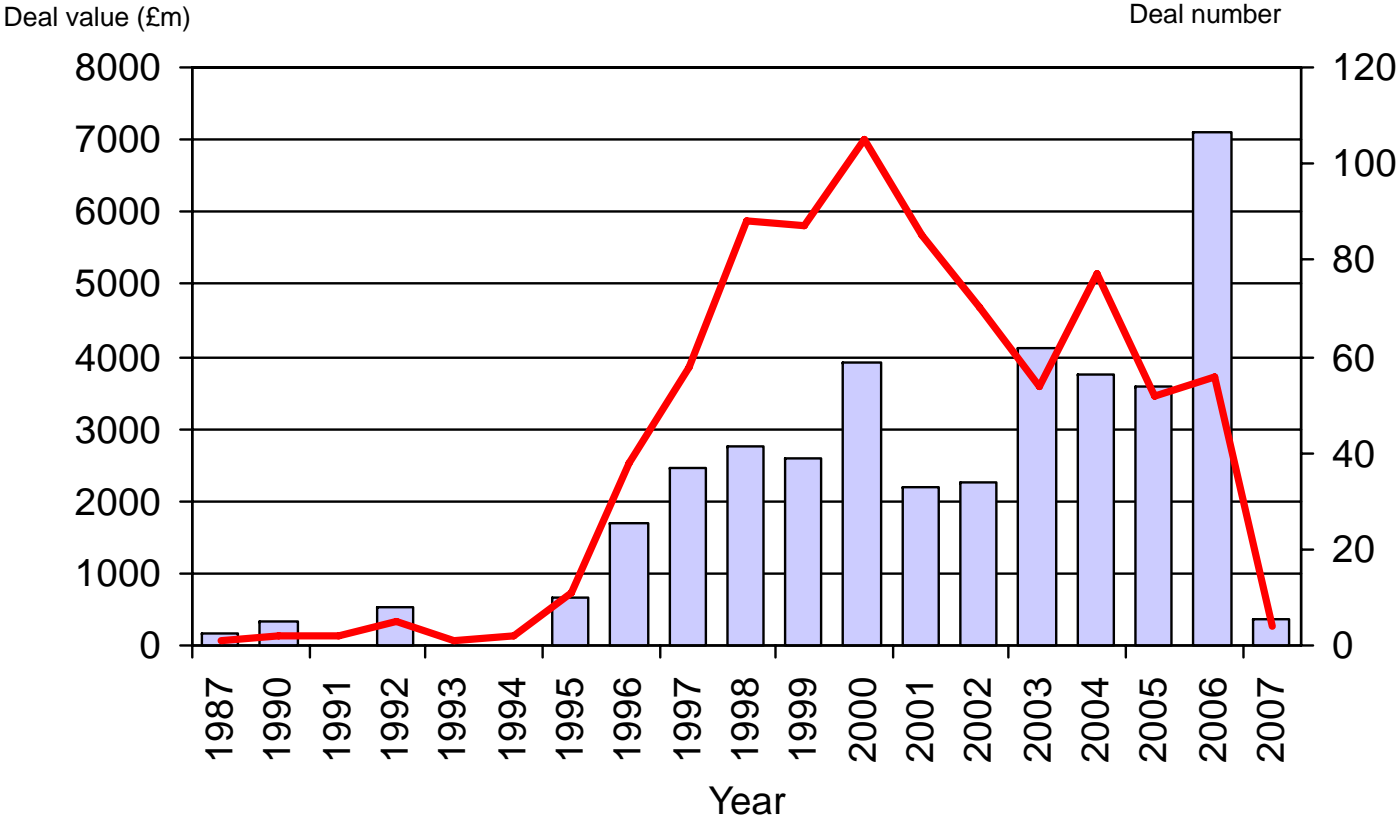


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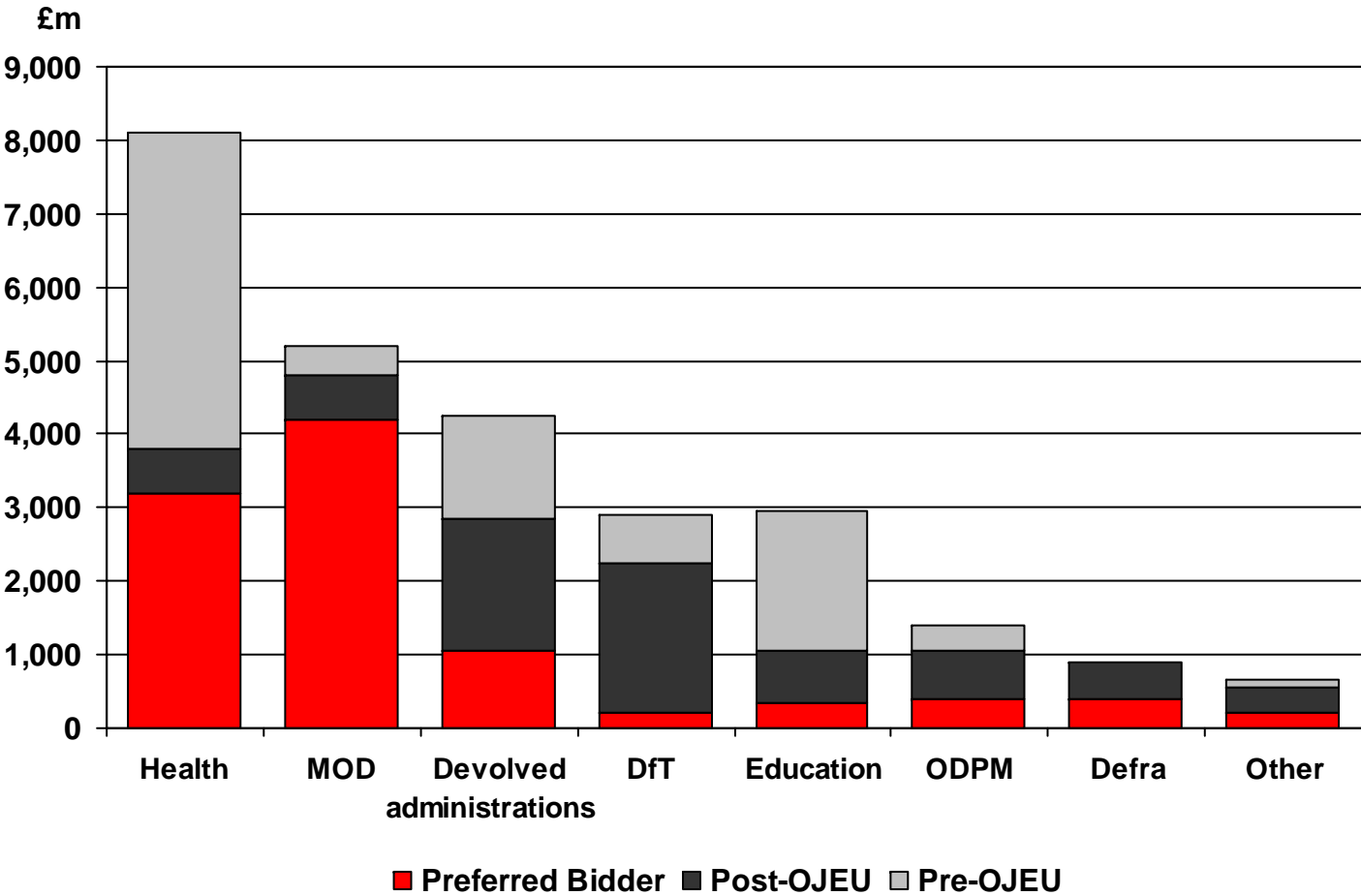


UK PFI – Historic evolution



Source : HM Treasury, excluding the Underground PPPs in 2003 – July 2007

UK PFI – Deal pipeline by department



Source : HM Treasury "PFI: strengthening long term partnerships – March 2006"



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Why invest in infrastructure?



High and stable yields

- Operational investments tend to generate a relatively high and predictable running yield



Attractive Cash Flows

Low volatility

High quality counter-party

Inflation protection

Transfer of risk

- Stable and regular revenues with limited exposure to economic cycles or competition
- Often government or public sector bodies
- Partially inflation protected revenues
- Downside protection as known range of risks can be quantified and mitigated (and often passed down to sub-contractors); infrastructure investments can support significant leverage



Low correlation

- Low correlation of returns to other asset classes such as non-infrastructure equities and real estate



Why invest in infrastructure?

