

# HICL Infrastructure Company Limited



10 February 2012

## Interim Management Statement

HICL Infrastructure Company Limited ('HICL' or the 'Company'), the listed infrastructure investment company, is issuing this Interim Management Statement ('IMS') in accordance with FSA Disclosure and Transparency Rule 4.3. This statement relates to the period from 1 October 2011 to 9 February 2012. References to the Group below refer to the Company and its wholly-owned corporate subsidiaries.

### Highlights

- ▲ 27 new UK PFI investments acquired and an additional stake in an existing investment made during the period, for a total consideration of £162.4m
- ▲ Pipeline of new investment opportunities remains healthy and of good quality. Further investments anticipated during H1 2012
- ▲ The interim dividend of 3.35p per share was paid on 30 December 2011 and on track to meet target dividend of 7.0p per share by March 2013
- ▲ 30.7m shares placed for cash raising £35.4m before costs in the period
- ▲ Net Asset Value per share of 114.0p on an Investment basis as at 31 December (up from 111.5p as at 30 September 2011 post interim dividend), based on a Directors' Valuation of the portfolio of 70 investments of £889.7m.
- ▲ Announcement on 26 January 2012 of the intention to raise at least £135m by way of C shares in February/March 2012. Funds raised will be used to pay down debt and fund additional investments

Graham Picken, Chairman of HICL Infrastructure Company Limited, said

"The Company continues to perform well and the acquisitions made in the period complement the Group's existing portfolio, providing greater diversification and long term added value.

As a result of the portfolio acquisition and the healthy pipeline of new opportunities, the Directors have announced their intention to raise further equity capital by way of C shares. The proceeds will be used to repay the Group's revolving debt facility and fund any new investments which may be made or identified prior to the C share issue. We will announce further details and the proposed timetable later this month."

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## Acquisitions and additional Investments

Since 30 September 2011, the Group has made 27 new investments and an incremental acquisition.

In November, the Group acquired a new investment and bought an additional stake in an existing project for a total consideration of £19.0m. The new investment was represented by a 75% interest in the Sir Robert Hadfield Wing PFI Project in Sheffield purchased from Kajima Partnerships Limited. The acquisition was effected through a new joint venture holding company established with Kajima earlier in the year, in which the Group holds a 75% share. The Group also acquired an incremental 50% equity and loan note interest in the Blackburn Hospital PFI project. This gave the Group 100% of the equity and loan notes in this project.

In December, the Group acquired investments in 26 PFI/PPP projects from two infrastructure funds managed by Barclays Infrastructure Funds Management Limited. Total gross consideration was approximately £143.4m.

All of the 26 projects are operational and, apart from two investments in the Republic of Ireland, are based in the UK. The portfolio of 26 investments comprises ten schools projects, eight health projects, five fire and police projects, two roads and a library project. Investment in each project ranges from 25% to 100% of the equity issued.

## Portfolio

Following completion of the acquisitions made in November and December 2011, the Group now holds a portfolio of 70 infrastructure investments, all of which are PFI/PPP/P3 projects in the UK, Europe and Canada.

These PFI/PPP/P3 projects have long-term availability-based concessions with public sector clients, none of which require refinancing to meet their long-term business plans. The M80 DBFO Road only remains in construction, representing circa 3% of the portfolio by value, as the final landscaping and off-road construction activities are completed. We expect this work to be finalised by March 2012.

Cashflow from the portfolio is in line with our projections.

## Pipeline of new opportunities

2012 has started with a healthy pipeline of new investment opportunities in the UK and Europe. The Investment Adviser is currently working on a number of potential PFI/PPP acquisitions, mainly UK operational projects. It is possible that one or more of these will be concluded in the run up to the proposed C share issue.

## Infrastructure market developments

In the UK, the Government launched its Infrastructure Plan 2011 in November which requires £250bn of new investment. It is clear that a major part of this Plan will require new private sector financing. The Government has embarked on a programme of seeking new sources of funding e.g. from pension funds and from overseas investors. Whilst this does not directly affect the Group, given its strategy of acquiring investments in projects already procured, comfort is taken from the Government's recognition of the value derived from private sector involvement in infrastructure.

The number of new PFI projects procured in the UK has reduced. HM Treasury is currently holding a consultation to seek ways of improving the model. Pending any changes or refinements to new project procurement, activity in the secondary market for existing schemes continues undiminished.

