



# Half-yearly report

for the six months to 30 September 2016



This Half-yearly report has been prepared solely to provide information to shareholders. It should not be relied on by any other party or for any other purpose. This Half-yearly report may contain statements about the future, including certain statements about the future outlook for 3i Infrastructure plc ("the Company"). These are not guarantees of future performance and will not be updated. Although we believe the expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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# Performance highlights

## Good portfolio performance driving growth in Net Asset Value

Total return of £73.8m in the first half of the year is in line with expectations, driven by the continued performance of the portfolio.

Net Asset Value ("NAV") of £1,701m (March 2016: £1,277m).

**5.0%**

Total return on opening NAV for first 6 months

**165.7p**

NAV per share

## Strong level of investment across our target markets

Further progress made in diversifying the portfolio.

£287m of investments completed in the period: WIG, TCR, Valorem and the Hart van Zuid PPP project.

Also committed to invest €6.5m in the A27/A1 PPP project since the end of the period.

**£287m**

Invested or committed in the period

## Good income progression

Portfolio continues to deliver planned cash flows with newer investments contributing as expected since acquisition.

Total income of £35.5m in the period, in line with expectations. In addition, non-income cash of £12.5m was received.

**£35.5m**

Total income

## Managing our balance sheet efficiently while maintaining a good level of liquidity to invest

Revolving Credit Facility ("RCF") was extended to May 2019. During the period, the accordion feature of the RCF was exercised and subsequently cancelled, demonstrating our flexible funding model.

**£136m**

Cash balances

**£275m**

Undrawn RCF balance

## Delivering on the increased dividend target

On track to deliver on the total dividend target for FY17 of 7.55p per share, representing growth of over 4% on FY16.

Interim dividend of 3.775p per share will be distributed on 9 January 2017.

**3.775p**

Interim dividend per share

## Raised new equity of £385m, substantially deployed during the period

£385m of new equity raised from existing and new shareholders.

Most of the proceeds have been deployed to fund the new investments in the period.

**£385m**

New equity raised in the period

## Chairman's statement



The Company has had a productive first half. In a competitive market, we completed four new investments for a total consideration of £287 million and executed a successful capital raise. The Company's portfolio continues to deliver income in line with expectations. Supported by our outlook for the portfolio, including the new investments completed in the period, we remain on track to deliver a full year dividend for FY2017 of 7.55 pence per share."

**Richard Laing**

Chairman, 3i Infrastructure plc  
2 November 2016

### Performance

The Company generated a total return of £74 million in the six months to 30 September 2016, or 5.0% of opening NAV (adjusted on a time weighted average basis for the capital raise), in line with the target of 8% to 10% per annum to be achieved over the medium term. Foreign exchange movements in the period, following the depreciation of sterling, contributed 1.2% to the total return. The NAV per share increased to 165.7 pence. The portfolio is performing in line with expectation, both financially and operationally. We delivered a Total Shareholder Return ("TSR") of 16.5% in the period (FTSE 250 7.8%). Since IPO, the Company's annualised TSR was 12.3%, comparing favourably with the broader market (FTSE 250: 7.6% annualised over the same period). The Company has achieved this outperformance with relatively low share price volatility.

### Capital raise

We were delighted with the results of our capital raise, which was significantly oversubscribed. The Board was very pleased with the high take up from existing investors through the Open Offer and from the strong interest received from new investors.

### Interim dividend

We are on track to deliver the target dividend for FY2017 of 7.55 pence. We are announcing the payment of an interim dividend of 3.775 pence per share, scheduled to be paid on 9 January 2017.

### Corporate governance

The Company's Annual General Meeting was held on 7 July 2016. All resolutions were approved by shareholders, including the election and re-election of all Directors to the Board.

### Outlook

The broader infrastructure market remains competitive, particularly in the large Core economic infrastructure space, but continues to offer attractive investment opportunities in the key markets identified by the Investment Adviser. With the Investment Adviser's strong origination capabilities and track record, and with good liquidity to invest, the Company is well placed to continue to grow and to deliver attractive returns to its shareholders.

# Our portfolio

**27**  
assets

**£1,660m**  
investment value including commitments

## Economic infrastructure businesses

Dynamic businesses that own their asset base in perpetuity

- **Elenia**  
Finland: regulated electricity distribution
- **Anglian Water Group**  
UK: regulated water utility
- **Oystercatcher**  
Belgium, the Netherlands, Malta and Singapore: oil product storage terminals
- **ESVAGT**  
Denmark, Norway and UK: emergency rescue and response vessels
- **Cross London Trains**  
UK: passenger train fleet for the Thameslink franchise
- **TCR**  
Belgium: ground support equipment in airports (new investment in the period)
- **Wireless Infrastructure Group**  
UK: communication towers (new investment in the period)
- **Valorem**  
France: onshore wind developer (new investment in the period)

## Projects

Concession-based projects in construction (“primary”) or in operation

### Primary projects:

- One road project in the Netherlands
- One educational facility project in France
- One bridge project in the UK
- Three Government and social accommodation projects in France and the Netherlands

### Operational projects:

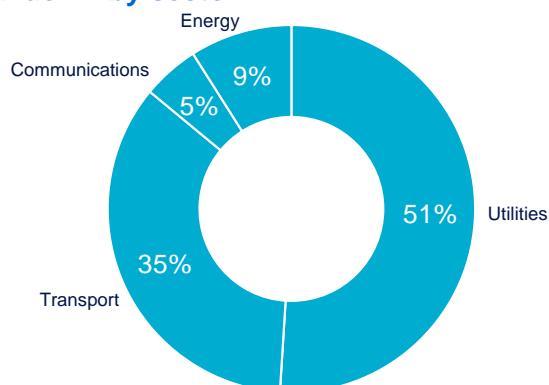
Seven investments:

- A12 road project in the Netherlands (operational status in the period)
- Ayrshire College, an educational facility project in the UK (operational status in the period)
- Dalmore Capital Fund, an operational PFI portfolio in the UK
- Elgin, a portfolio of 16 school and community health care facilities in the UK
- NMM, a museum facilities project in the Netherlands
- Octagon, a healthcare facilities project in the UK
- West of Duddon Sands (“WODS”) offshore electricity transmission project in the UK