Many investors now making a specific allocation to infrastructure as an asset class



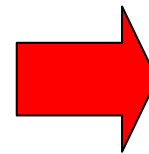
Infrastructure assets

- Long term concession
- Essential service
- Regulation
- High barriers to entry



Investment characteristics

- Long term cash flows
- Attractive cash flows / high and stable yield
 - Low volatility
 - High quality counterparty
 - Transfer of risk
- Inflation hedge
- Low correlation to equities



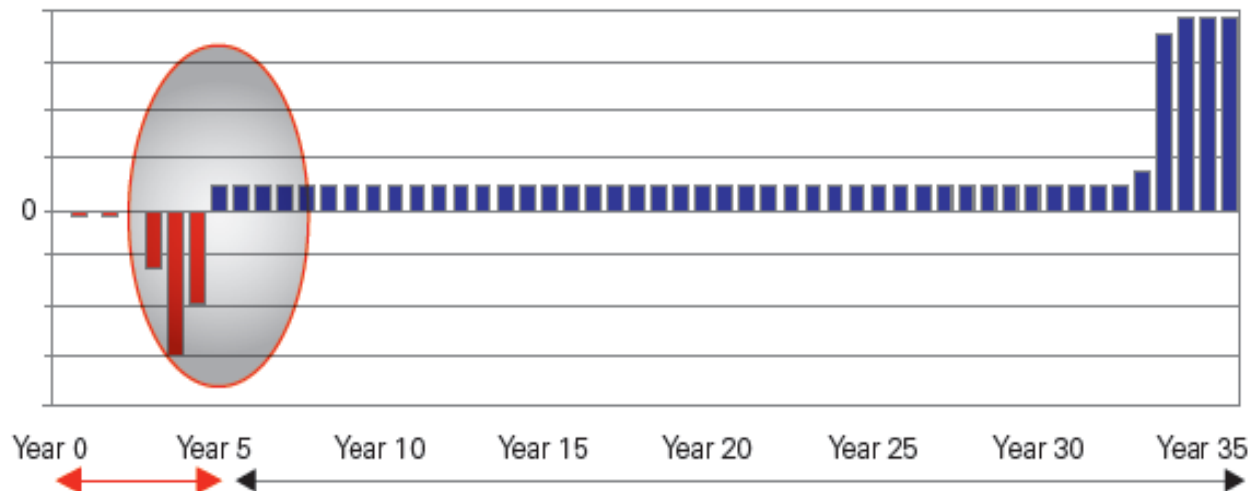


Infrastructure investment options

Choice of investment options – capital growth (‘primary’) or steady yield, or a mixture.

+ Cash flow from investment £

- Initial Capital investment £



Construction phase

Operational phase

Primary projects

Secondary projects

“Tertiary / operational” projects

Private Equity Funds

HSBC Infrastructure Company





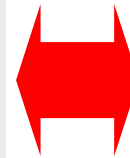
Investment strategies

Investors should determine which risk-return profile best suits their investment objectives



Private equity investment

- Higher risk / reward investment
- Returns mostly through capital gains
- Illiquid, relatively short term investment, which requires successful exit



Yield investment

- Lower risk/ reward investment
- Relatively high and stable yield
- Long term investment horizon
- Listed vehicles provide liquidity for investors





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HSBC Infrastructure Company Limited (“HICL”)

- Registered in Guernsey, listed on the main London Stock Exchange.
- Initial IPO March 2006 – over-subscribed.
- Portfolio of 21 investments
- Three independent directors
- Advised by HSBC Specialist Fund Management Ltd.
- Current market cap of c £270m
- March year end (interim results in Nov)
- Web site: www.hicl.hsbc.com



Investment opportunity

Yield, growth potential and absolute returns from the first infrastructure investment company on the London Stock Exchange



Initial Portfolio

- £250 million portfolio of 15 high quality investments **Now 21**

High yield

- Initial annualised dividend target of 5.75% p.a. on the Issue Price of 100p **First year dividend of 6.1p achieved**

Yield growth

- Target growth to 7p within 6 – 9 years and a long term IRR of 7 – 8%

High quality cash flow

- Long term (~ 20 to 60 years), partially inflation protected and often public sector or government backed revenue streams

Management team

- A dedicate team in HSBC of 18 experienced infrastructure professionals, with global access through the Group's network.





