
HSBC Infrastructure Company Limited (the "Company")

Investment Policy

This Investment policy was updated by the Company in 2008 prior to the C share issue to reflect the changes in Listing Rule 15 in September 2007. This policy has been approved by the Directors, who do not consider the policy to have changed materially from the policy set out in the launch prospectus (March 2006).

Investment criteria

The Group (being the Company and its wholly-owned subsidiaries) will also seek to enhance returns for Shareholders by acquiring additional more diverse investments with attractive yield growth prospects. These may be single investments or portfolios of investments.

The Directors intend that the Group will seek to acquire:

- additional investments in infrastructure and PFI/PPP/P3 projects which have predominantly "availability" based income streams, and
- investments in companies with "demand" based concessions (i.e., where the payments received depend on the level of use, and may be made by the user of, the project assets) to the extent that the Investment Adviser considers that demand and therefore stability of revenue is established, and
- investments in companies in the regulated utilities sector which have appropriate risk/reward characteristics.

To the extent that it is consistent with the principles of prudent portfolio management and the maintenance and growth of an attractive long term distribution yield for Shareholders, the Company may invest in aggregate up to 35 per cent. of its total gross assets (at the time the relevant investment is made) in:

- Project companies or concessions which have not yet completed their construction phases, but where prospective yield characteristics and associated risks are deemed appropriate to the investment objectives of the Company. This may include investment in companies which are in the process of bidding for concessions, to the extent that such companies form part of a more mature portfolio of investments which the Group considers it appropriate to acquire; and/or

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- Project companies or concessions with “demand” based income streams (where the Investment Adviser considers that demand and stability of revenues are not yet established) and/or project companies which do not have public sector sponsored/awarded or government-backed concessions;

and to a lesser extent (but counting towards the same aggregate 35 per cent.) in:

- limited partnerships and other funds that make infrastructure investments, and/or
- financial instruments and securities issued by companies that make infrastructure investments, or whose activities are similar or comparable to infrastructure investments.

The percentages stated above in relation to investment allocations will apply only at the time the relevant investment is made.

Single investment limit and diversity of clients and suppliers

When any new acquisition is made, the Company will ensure that the investment acquired does not have an acquisition value (and if it is an additional stake in an existing investment, the combined value of both the existing stake and the additional stake acquired) of greater than 20% of the Total Gross Assets of the Company immediately post acquisition. Total Gross Assets will be calculated based on the last published gross investment valuation of the portfolio plus acquisitions made since then at their cost of acquisition.

The purpose of this limit is to ensure the portfolio has a number of similarly sized investments and is not dominated by any single investment.

In selecting new investments to acquire, the Investment Adviser will seek to ensure that the portfolio of investments has a range of public sector clients and supply chain contractors, in order to avoid over-reliance on either a single client or a single contractor.

Geographic focus

The Company is able to make investments in the European Union, Norway, Switzerland, the Americas and selected territories in Asia and Australasia. Whilst the current portfolio is predominantly UK based, the intention is to diversify geographically if suitable investments can be identified.

It can also make investments in other markets should suitable opportunities arise, and will seek to mitigate country risk by concentrating on investment opportunities in jurisdictions where it considers that contract structures and enforceability are reliable, where (to the extent applicable) public sector obligations carry a satisfactory credit rating, and where financial markets are relatively mature.

New investments and conflicts of interest

It is expected that further investments will be sourced by the Investment Adviser and Operator and some of these investments may have been originated and developed by, and may be acquired from, an HBSC Specialist Investments Ltd (“HSIL”) subsidiary or a fund managed by an HSIL subsidiary. In order to deal with these potential conflicts of interest, detailed procedures and arrangements have been established to manage transactions between the Group and an HSIL subsidiary or fund managed by an HSIL subsidiary (the “Rules of Engagement”).

Key features of the Rules of Engagement include:

- the creation of separate committees within HSIL. These committees represent the vendors on the one hand (the “Sellside Committee”) and the Group 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; limited partnerships and other funds that make infrastructure investments, and/or
- a requirement for the Buyside Committee to conduct an independent due diligence process prior to making an offer for its purchase
- a requirement for any offer made for an asset to be supported by a report on the Fair Market Value for the transaction from an independent expert;
- the establishment of “Chinese walls” 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; and
- the provision of a “release letter” to each employee of HSIL 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 or Sellside Committee

Gearing

The Company has secured debt facilities to enable further acquisitions to be made. Under the Company's Articles, the Group's outstanding borrowings, including any financial guarantees to support outstanding subscription obligations, are limited to 50 per cent of the Adjusted Gross Asset Value of its investments and cash balances. For this purpose, outstanding borrowings exclude internal Group borrowings and debts of the Group's underlying investments.

Changes to Investment Policy

Material changes to the Group's investment policy may only be made by Ordinary Resolution of the Shareholders of the Company.

Current focus

The Investment Adviser is tasked with executing the above strategy and policy. In relation to new investments, the current focus is on concessions and projects in the following core infrastructure sectors:

- PFI/PPP/P3 projects in the UK, Europe, North America, and Australia (both operational and still in their construction phases).
- Operational renewable energy projects such as wind farms, solar parks or hydro-electric schemes, where there are suitable contractual structures in place, enabling the Group to secure long term income streams not dissimilar in nature to those in PFI/PPP/P3 projects. A number of these schemes have now been developed in Europe with established contractual tariff regimes.
- Regulated utilities. To date we have passed up investment opportunities on the grounds of size and pricing. However, opportunities to acquire stakes in regulated businesses are now expected to arise at acceptable returns.
- Selectively, debt funding in infrastructure projects where it is attractively priced and appropriately structured.

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