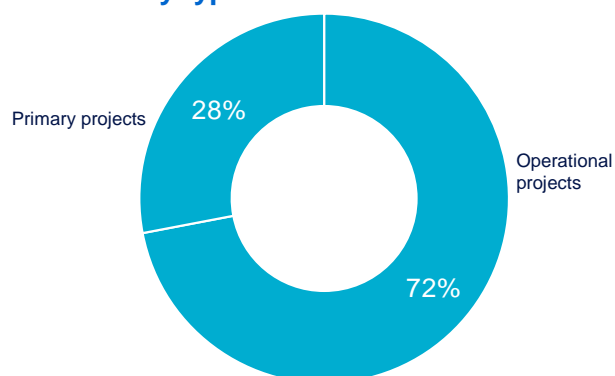
## Economic infrastructure businesses

### Breakdown by sector<sup>1</sup>



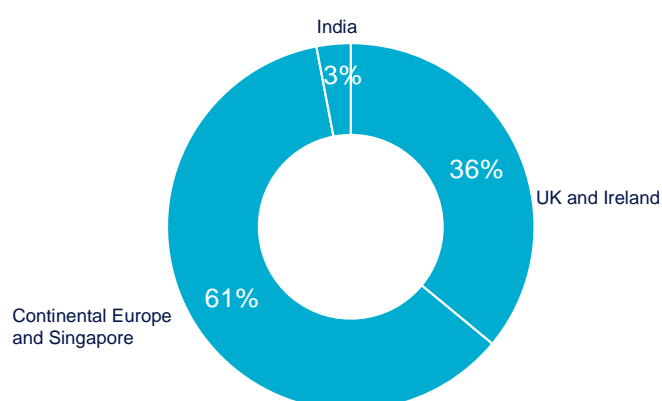
## Projects

### Breakdown by type<sup>1</sup>



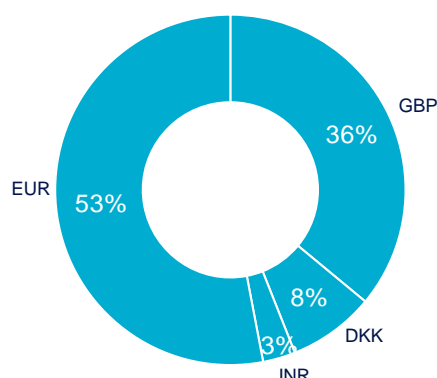
## Portfolio

### Breakdown by geography<sup>1</sup>



## Portfolio

### Breakdown by currency<sup>1</sup>



	30 September 2016		31 March 2016	
	Valuation (£m)	% of portfolio	Valuation (£m)	% of portfolio
<b>Economic infrastructure businesses</b>	<b>1,418</b>	<b>85%</b>	<b>1,035</b>	<b>81%</b>
Elenia	396		362	
Anglian Water Group	261		255	
Oystercatcher	208		187	
TCR	162		-	
ESVAGT	134		122	
Cross London Trains ("XLT")	123		109	
Wireless Infrastructure Group	75		-	
Valorem <sup>1</sup>	59		-	
<b>Projects</b>	<b>201</b>	<b>12%</b>	<b>193</b>	<b>15%</b>
Primary projects <sup>1</sup>	57		59	
Operational projects	144		134	
<b>India Infrastructure Fund</b> (six investments)	<b>41</b>	<b>3%</b>	<b>53</b>	<b>4%</b>
<b>Total investments and commitments</b>	<b>1,660</b>	<b>100%</b>	<b>1,281</b>	<b>100%</b>
<b>Total cash balances</b>	<b>136</b>		<b>50</b>	

<sup>1</sup> Includes investment commitments.

## Our objectives and strategic priorities

Our objective is to provide shareholders with a sustainable total return of 8% to 10% per annum, to be achieved over the medium term, with a progressive annual dividend per share.

We aim to achieve this by maintaining a balanced portfolio of infrastructure investments delivering a mix of income yield and capital growth.

We drive value by adding new investments selectively, through our engaged asset management approach and by maintaining an efficient balance sheet.

The Company generally invests with a long term hold perspective, although it may realise investments when a sale would maximise value for shareholders.

## Clear strategic priorities

### Maintaining a balanced portfolio

- Delivering an attractive mix of income yield and capital growth for our shareholders
- Investing in developed markets, with a focus on the UK and Europe

### Managing the portfolio intensively

- Driving value from the Company's portfolio through our engaged asset management approach

### Disciplined approach to new investment

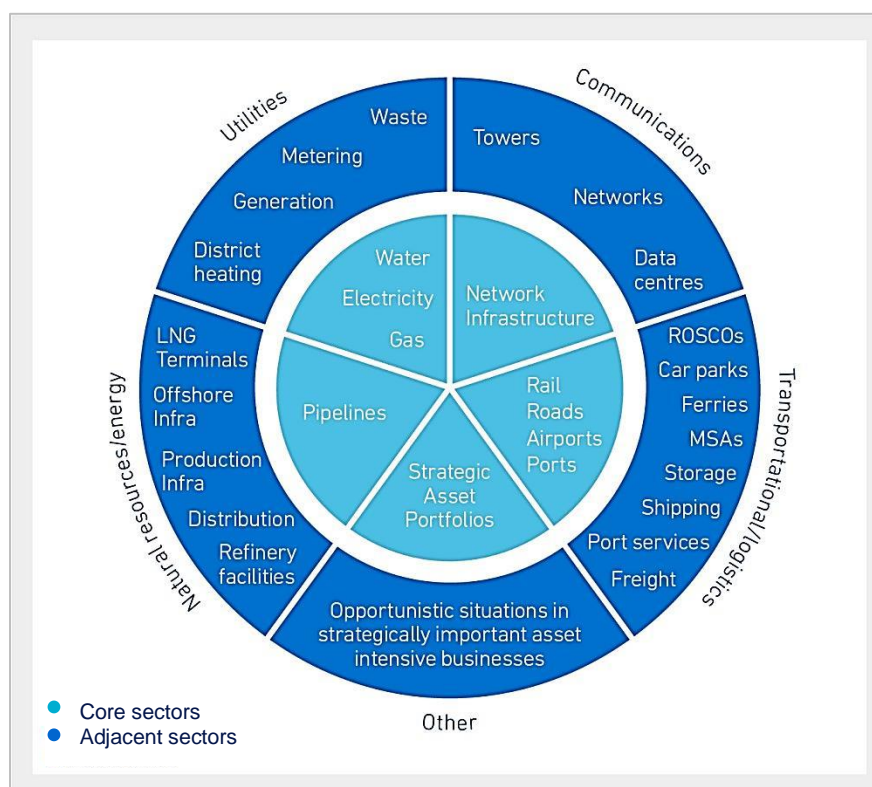
- Focusing selectively on investments that are value enhancing to the Company's portfolio and consistent with its return objectives

### Maintaining an efficient balance sheet

- Minimising return dilution to shareholders from holding excessive cash, while retaining a good level of liquidity for future investment



## The infrastructure asset class



Infrastructure assets typically have a **low correlation with other asset classes**, including listed equities, real estate and fixed income.

The quality and predictability of their cash flows tend to **provide for stable returns to shareholders** over time.

## Investment characteristics that we typically target

Geographical focus	Target sectors	Asset intensive or long-term concessions	Essential services	Acceptable element of market/usage risk	Opportunities to enhance value
Developed markets, principally the UK and Europe	<p>For economic infrastructure – focus on investments within the core and adjacent sectors outlined in the diagram above</p> <p>For projects – focus on greenfield projects</p>	Businesses with a significant asset base that they own in perpetuity, or long-term concessions backed by robust regulatory frameworks, generating stable long-term cash flows	Businesses that provide essential services to the communities in which they operate or to other businesses, operating in markets with high barriers to entry and providing some downside protection	<p>Downside protection from operating in partially competitive markets</p> <p>Potential upside through an acceptable level of demand risk</p>	Partnering with management teams and/or operational partners to deliver enhancements to the current business plan or to develop appropriate growth opportunities

## Market conditions

The sustained low interest rate environment and macro-economic uncertainty have continued to drive demand for long duration assets with stable cash flows. Over recent years, this has resulted in significantly increased competition for infrastructure assets, where cash yields and the relative insensitivity to economic cycles make the asset class attractive for investors.

The infrastructure asset class continues to attract interest from existing specialist financial investors, but also from large pension funds, sovereign wealth funds and insurance companies, a number of which have developed direct investment capabilities. Underlying investors continue to increase their allocations to the infrastructure sector and overall remain under-invested relative to target allocations.

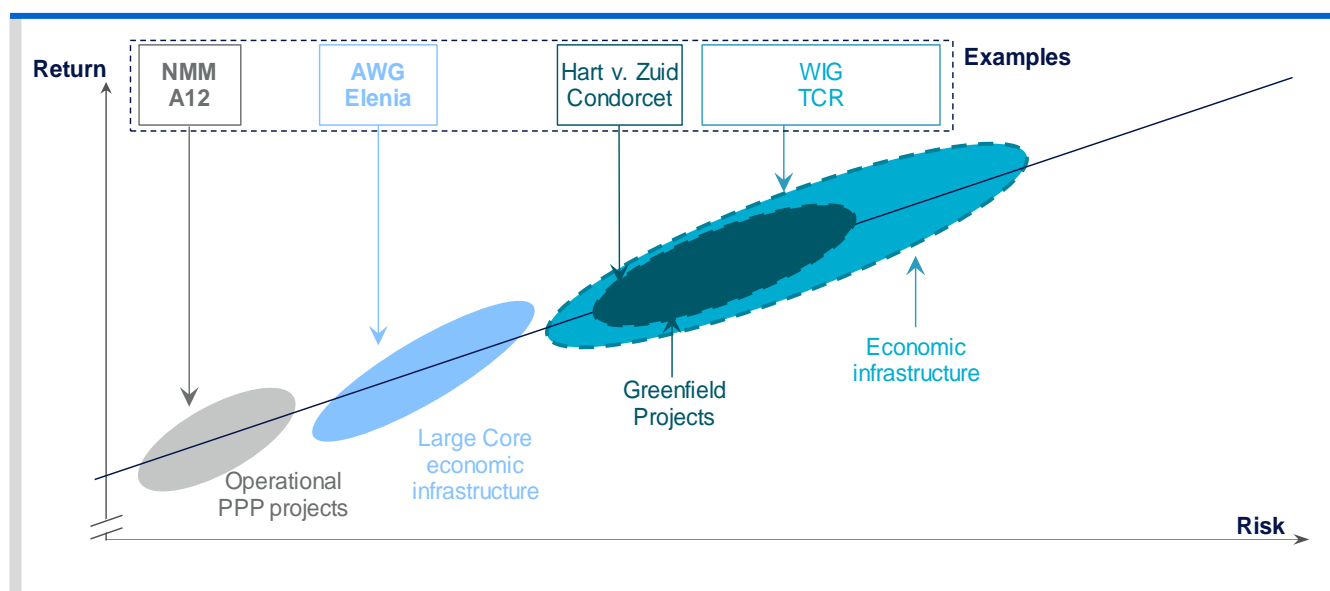
This increase in demand, combined with the availability of debt finance for infrastructure investment on attractive terms, has driven the price of some infrastructure assets materially higher and therefore projected returns lower.