HSBC Infrastructure Company Limited

First infrastructure investment company to be listed on the London Stock Exchange



Existing portfolio

Initial portfolio of 15 high quality investments in PFI and 6 subsequent new investments

Growth objectives

Seek growth from active management of existing investments and suitable new acquisitions if suitably priced

IPO

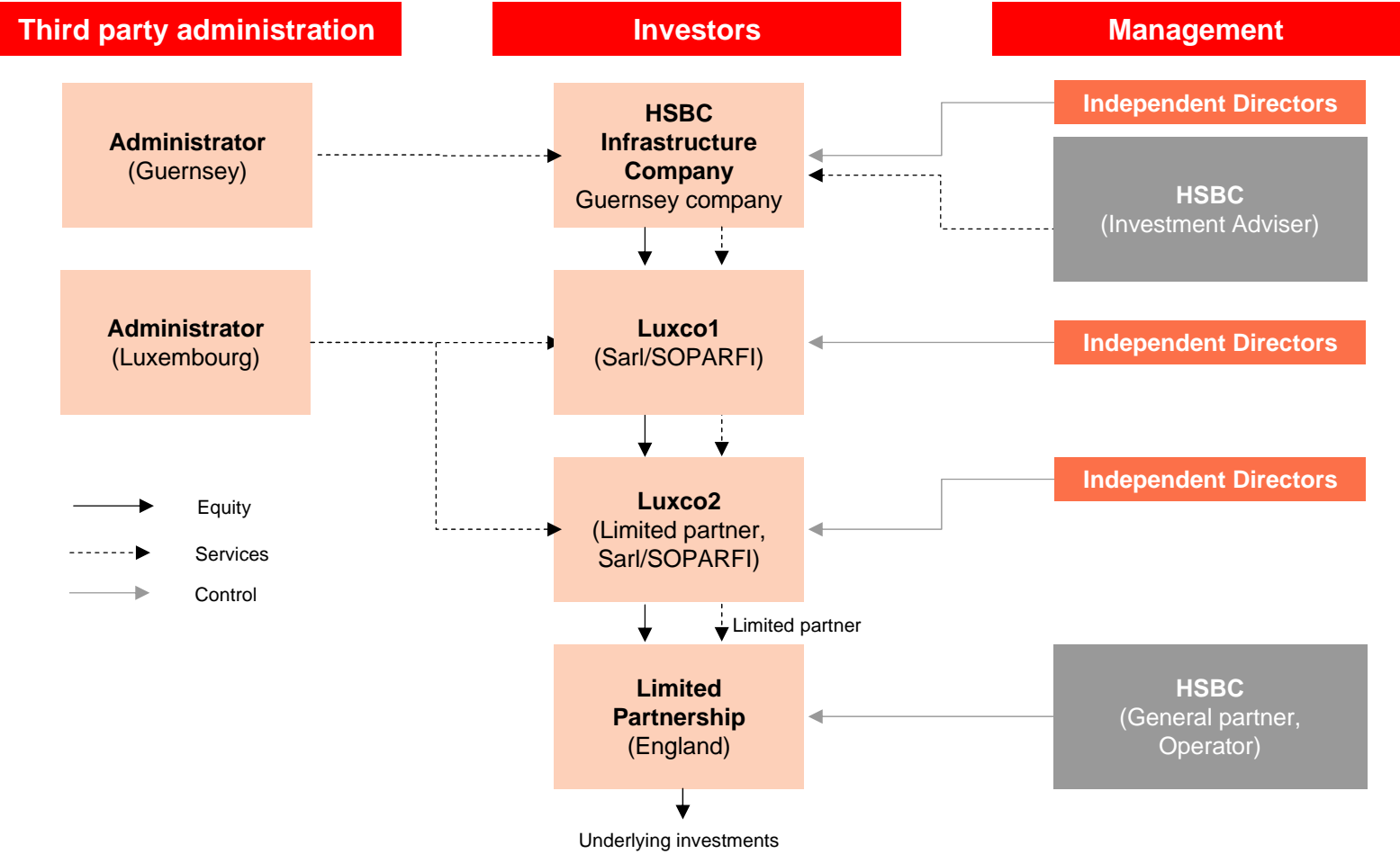
Successful fund raising and IPO, strong trading performance since launch

Supportive Investors

Core investor base and known additional investors interested in supporting HICL's future growth



Group structure diagram





Governance

- **Board of Directors (all non-executive)**
 - Adherence to strategy
 - Raising additional funding (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)

HSBC Infrastructure team & track record

Specialist management team with a long term perspective



Long track record

Started infrastructure investment in 1997

Team

A team of 18 with over 130 years experience

Funds

Three funds raised - £650m

Experience

PFI in UK, Europe & Australia, toll roads, airports, rail, wind, power, ports

International reach

Global access through HSBC network



The HSBC Infrastructure Investment team

Leading participant in the UK / European infrastructure market. Proven track record of sourcing, bidding for, conducting due diligence on, enhancing, managing and realising infrastructure investments ...