## Dividends

On 16 November 2011, the Company declared the first interim dividend of 3.35p per share for the year to 31 March 2012. This was paid to shareholders on 30 December 2011. A scrip dividend alternative was offered and there was a 6.4% take-up, resulting in an additional 2,462,466 ordinary shares being issued on 30 December 2011.

## Valuation of the Portfolio

The Company values the portfolio twice a year as at 30 September and 31 March. At 30 September 2011, the Company's Net Asset Value per share on an investment basis ('NAV') was 111.5 per share (after payment of the 3.35p interim dividend).

As in previous periods, the Investment Adviser will prepare a fair market valuation for each of the Group's investments as at 31 March 2012. This will be based on discounted cashflow analysis of future forecast cashflows of the Group.

With the Company planning to raise equity by way of a C share issue in advance of 31 March 2012, the Directors decided it was appropriate to provide an update on the NAV per share as at 31 December 2011. The Investment Adviser has therefore prepared a valuation of the Group's portfolio of 70 investments as at 31 December 2011 which, after review and analysis, the Directors have approved. This Directors' Valuation at 31 December 2011 is £889.7m, equivalent to a NAV per share on an investment basis of 114.0p per share. The update captures 3 months of dividend accrual, an element of NAV growth from projects completing construction from a small downward movement in discount rates.

The weighted average discount rate at 31 December 2011 was 8.6%, a slight fall from 8.7% as at 30 September.

The key assumptions used to derive the 31 December 2011 Directors' Valuation were:

- ▲ Long term UK inflation (RPI and RPIx) of 2.75% pa
- ▲ Holland, Ireland and Canada inflation assumptions of 2.0% pa
- ▲ UK deposit rates of 1.0% pa to March 2014 and 3.75% pa thereafter
- ▲ UK corporation tax rate of 25%

## Capital and gearing

The Group has access to a £200m five year revolving debt facility with Bank of Scotland. Following the portfolio acquisition in December 2011, the issue of scrip shares in December and the tap issue in January 2012, the Group has utilised circa £135m of its debt facility. This amount is the minimum the Company will seek to raise by way of C share issue.

As previously reported, the Board and the Investment Adviser have been discussing options for renewing the Group's debt facility. The refinancing of the existing facility with a replacement 3 year £150m multicurrency facility is now well advanced. Documentation should be completed in advance of the publication of the C share prospectus later this month.

As part of the proposed C share issue, the Company will be seeking shareholder approval for a number of resolutions by way of an extraordinary general meeting ("EGM"), including the waiving of pre-emption rights for the proposed Open Offer and Offer for Subscription by way of C shares, and for an increase in the authorised share capital of the Company. It is expected that a Circular will be sent to shareholders later this month, with the EGM to be held in March.

## Outlook

The Board and the Investment Adviser remain reassured by both the quality and performance of the Group's investments.

The portfolio is performing as planned, although the Investment Adviser's team remain mindful of the on-going need to seek efficiencies. Engagement with public sector clients is a key component of asset management and, following HM Treasury's updated PFI guidance, the Group continues to contribute meaningfully to initiatives aimed at delivering more productive use of resources within the projects.

The secondary markets for PFI/PPP/P3 assets are expected to offer a steady stream of attractive investment opportunities for the future.

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## HICL Infrastructure Company Limited

The Company is a long term investor in infrastructure projects which are predominantly in their operating phase and yielding steady returns. It was the first infrastructure investment company to be listed on the London Stock Exchange. It currently owns a portfolio of 70 infrastructure investments, all of which are PFI/PPP/P3 projects, and is seeking further suitable investment opportunities which fit its stated Investment Strategy.

Further details of the Company can be found on its website [www.hicl.com](http://www.hicl.com).

This IMS provides an explanation of material events and transactions that have taken place during the period from 1 October 2011 to 9 February 2012 and their impact on the financial position of the Investment group. These indications reflect the Investment Adviser's and the Board's current views. They are subject to a number of risks and uncertainties and could change. Factors which could cause or contribute to such differences include, but are not limited to, general economic and market conditions and specific factors affecting the financial prospects or performance of individual investments owned by the Group.

## Investment Adviser

The Investment Adviser to the Company is InfraRed Capital Partners Limited, whose infrastructure investment team has successfully invested in infrastructure projects since 1997.

# HICL Infrastructure Company Limited



InfraRed Capital Partners Limited is authorised and regulated by the Financial Services Authority.