This trend has been most evident in the market for large Core economic infrastructure assets. Over the recent past, this compression in returns has had a materially positive impact on the value of the Company's investments, many of which were purchased in a more favourable projected returns environment.

Market conditions have shaped our investment activity to focus on:

- economic infrastructure businesses in the core and adjacent sub-sectors shown on page 6;
- economic infrastructure businesses with characteristics that can be managed to enhance value over the period of ownership, including for example some level of demand or market risk; and
- greenfield projects.

### Market segmentation and investment focus



# Our target markets for new investment

## Economic infrastructure businesses

### Businesses generally:

- own their asset base in perpetuity
- provide essential services
- have a strong market position
- generate stable cash flows

**Some businesses may have some characteristics which, through the Investment Adviser's engaged asset management approach, can enhance returns, including:**

- growth opportunities
- demand/market dynamics
- greater operational complexity

Equity investments typically in the range of £50m-£250m

Returns typically in the range of 9%-14% per annum

### Our approach

We originate investments through the Investment Adviser's dedicated team based in London and Paris, as well as drawing from its broader European network of offices.

We generate returns during our ownership through the Investment Adviser's engaged asset management approach.

The Investment Adviser represents the Company on the boards of our investments, engaging with senior management to support the development and execution of their strategy.

We will sell investments when a sale would maximise value for our shareholders.

## Greenfield projects

PPPs to build, commission and operate infrastructure such as government buildings, social infrastructure and roads

Low-risk energy projects, other means of energy generation, transmission and storage, telecommunications, accommodation and transportation projects

Equity investments typically in the range of £5m-£50m

Returns typically in the range of 9%-12% per annum

### Our approach

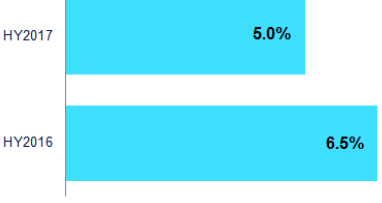

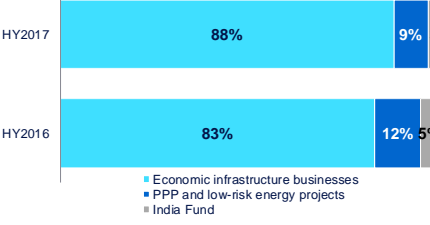
Our approach is to originate attractive opportunities through the Investment Adviser's relationships with project developers, including construction companies.

We also leverage the Investment Adviser's expertise in the assessment and management of construction risk.

We generate returns by managing greenfield projects through their construction phase and operational ramp-up.

Once projects become operational, they can be held for yield or sold to crystallise value as part of our broader portfolio management approach.

# Key performance indicators

<b>Total return</b> % on opening Net Asset Value	<b>Annual distribution</b> pence per share (pps)	<b>Portfolio balance<sup>1</sup></b> % of portfolio
 <p>HY2017: 5.0%</p> <p>HY2016: 6.5%</p>	 <p>HY2017: 3.775pps</p> <p>HY2016: 3.625pps</p>	 <p>HY2017: 88% Economic infrastructure businesses, 9% PPP and low-risk energy projects, 3% India Fund</p> <p>HY2016: 83% Economic infrastructure businesses, 12% PPP and low-risk energy projects, 5% India Fund</p>
<b>Target</b> To provide shareholders with a total return of 8% to 10% per annum, to be achieved over the medium term	Progressive dividend per share policy. Targeting a full year dividend for FY17 of 7.55 pence per share	At least 75% of the portfolio invested in economic infrastructure businesses
<b>Outcome for the first half of the year</b>		
<b>Total return of 5.0% for the six months to 30 September 2016</b>	<b>Interim dividend of 3.775 pence per share declared</b>	<b>88%<sup>1</sup> of the portfolio invested in economic infrastructure businesses at 30 September 2016</b>
<b>Rationale and definition</b> <ul style="list-style-type: none"> <li>• Total return is how we measure the overall financial performance of the Company</li> <li>• Total return comprises the investment return from the portfolio and income from any cash balances, net of advisory and performance fees and operating and finance costs. It also includes movements in the fair value of derivatives and taxes</li> <li>• Total return, measured as a percentage, is calculated against the opening net asset value, net of the final dividend for the previous year, and adjusted (on a time weighted average basis) to take into account any equity issued and capital returned in the period</li> </ul>	<ul style="list-style-type: none"> <li>• This measure reflects the dividends distributed to shareholders each year</li> <li>• The Company's business model is to generate returns from portfolio income and capital returns (through value growth and realised capital profits). Income, other portfolio company cash distributions and realised capital profits generated are used to meet the operational costs of the Company and distributions to shareholders</li> <li>• The dividend is measured on a pence per share basis, and is targeted to be progressive</li> </ul>	<ul style="list-style-type: none"> <li>• The Company's strategy is to deliver differentiated access to the infrastructure asset class by investing in a portfolio weighted strongly towards economic infrastructure businesses, owning their asset base in perpetuity</li> <li>• This provides shareholders with a differentiated investment proposition compared with other UK-listed infrastructure investment vehicles</li> <li>• The India Fund portfolio is being managed by the Investment Adviser with a view to realisation over the next few years</li> </ul>
<b>Performance in the first half of the year</b>		
<ul style="list-style-type: none"> <li>• Total return of £74 million in the first six months of the year, or 5.0% on opening net asset value, adjusted for the new equity raised</li> <li>• The return was driven by the good performance of the portfolio, including strong distributions from Elenia and a valuation uplift from XLT where 14 trains have been accepted by the franchise holder</li> <li>• The decline in sterling against the euro has benefited the Company, net of the impact of the hedging programme which continues to reduce the volatility in net asset value from exchange rates</li> <li>• Costs were managed in line with expectations</li> </ul>	<ul style="list-style-type: none"> <li>• Declared interim dividend of 3.755 pence per share, or £39 million, in line with the target set out at the beginning of the year</li> <li>• Income generated from the portfolio and cash deposits, including non-income cash distributions from portfolio companies, totalled £49 million for the period. Operational costs and finance costs used to assess dividend coverage totalled £14 million in the period. The resulting dividend coverage shortfall of £4 million is covered by accumulated realised profits</li> <li>• On track to deliver the total dividend target for FY17 of 7.55 pence per share</li> </ul>	<ul style="list-style-type: none"> <li>• 88%<sup>1</sup> of the portfolio invested in economic infrastructure businesses</li> <li>• Portfolio balance reflects new investment activity in the period</li> <li>• Further portfolio diversification achieved during the year through new investment activity</li> <li>• Further progress in realising the India Fund's portfolio through the sale of the majority of the remaining investment in Adani Power in the period, alongside the receipt of proceeds from the sale of Ind-Barath Energy</li> </ul>
<sup>1</sup> For the purpose of this analysis, the portfolio is measured as the underlying portfolio asset value for each asset and does not include investment commitments until they are drawn. Including investment commitments, the percentage for economic infrastructure is 85%.		