- **Team profile**

- Over 48 projects (signed and preferred bidder) with **aggregate capital value in excess of £9bn**
- Team of 18 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 **130 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

HSFML Adviser team



*Werner
von Guionneau
CEO, HSFML*



*Tony
Roper
Director
HSFML*



*Gareth
Craig
Head of
Infrastructure
HSFML*




*Richard
Sem
Investment
Director
HSFML*



*Keith
Pickard
Portfolio
Director
HSFML*



*Erwan
Fournis
Investment
Director
HSFML*



*Sandra
Lowe
Director,
Investor
Relations
HSFML*



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Portfolio, showing acquisitions



September 2007

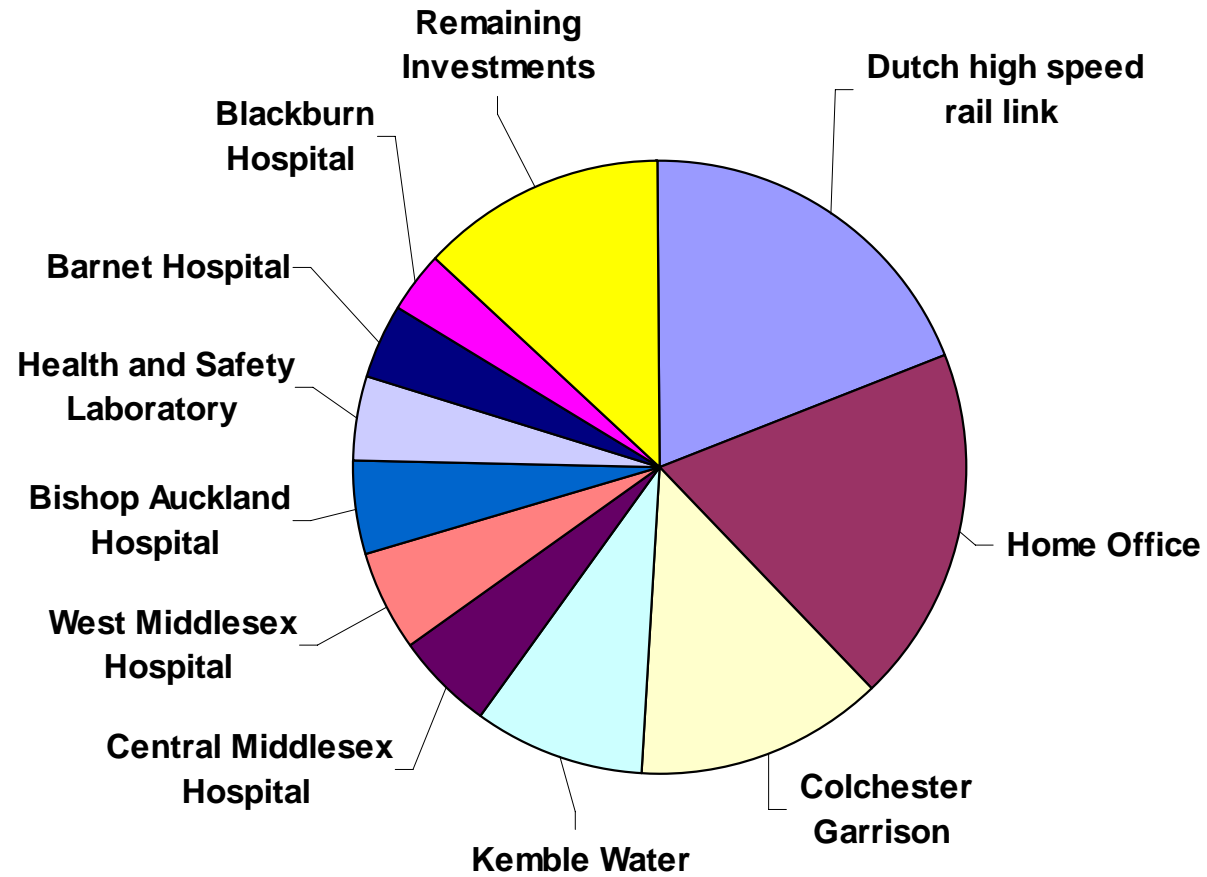
Accom.	Education	Health	Law & Order	Transportation
Home Office	Health & Safety Laboratories	Bishop Auckland Hospital	Sussex Custodial Services	Dutch high speed rail link
Colchester Garrison	Conwy Schools	West Middlesex Hospital	Exeter Crown Court	Utilities
	Helicopter Training Facility	Central Middlesex Hospital	GMPA Police Stations	Kemble Water Junior Loan
	Defence 6th Form College	Blackburn Hospital	MPA SEL Police Stations	
	Pinnacle Schools, Fife	Barnet Hospital	MPA Firearms Training	
New		Stoke Mandeville Hospital	D & C Tactical Training	
Increases				