## Investment Adviser's review

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The portfolio has performed well in the first half of FY17, with strong NAV growth and continuing good progression in portfolio income. We have successfully converted four of the opportunities that we had identified prior to raising equity, meaning that the majority of the equity issue proceeds have now been deployed. These investments will provide further income and diversification to the portfolio, and underscore our ability to secure attractive opportunities in this competitive market.

Whilst we continue to see a good flow of new investment opportunities, we remain disciplined and focused on maintaining a balanced and attractive portfolio for shareholders.”

**Phil White and Ben Loomes**

Managing Partners and Co-heads, Infrastructure, 3i Investments plc  
2 November 2016



## About the Investment Adviser

3i Investments plc (“3i Investments”), a wholly-owned subsidiary of 3i Group plc (“3i Group”), acts as the investment adviser (the “Investment Adviser”) to the Company through its infrastructure investment team (the “investment advisory team”). The investment advisory team provides advice to the Company on the origination and execution of new investments, on the management of the portfolio and on realisations, as well as on funding requirements. 3i Group was among the subscribers to the Company’s Initial Public Offering in 2007 and subsequent offer in 2008 and, most recently, the £385m capital raise completed on 8 June 2016. 3i Group owns approximately 34% of the equity in the Company.

The investment advisory team is managed as a separate business line within 3i Group and operates from offices across 3i Group’s European network, focusing on both origination and portfolio management. The Investment Adviser also has a dedicated team in Mumbai to manage the assets in the India Fund. The team of investment professionals has significant experience of investing in, and managing, infrastructure assets. The investment advisory team can also draw on 3i Group’s broader network of investment professionals and relationships to originate infrastructure investment opportunities.

## Our investment approach

The Investment Adviser aims to provide the Company with access to attractive investment opportunities focusing selectively on transactions that are value enhancing to the portfolio. We implement our investment approach through the Investment Adviser’s team of approximately 25 dedicated investment professionals based in London and Paris, as well as through its broader European network of offices.

This platform provides us with a comprehensive coverage of our target markets, as well as the asset management skills to drive value from our investment portfolio.

### **The Investment Adviser will:**

- engage with portfolio company management at board level to define the strategic direction and business plan;
- access its network of industry specialists and senior management to bring in expertise and/or bolster management teams;
- invest in the underlying asset base to support profitable growth over the longer term;
- assess acquisitions if suitable opportunities arise;
- implement an efficient and prudent capital structure to optimise funding costs and which is appropriate for the business’s risk profile;
- drive operational performance and disciplined cash management to support both income yield and capital growth; and
- apply a clear and comprehensive Responsible Investment policy which is embedded into its investment and portfolio monitoring processes.

## Changes to the Investment Adviser’s team

During the first half of the year the Investment Adviser announced the promotions of John Cavill to Partner and Antoine Matton to Director, and the appointment of Daniel von der Schulenburg as Director in its Infrastructure business. John has responsibility for the asset management of greenfield and operational infrastructure projects. Antoine and Daniel have responsibility for origination and execution of investments across projects and economic infrastructure businesses, with Antoine focusing on social infrastructure and France, Benelux and southern Europe and Daniel having a focus on the energy sector and German speaking region. Daniel was most recently a Principal at Hudson Clean Energy Partners.

The profiles of the key members of the investment advisory team are on page 15.



## Case study: Valorem

### Valorem and its market

On 12 September 2016, the Company invested €57 million in Valorem, acquiring an economic interest of 28.5% from Omnes Capital and other minority shareholders. Joining the founders and the existing management team as cornerstone shareholder, the Company committed to provide €12 million of further capital to support Valorem in its growth strategy.

Founded in 1994 and headquartered in Bègles, France, Valorem is a leading independent renewable energy development and operating company. It is one of the largest onshore wind developers in France, having developed over 480MW of capacity over the last 10 years.

The French power market is experiencing a major transition as it looks to reduce its reliance on nuclear generation and to increase generation from renewable sources of energy such as wind and solar. The energy transition has been continuously supported by the French governments over the past decade. With in-house capabilities across the entire project cycle (development, construction and operation) combined with a significant development pipeline and a strong local footprint, Valorem is well positioned to benefit from this shift in energy mix.

### Platform for further growth

Valorem has a significant pipeline of onshore wind and solar projects at an advanced stage of development that it expects to convert into operating assets, with further projects at earlier stages to bring through the development process.

3i Infrastructure is well positioned to support Valorem's growth strategy through its long term capital model and the Investment Adviser's engaged asset management approach.

### A strong investment case

This investment diversifies the Company's portfolio with exposure to a growing renewables business in one of the most attractive European markets, and access to recurring, inflation-linked cash flows underpinned by a robust regulatory regime:

- the French wind power generation market offers strong attractions, with abundant wind resources, low population density, continuous political support and ambitious objectives set out for renewable energy generation, the French national plan forecasting total capacity of 19 GW in 2020 and 26 GW in 2023;
- the regulatory regime in place offers an attractive and stable framework to invest in, with long term indexed feed-in-tariffs embedded in offtake agreements with EDF, offering stable inflation-linked cash flows with low correlation to market power prices;
- led by its experienced management team, Valorem is a best-in-class developer, being the fourth largest French wind developer and the largest independent one; and
- Valorem has a significant operating asset base which enables the investment to deliver an immediate yield to the Company, combined with an attractive pipeline to deliver further growth.



## Implementation of our investment approach

In highly competitive markets, and in line with the Company's strategic priorities, the Board and the Investment Adviser focused on:

### **Broadening the Company's portfolio with complementary investments in the Company's key target markets, investing the majority of the proceeds from the recent capital raise**

Competition for large Core economic infrastructure businesses remains strong. In response to this competition the Investment Adviser has continued to target more attractive risk-adjusted returns in other areas of the infrastructure market, such as mid-market economic infrastructure businesses as well as greenfield projects, consistent with the Company's investment focus (outlined on pages 5 to 8). Where possible the Investment Adviser seeks to secure investments on a bilateral basis, minimising the transaction costs for the Company.

During the six months to 30 September 2016 the Company invested or committed £287 million of the proceeds from the capital raise into the previously identified pipeline. The majority of the investment in the period was into mid-market economic infrastructure including £75 million into the independent communications infrastructure provider Wireless Infrastructure Group ("WIG"), €204 million into Europe's largest independent owner of airport ground support equipment TCR and €57 million into the renewable energy development and operating company Valorem. The Company has committed a further €12 million of funding to support future growth in Valorem.

The Company also announced that it has committed to invest approximately €5 million to acquire a significant majority stake in Coeur du Sud B.V., a vehicle created for the Hart van Zuid greenfield project in Rotterdam, Netherlands.

On 29 June 2016, 3Angle, a consortium comprising the Company, Fluor and Heijmans, was named as the preferred bidder for the design, build, management, maintenance and financing of the existing and new infrastructure of the A27 and A1 roads in the Netherlands. The transaction reached commercial close in September 2016, with the Company announcing its commitment to invest €7 million in the project shortly after the period end on 5 October 2016.

Most recently, on 31 October 2016, the Company announced that it has signed an agreement to invest approximately £185 million to acquire the whole of Infinis, the leading generator of electricity from landfill gas in the UK. On completion of this acquisition, the Company will have invested all of the cash from the recent capital raise. Completion of the investment is anticipated to take place by the end of November 2016.

### **Driving value from the economic infrastructure portfolio**

The Company's portfolio continues to perform in line with expectations. Consistent with the strategic priorities outlined on page 5, the Investment Adviser has continued to engage with portfolio company management teams to deliver against a range of opportunities to enhance the portfolio's value.

In June 2016, ESVAGT, a leading provider of offshore safety and support at sea, signed a binding agreement with Hess, a prominent independent energy company, to provide safety and support services at the South Arne field in the Danish sector of the North Sea for a period of 12 years, continuing a successful 17 year partnership at the field. ESVAGT's services will be performed by a new, purpose-built vessel, scheduled for delivery in 2018. The 'ESVAGT Connector' vessel will provide support to Hess until the new vessel is delivered.

On XLT the Investment Adviser has continued to work closely with XLT management, Siemens and GTR to overcome the initial delays in the acceptance programme. The acceptance of units by GTR has continued throughout the period, reaching a significant milestone of 14 trains accepted by the franchise holder by the end of September 2016. The delivery programme is scheduled to complete in 2018.

The Investment Adviser continues to work with the Company's portfolio companies to assess new investment and capital expenditure programmes, as well as value accretive acquisitions.

## **Building the investment advisory team's capabilities to broaden the Company's access to attractive investment opportunities**

The investment advisory team was expanded during the period through the recruitment of a number of investment professionals, focused principally on the origination and execution of investment opportunities. The new hires include a new Director, as well as an additional hire at the Senior Associate level, to expand the coverage of the Company's key target markets.

## **Continuing to manage the assets in the India Fund**

The Investment Adviser aims to realise value from the assets in the India Fund over the next few years and is making progress towards that objective. Proceeds were received from the sale of Ind-Barath Energy in the period. The majority of the remaining holding in Adani Power has been sold in the period, at an average price of 31 rupees per share compared to a value of 34 rupees per share on 31 March 2016. Since the period end, the rest of the Adani Power shares have been realised.

## **Outlook**

The Company delivered a good return over the first half of the year, underpinned by the performance of the portfolio and favourable exchange rate movements.

Although the full implications of the result of the EU Referendum are unclear, increased market uncertainty is driving capital towards investments in both UK and Continental European infrastructure assets. With interest rates remaining at all-time lows, demand for large Core economic infrastructure investments, in Europe particularly, continues to be very strong with recent transactions providing further evidence of low projected returns. This has continued to benefit the valuation of the Company's existing portfolio of economic infrastructure investments. At the same time, these market dynamics have shaped our investment focus towards areas of the infrastructure market which offer more attractive risk-adjusted returns, such as mid-market economic infrastructure businesses, as well as primary PPP and low-risk energy projects.

The new investments completed by the Company in the period demonstrate our ability to continue to access attractive investments in our target markets. By successfully investing the majority of the proceeds from the recent capital raise, the Company has increased its geographical and sector diversification. These new investments are expected to contribute to portfolio income from the second half of the financial year.

Whilst we continue to see a good flow of new investment opportunities, we remain disciplined and focused on maintaining a balanced and attractive portfolio for shareholders.

## Profiles of senior members of the investment advisory infrastructure team

### Ben Loomes

#### Managing Partner and Co-head

Ben is Managing Partner and Co-head of 3i's Infrastructure business. Ben is a member of 3i's Executive Committee and Investment Committee and has experience across all of 3i's business lines. Ben is responsible for leading the management of origination and the strategic development of 3i's Infrastructure business and leads the relationship with the Board of 3i Infrastructure plc. Ben led the sale of Eversholt Rail and is currently a board director of ESVAGT, TCR and WIG. Ben has over 15 years of experience in investment, advisory and finance, including from earlier roles at Goldman Sachs, Greenhill and Morgan Stanley.

### Phil White

#### Managing Partner and Co-head

Phil joined 3i in 2007 and is Managing Partner and Co-head of 3i's Infrastructure business and a member of 3i's Executive Committee and Investment Committee. Prior to joining 3i, he was Division Director in Macquarie's Infrastructure Funds business where he managed investments in the transport sector. Phil has over 20 years of infrastructure investment, advisory and finance experience from earlier roles at Barclays and WestLB. Phil leads asset management for 3i's Infrastructure business and holds board positions at Anglian Water Group, Elenia and the Oiltanking companies.

### James Dawes

#### CFO

James is Chief Financial Officer for 3i Group's Infrastructure business and joined in January 2016. He manages the operational, financial and reporting requirements for the Infrastructure business within 3i Group, as well as performing CFO duties for 3i Infrastructure plc. Prior to joining 3i, James was with Legal & General Investment Management where he held a number of senior finance roles, including Finance Director of LGV Capital from 2007 to 2015.

### John Cavill

#### Partner

John joined 3i in November 2013, following 3i's acquisition of BIFM. He joined BIFM in 2009. He leads the portfolio management activity for 3i infrastructure's projects and is responsible for: setting the strategy for asset management activities; overseeing implementation of value protection and enhancement activities; and overseeing fund performance reporting. He works closely with investee company non-executive directors and Infrastructure Managers Limited, the business' main SPV management services provider. Previously John was a Director at St Modwen Properties PLC, Land Securities Trillium and Vinci Investments where he led PPP/PFI bidding activity.

### Stéphane Grandguillaume

#### Partner

Stéphane is a Partner in 3i's Infrastructure team in Paris and joined 3i in November 2013, following 3i's acquisition of Barclays Infrastructure Funds Management Limited, which he joined in 2006. Stéphane leads 3i's Infrastructure team in Paris and is involved in the origination and execution of investment opportunities in PPP and low-risk energy projects across Europe. Stéphane led the recent investment in Valorem. Previously, Stéphane was head of Egis Investment Partners.

### Nigel Middleton

#### Partner

Nigel is a Partner in 3i's Infrastructure team in London and joined 3i in November 2013, following 3i's acquisition of Barclays Infrastructure Funds Management Limited. He joined that business in 2002, having previously been head of PFI/PPP Advisory Services at PwC. Nigel led the involvement of that business in the formation and management of Infrastructure Investors (I<sup>2</sup>), a pioneering secondary market infrastructure fund, in which Barclays Infrastructure Funds Management had a joint venture interest alongside Société Générale and 3i. He was also instrumental in establishing, and continues to manage, BIIF, a long-term "buy and hold" PPP fund which acquired I<sup>2</sup> in 2009.

### Scott Moseley

#### Partner

Scott joined 3i in 2007 and is a Partner in the Infrastructure team, with co-management responsibility for the team's new investment origination and execution platform. He has 15 years experience in European Infrastructure, spanning utilities, transportation and social infrastructure. Whilst at 3i, Scott has led the investments in ESVAGT, Elenia and Cross London Trains, as well as being a senior deal team member on Eversholt. He was also responsible for the successfully exited junior debt investments in Arqiva, Associated British Ports, Telediffusion de France, Thames Water and Viridian. He is currently a Director on the board of ESVAGT and Cross London Trains.

### Bernardo Sottomayor

#### Partner

Bernardo is a Partner in 3i's Infrastructure team in London and joined 3i in October 2015, with a focus on originating and executing investments in economic infrastructure. He was a senior deal team member on the recent investment by 3i Infrastructure in TCR. Bernardo was most recently a Partner at Antin Infrastructure, which manages funds investing in infrastructure opportunities across Europe. Prior to Antin, Bernardo was Managing Director, Head of Acquisitions for Deutsche Bank's European infrastructure fund. His prior experience was in utilities, as Head of M&A at Energias de Portugal, and in infrastructure advisory with UBS and Citigroup.

## Portfolio

Table 1 summarises the valuation and movements in the portfolio, as well as the return for each investment, for the period. In accordance with accounting standards, “Investments at fair value through profit or loss” as reported in the Consolidated balance sheet includes, in addition to the portfolio asset valuation, the cash and other net assets held within intermediate unconsolidated holding companies. These amounts are set out at the foot of the table below, to provide a reconciliation between the Directors’ valuation of the portfolio assets and “Investments at fair value through profit or loss” reported in the Consolidated financial statements. The basis of the portfolio information set out below is consistent with analyses in previous periods.