Portfolio - Key features

- 21 investments
- 20 projects now fully operational
- Dutch high speed rail link
 - Certificates of Availability received for both Northern and Southern sections
- Colchester Garrison
 - Phase 1 construction completed August 2006
 - Phase 2 due to complete 2008
- All PFI projects performing well
- No material operational or financial issues

Portfolio - Ten largest assets



By value, as at 31 March 2007, excludes the 4 PFI police assets acquired in August for £36.5m

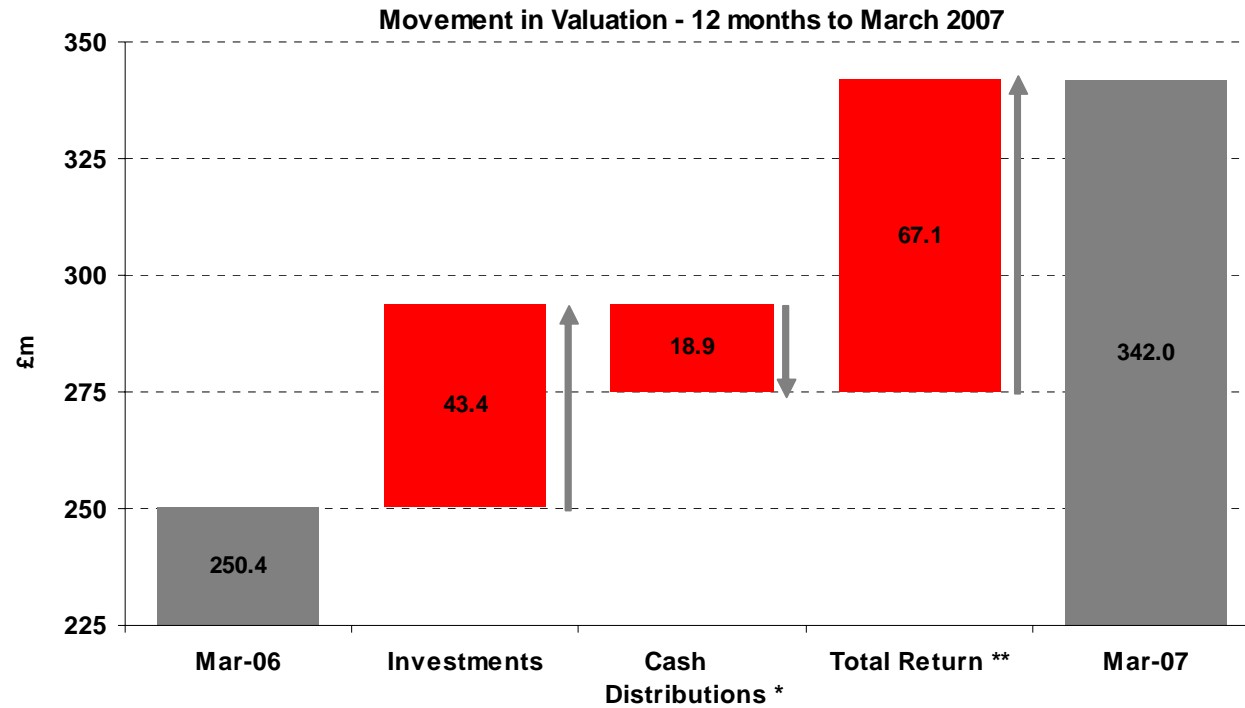


Valuation methodology

- Portfolio valued twice a year by Investment Adviser – independently verified
- Discounted Cash Flow Methodology
- Investment cash flows
- Discount rate comprising risk free rate plus investment specific premium
- At March 2007
 - Range of rates from 6.5% to 9.0%
 - Weighted average rate of 7.0% (7.9% at Sept 06)