**Table 1: Portfolio summary (30 September 2016, £m)**

	Directors’ valuation 31 March 2016	Investment in the period	Divestment in the period	Value movement	Foreign exchange translation	Directors’ valuation 30 September 2016	Profit/ (loss) on disposal	Underlying portfolio income in the period	Allocated foreign exchange hedging	Asset total return in the period
<b>Portfolio assets</b>										
<b>Economic infrastructure businesses</b>										
Elenia	362.4	-	(13.5) <sup>1</sup>	15.6	31.8	396.3	-	9.8	(29.8)	27.4
Anglian Water Group	255.0	-	-	5.6	-	260.6	-	3.5	-	9.1
Oystercatcher	186.9	-	-	3.9	17.7	208.5	-	6.5	(16.6)	11.5
TCR	-	150.9	-	(1.1)	12.3	162.1	-	1.9	(7.3)	5.8
ESVAGT	121.6	-	-	1.1	11.1	133.8	-	5.4	(10.5)	7.1
XLT	108.7	-	-	14.0	-	122.7	-	2.4	-	16.4
WIG	-	74.7	-	0.5	-	75.2	-	1.6	-	2.1
Valorem	-	47.9	-	0.2	0.8	48.9	-	0.1	(0.8)	0.3
	1,034.6	273.5	(13.5)	39.8	73.7	1,408.1	-	31.2	(65.0)	79.7
<b>Projects</b>										
Primary projects <sup>2</sup>	0.1	-	-	-	-	0.1	-	-	-	-
Operational projects										
Elgin	45.7	-	-	0.8	-	46.5	-	1.0	-	1.8
Octagon	42.0	-	-	(1.5)	-	40.5	-	1.6	-	0.1
WODS	22.4	-	(0.9) <sup>1</sup>	-	-	21.5	-	0.7	-	0.7
Dalmore	18.3	-	-	(0.3)	-	18.0	-	0.5	-	0.2
NMM	6.1	-	-	1.4	0.6	8.1	-	0.1	(0.5)	1.6
Ayrshire College	-	4.6 <sup>4</sup>	-	-	-	4.6	-	-	-	-
A12	-	4.5 <sup>4</sup>	-	-	0.1	4.6	-	0.1	-	0.2
	134.6	9.1	(0.9)	0.4	0.7	143.9	-	4.0	(0.5)	4.6
<b>India Fund</b>										
3i India Infrastructure Fund	52.9	-	(12.0)	(4.3)	4.1	40.7	(0.5)	-	-	(0.7)
<b>Total portfolio</b>	1,222.1	282.6	(26.4)	35.9	78.5	1,592.7	(0.5)	35.2	(65.5)	83.6
Balance sheet adjustments related to unconsolidated subsidiaries <sup>3</sup>	6.7	-	-	1.5	-	8.2	-	-	-	-
Income statement adjustments related to unconsolidated subsidiaries <sup>3</sup>	-	-	-	-	-	-	-	(2.3)	(1.2)	(2.0)
<b>Reported in the Consolidated financial statements</b>	1,228.8	282.6	(26.4)	115.9	-	1,600.9	(0.5)	32.9	(66.7)	81.6

1 Capitalised income and shareholder loan repaid in the period.

2 Investments in the Mersey Gateway Bridge, A9, La Santé, RIVM, Condorcet Campus and Hart van Zuid primary projects.

3 Income statement adjustments explained in Table 8 and Balance sheet adjustments explained in Table 9 in the Financial review.

4 Drawdown of commitment.

### Investment and realisation activity

The Company invested £273.5 million during the period in three mid-market economic infrastructure businesses. In a market which remains competitive, the investments are a strong endorsement of the Company's investment strategy and the Investment Adviser's ability to source investment opportunities that are capable of delivering attractive risk-adjusted returns, in line with the Company's objectives.

During the period, the 3i India Infrastructure Fund sold the majority of the remaining investment in Adani Power, and received the proceeds from the sale of Ind-Barath Energy in the previous year. These transactions generated proceeds of £11.5 million to the Company, slightly below the carrying value at 31 March 2016 of £12.0 million.

### Economic infrastructure businesses

On 9 June 2016, the Company completed the acquisition of a 36% economic interest in WIG, investing approximately £75 million. WIG is an independent communications infrastructure provider headquartered in Scotland. The business builds and operates communication towers and other wireless infrastructure to enable the connection between networks and the communities that rely on their services. For more information on this investment, please refer to the investment review on page 41.

On 27 July 2016, the Company completed an investment of approximately €200 million in TCR. Headquartered in Brussels, TCR is Europe's largest independent owner of airport ground support equipment and operates in over 100 airports. The equipment that TCR provides to its clients is critical infrastructure, without which some of Europe's busiest airports could not operate. For more information on this investment, please refer to the investment review on page 43.

On 12 September 2016, the Company completed a €57 million investment in the renewable development and operating company Valorem. Headquartered in Bègles, France, Valorem is a leading independent renewable energy development and operating company, having developed over 480MW of capacity over the last 10 years. Valorem benefits from a critical mass of operating assets and a strong pipeline of further projects at a well advanced development stage. The Company has committed to provide €12 million of further capital to support Valorem's growth strategy. For more information on this investment, please refer to the new investment case study on page 12.

### Greenfield projects

The Company announced on 29 April 2016 that it has committed to invest approximately €5 million to acquire a significant majority stake in Coeur du Sud B.V., a vehicle created for the Hart van Zuid greenfield project in Rotterdam, Netherlands. The €200 million project involves the renewal and revitalisation of the area surrounding the Zuidplein and Ahoy centres in Rotterdam.

Since the period end, the Company announced on 5 October 2016 that it has committed to invest approximately €7 million in the A27/A1 primary PPP project in the Netherlands. This is a €220 million project for the reconstruction of the A27 motorway between Utrecht North and the Eemnes junction, as well as of the A1 motorway between the Eemnes junction and the Bunschoten-Spakenburg interchange.



### Movements in portfolio value

As set out in Chart 1, the portfolio assets were valued at £1,592.7 million at 30 September 2016, compared to £1,222.1 million at the beginning of the financial year. The movement in portfolio value was driven principally by investments during the period, as well as by good value growth in the portfolio and by foreign exchange retranslation, offset in part by realisations in the India Fund.

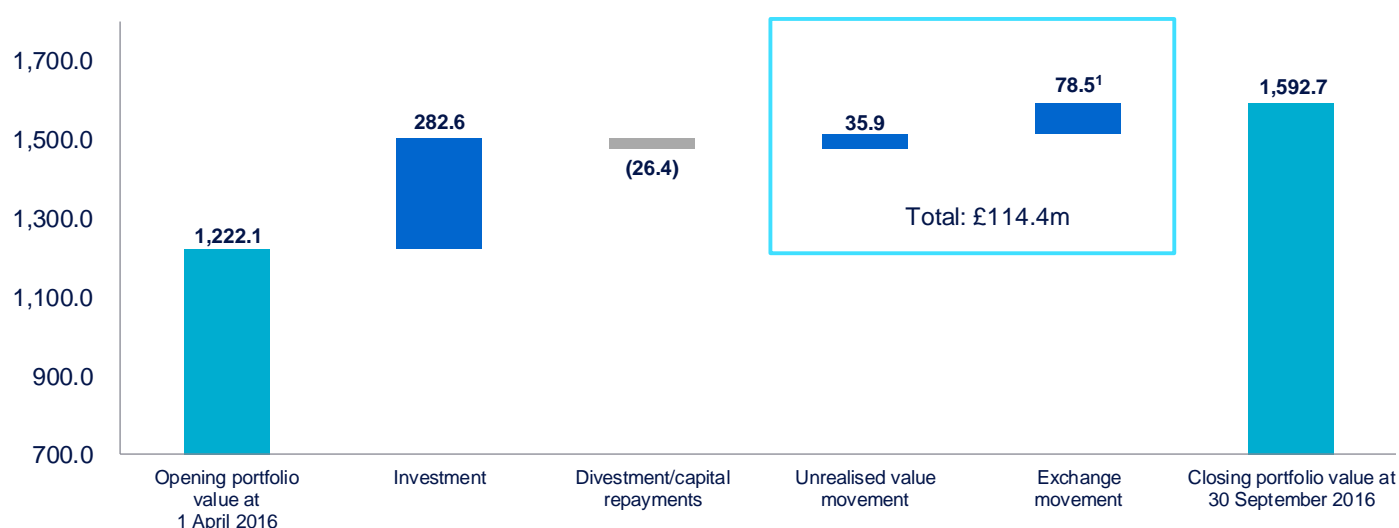
### Investment

The Company invested a total of £282.6 million in the period, comprising £273.5 million in three mid-market economic infrastructure businesses described on page 17 and £9.1 million in two projects, Ayrshire College and A12, which became operational in the period.

### Divestment proceeds/capital repayments

The Company divested a total amount of £26.4 million during the period. £13.5 million was received from Elenia and £0.9 million from WODS in respect of previously capitalised income and loan repayments. These proceeds arose from cash generated in the underlying companies, rather than the sale of assets. A further £11.5 million of proceeds were received from the India fund during the first half of the year, following the sale of the majority of the holding in Adani Power in the period and the sale of Ind-Barath Energy in the previous financial year, £0.5 million below the opening carrying value.