First Year - Analysis of valuation change

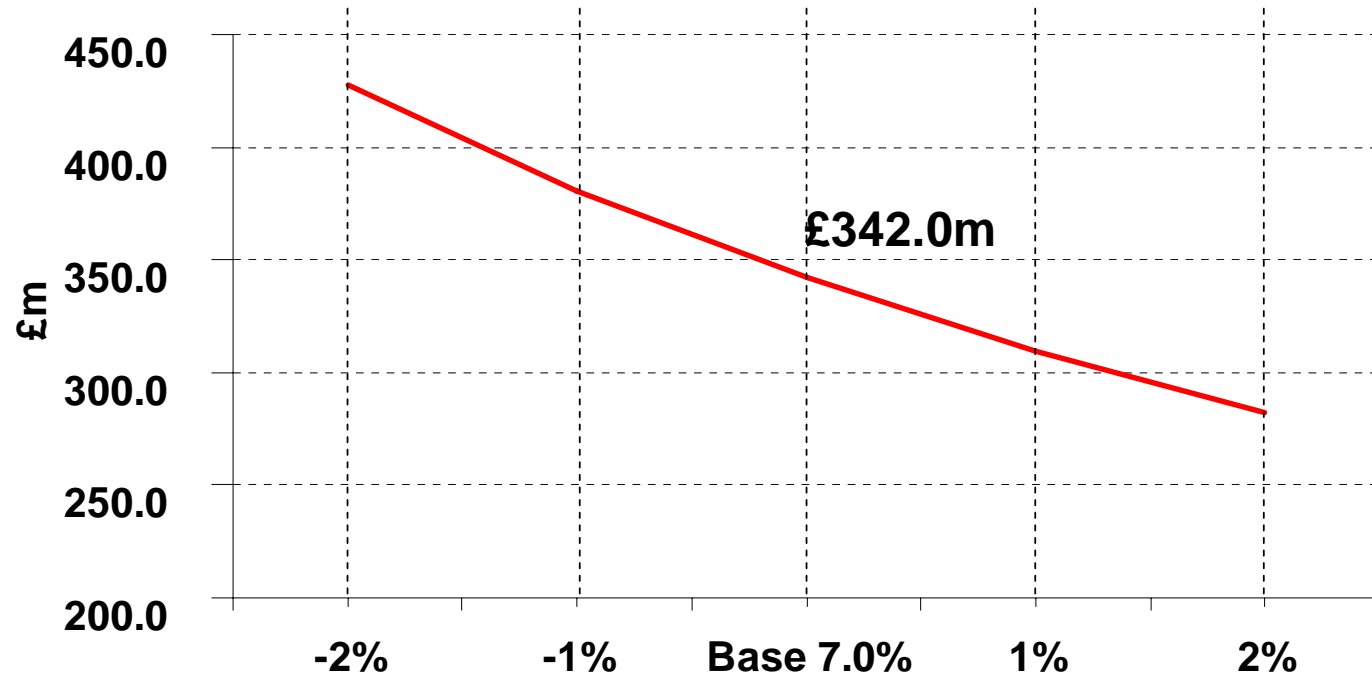


*Grossed up for withholding tax to be recovered of £2.9m

**Total return comprises income return £14.4m plus valuation uplift of £53.1m (split H1 £14.5m & H2 £38.6m) less other movements of £0.4m