**Chart 1: Reconciliation of the movement in portfolio value** (six months to 30 September 2016, £m)



<sup>1</sup> Excludes movement in the foreign exchange hedging programme (see Table 3).

### Unrealised value movement

The unrealised value movement in the period, before exchange, totalled £35.9 million (September 2015: £66.7 million). Unrealised value movement represents the change in the portfolio valuation within a measurement period. Changes to portfolio valuations arise due to several factors as shown in Table 2 below.

The key drivers of the increase in portfolio value during the first half of the year were planned value growth and asset performance, principally from the economic infrastructure portfolio described below. Macro-economic assumption changes, particularly in relation to the risk free rate in Finland, had an adverse impact on value. Discount rate movements represent the smallest component of the total value movement in the period.

### Economic infrastructure portfolio

The economic infrastructure portfolio was valued at £1,408.1 million at 30 September 2016 (March 2016: £1,034.6 million) and generated an unrealised value gain of £39.8 million in the period (or £113.5 million including exchange movements). This was driven by the good operational performance of the underlying investments, including good valuation increases from Elenia and XLT.

**Elenia** was valued at £396.3 million at September 2016 (March 2016: £362.4 million), including foreign exchange gains of £31.8 million. The business has performed strongly in the period, delivering planned cash flows and distributions to the Company. The impact of a reduction in the period in the 10 year Finnish Government bond yield, to which the allowed return is linked, was partially offset by a corresponding reduction in the cost of debt.

**AWG** was valued at £260.6 million at September 2016 (March 2016: £255.0 million). The business performed well during the period, with operational performance and income levels in line with expectations. The business has good visibility over the 2015-2020 regulatory period, or AMP6, after completing the first full year of that period.

**Oystercatcher** was valued at £208.5 million at September 2016 (March 2016: £186.9 million), including foreign exchange gains of £17.7 million. The five terminals continue to perform well both operationally and financially, with capacity substantially let and a good level of throughput. The valuation of Oystercatcher is exposed to the euro and Singapore dollar exchange rate, and the underlying value gain was enhanced by the impact of currency movements in the period. The euro and Singapore dollar exposures are partially hedged, as described in Table 3.

**TCR** was valued at £162.1 million at September 2016. The value has increased since the investment of £150.9 million in July 2016 because of currency movements, which are partially offset by the currency hedging programme.

**Table 2: Components of value movement** (six months to 30 September 2016, £m)

Value movement component	Value movement in the period (£m)	Description
Planned value growth	29.4	Net value movement resulting from the passage of time, consistent with the discount rate and cash flow assumptions at the beginning of the period less distributions received in the period.
Asset performance	28.7	Net movement arising from actual performance in the period and changes to future cash flow projections, including financing assumptions and changes to regulatory determination assumptions.
Discount rate movement	16.9	Value movement relating to changes in the discount rate applied to the portfolio cash flows.
Macro-economic assumptions	(39.1)	Value movement relating to changes to macro-economic out-turn or assumptions, e.g. inflation, interest rates on deposit accounts and taxation rates. This includes changes to regulatory returns that are directly linked to macro-economic variables.
<b>Total value movement before exchange</b>	<b>35.9</b>	
Foreign exchange retranslation	78.5	Movement in value due to currency retranslation to period-end rate.
<b>Total value movement</b>	<b>114.4</b>	

**ESVAGT** was valued at £133.8 million at September 2016 (March 2016: £121.6 million). New contract wins, including the contract with Hess to provide safety and support services to the South Arne field in the North Sea, and cost savings have offset pressure on day rates in contract renewals. Currency movements have contributed a substantial element of the value growth in the period. These are partially offset by the currency hedging programme.

**XLT** was valued at £122.7 million at September 2016 (March 2016: £108.7 million). The discount rate has been reduced following the delivery and acceptance of 14 trains, a significant milestone, and the corresponding reduction in risk in the project.

**WIG** was valued at £75.2 million at September 2016, broadly in line with the investment of £74.7 million in June 2016.

**Valorem** was valued at £48.9 million at September 2016, increased from the investment of £47.9 million in September 2016 mainly through currency movements.

### Projects portfolio

The projects portfolio was valued at £143.9 million at September 2016, compared to £134.6 million six months earlier. This reflects the investment of £9.1 million in Ayrshire College and A12 which have reached operational status, and the good operational performance of the portfolio. We have slightly reduced the discount rate for valuing UK operational projects at September 2016, which has been offset by the impact of planned UK corporation tax changes in relation to interest deductibility.

### 3i India Infrastructure Fund

The India Fund was valued at £40.7 million at September 2016, compared to £52.9 million six months earlier, after exchange gains of £4.1 million as the Indian rupee strengthened against sterling in the period, as shown in Table 3. Continued delays in project execution and funding constraints for the road projects, and the pricing and availability of fuel for the investments in the power sector, have resulted in a fall in value of £4.3 million in the period. The sale of the majority of the holding in Adani Power gave rise to a small loss on disposal of £0.5 million.

### Foreign exchange impact

As shown in Table 3, the reported net foreign exchange gain on investments of £13.0 million included a gain of £4.1 million from the Company's exposure to the Indian rupee, which is not hedged and gained in value by 10% against sterling in the period.

There was a £74.4 million foreign exchange gain as sterling weakened against other currencies in the period. This was partially offset by a £65.5 million loss on the hedging programme. The hedging programme has been designed to reduce the volatility in the net asset value of the Company from currency movements.

During the first half of the year, the Company's hedging programme was expanded to include the new investments in TCR and Valorem. The target hedge ratio of the investment in TCR, a euro investment, has been set to reflect a proportion of underlying cash flows which are in sterling.

**Table 3: Impact of foreign exchange movements on portfolio value** (six months to 30 September 2016, £m)

	£/rupee	£/€/SGD/DKK	Net impact
Translation of unhedged assets (£/rupee)	4.1	-	4.1
Translation of partially hedged assets (£/€/SGD/DKK)	-	74.4	74.4
<b>Reported foreign exchange gains on investments</b>	<b>4.1</b>	<b>74.4</b>	<b>78.5</b>
Movement in the fair value of derivative financial instruments (€/SGD/DKK hedging)	-	(65.5)	(65.5)
<b>Net foreign exchange gains</b>	<b>4.1</b>	<b>8.9</b>	<b>13.0</b>

## Summary of portfolio valuation methodology

Investment valuations are calculated at the half year and at the financial year end by the Investment Adviser and then reviewed and approved by the Board. Investments are reported at the Directors' estimate of fair value at the reporting date.

The valuation principles used are based on International Private Equity and Venture Capital valuation guidelines, generally using a discounted cash flow ("DCF") methodology (except where a market quote is available), which the Board considers to be the most appropriate valuation methodology for unquoted infrastructure equity investments.

Where the DCF methodology is used, the resulting valuation is checked against other valuation benchmarks relevant to the particular investment, including, for example:

- earnings multiples;
- recent transactions;
- quoted market comparables; and
- regulated asset base multiples.

Chart 2 shows the movement in the weighted average discount rate applied to the portfolio at the end of each year since the Company's inception and the current position as at September 2016. During the period, the weighted average discount rate was updated to reflect the addition of the investments in WIG, TCR and Valorem in the portfolio. As noted previously, the discount rate used to value UK operational projects was decreased in the period. The impact of the new investments increased the weighted average discount rate to 10.1%.

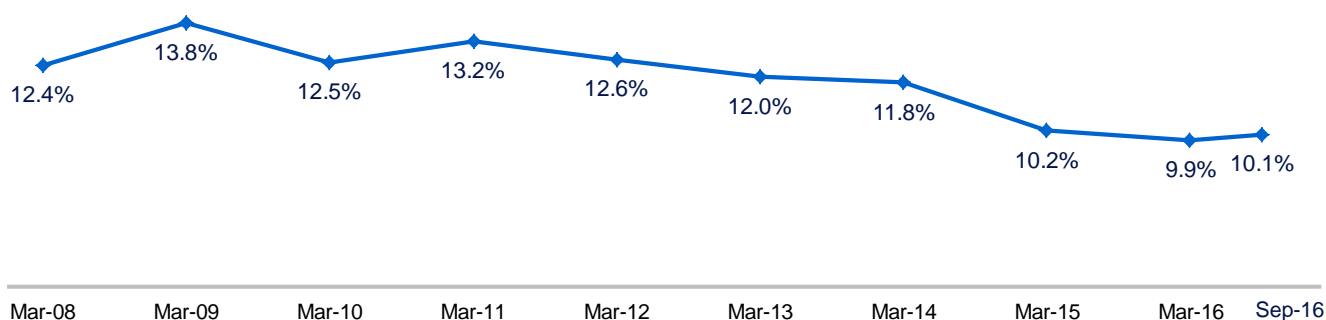
### 3i India Infrastructure Fund and Dalmore Capital Fund

The Company's investments in the India Fund and in the Dalmore Capital Fund were valued as the Company's share of net assets held by those funds.