Taken from preliminary results presentation for period to March 2007

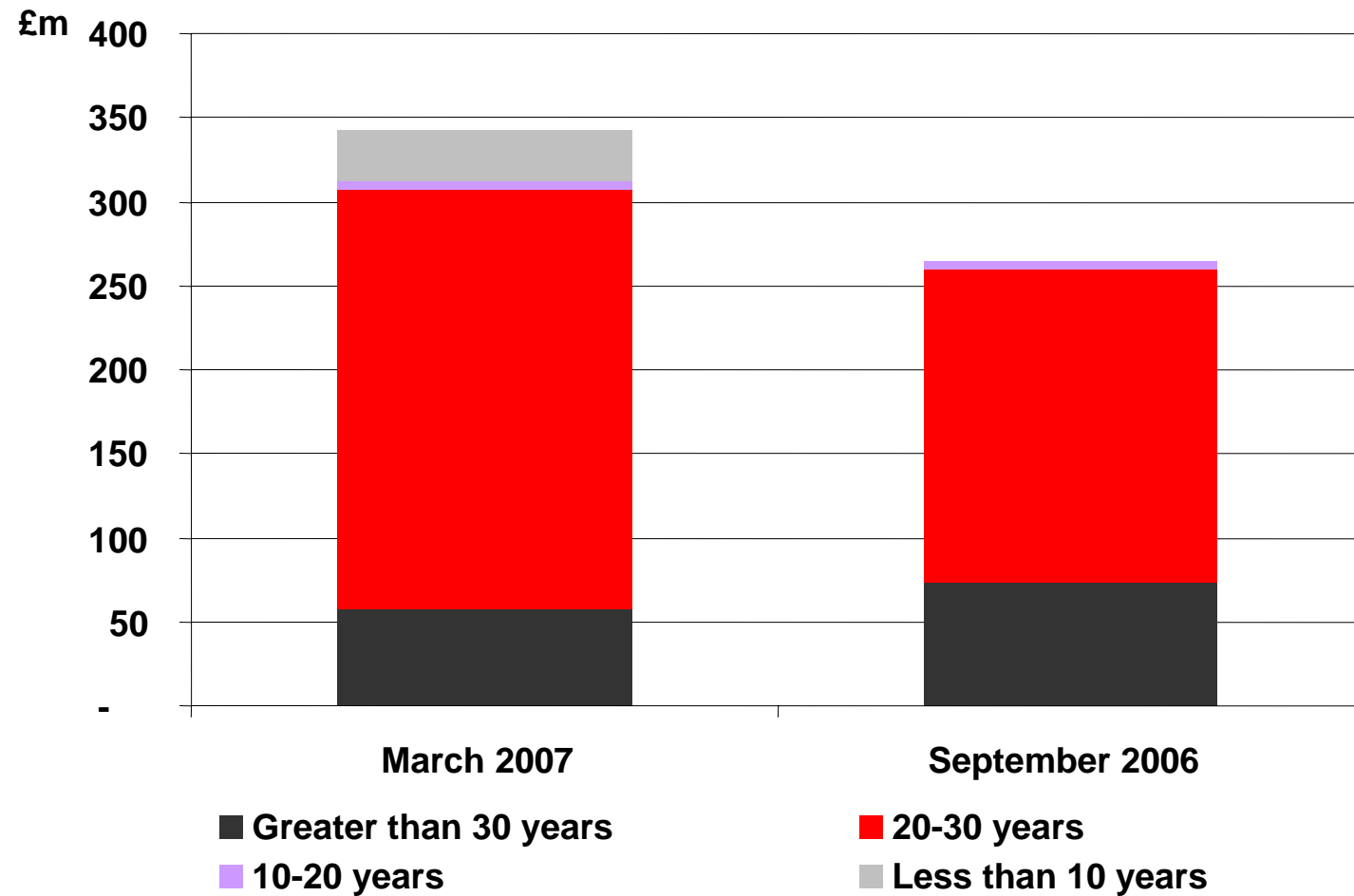
Sensitivity of valuation to discount rate



Taken from preliminary results presentation for period to March 2007



Portfolio valuation by concession length remaining



Taken from preliminary results presentation for period to March 2007



First Period - Financial highlights

All figures stated on an investment basis

Period to 31 Mar 07



Profit before valn. movement	£11.8m
Valuation movements	£53.1m
Profit Before Tax[#]	£64.9m



EPS	26.0p
Final Dividend	3.225p
Total dividend for the year	6.1p



NAV per share	121.5p
Net debt	£16.4m

[#] Consolidated Profit before tax over the period was £82.4m



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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, America & Far East**



Strategy

- **Existing portfolio of investments**
 - Active management
 - Delivery service performance
 - Achieve identified efficiencies
 - Commencing refinancing of selected assets
- **New investment opportunities**
 - Careful selection
 - Suitable investments at fair prices
 - Value potential
 - Using relationships to find opportunities



Market environment

- **Varies depending on sectors and geography**
- **Different investors looking at different sectors**
- **Excess liquidity**
- **Some assets commanding full prices**
- **Opportunities to join consortium or be in sell-down processes**



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"> • Reducing Project Company costs • Revenue enhancements • Follow-on investments • Gearing and re-financing • Monitoring and managing risks 	<p>1.25% - 2.25%</p>	<p>Enhancing yield from Initial Portfolio and acquisitions</p>	<ul style="list-style-type: none"> • Secondary public sector infrastructure assets • User demand assets and regulated utilities • Construction phase assets • Financed by further equity share capital and/or prudent use of leverage
	<p>5.75%</p>	<p>Initial target dividend yield (on issue price)</p>	
	<p>Actual first period dividend of 6.1p</p>		