Within the India Fund valuation, Adani Power, which has been a listed company since August 2009, was valued on a mark-to-market basis using closing bid prices, and Krishnapatnam Port was valued on the basis of consideration due under a put option. All other investments were valued on an underlying DCF basis.

All of Dalmore Capital Fund's underlying investments were valued on a DCF basis.

**Chart 2: Portfolio weighted average discount rate (30 September 2016, %)**



## Investment track record

As shown in Chart 3, since its launch in 2007, 3i Infrastructure has built a portfolio that has provided:

- significant income, supporting the consistent delivery of the Company's annual dividend objective;
- strong capital profits from realisations; and
- consistent capital growth.

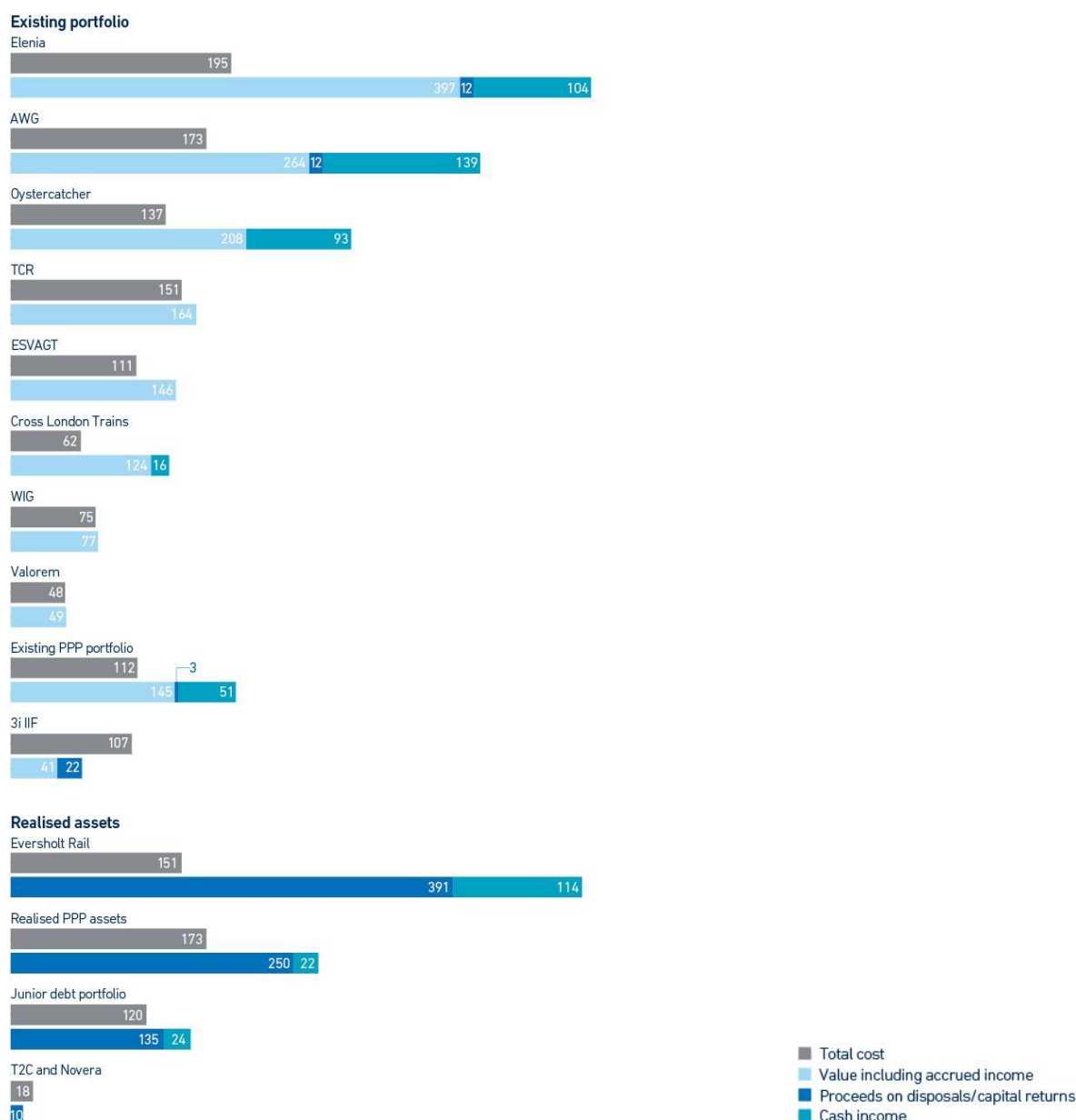
These have underpinned an 18% annualised IRR since the Company's inception. The economic infrastructure and project portfolios, in particular, have generated strong returns, in line with, or in many cases ahead of, expectations.

These returns were underpinned by substantial cash generation in the form of income or capital profits. Indeed, most investments have returned a significant proportion of their cost through income in a relatively short time.

The value created through this robust investment performance was crystallised in a number of instances through well managed realisations, shown as "Realised assets" in Chart 3 below. While the Company is structured to hold investments over the long term, it has sold assets where compelling offers have generated additional shareholder value. This was the case with Eversholt Rail in 2015, which generated an IRR in excess of 40%, as well as through the realisations of Alma Mater in 2008, I<sup>2</sup> in 2009, the junior debt portfolio in 2011–12 and Alpha Schools in 2013, generating an aggregate IRR of 26.8%.

The valuation of the India Fund has, however, been volatile, and has continued to be affected by currency and macro-economic issues, as well as a number of issues related to specific investments.

**Chart 3: Portfolio asset returns throughout holding period (since inception, £m)**



## Financial review



The Company has proven its flexible funding model during the half year. We have also been successful in building income during the period, and the Company maintains an efficient balance sheet.”

**James Dawes**  
CFO, Infrastructure  
2 November 2016

## Key financial measures

	Six months to 30 September 2016	Six months to 30 September 2015
Total return <sup>1</sup>	<b>£73.8m</b>	£80.7m
Net asset value per share	<b>165.7p</b>	153.8p
Total income <sup>1</sup>	<b>£35.5m</b>	£27.7m
Portfolio asset value <sup>1</sup>	<b>£1,592.7m</b>	£1,112.6m
Cash balances <sup>1</sup>	<b>£135.9m</b>	£51.2m
Total liquidity <sup>2</sup>	<b>£411.0m</b>	£335.2m

<sup>1</sup> Reconciliation of measures to the financial statement balances is set out in Tables 8 and 9 on page 30.

<sup>2</sup> Includes cash balances of £135.9 million and £275.1 million undrawn balances available under the £300 million revolving credit facility.



## Returns

The Company's performance is assessed by the Board based on the following measures:

- capital return: unrealised value movements due to changes to the carrying valuation of assets across the period (or since acquisition, if shorter) including the impact of foreign exchange movements relating to portfolio assets; or realised capital profits or losses generated from the sale or partial sale of portfolio assets above or below their carrying valuation;
- movement in fair value of derivatives for foreign currency hedging;
- total income: interest and dividends from underlying portfolio assets, interest on cash holdings and transaction fees receivable;
- costs: advisory and performance fees, Board and other operating costs, transaction fees payable and finance costs relating to the Company's revolving credit facility; and
- other net income/costs: includes other income and foreign exchange movements principally relating to euro balances held on deposit in relation to future commitments to fund investment.

Table 4 shows the underlying aggregate returns from portfolio assets for each of these elements of returns and costs. The financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) for its reporting. The non-material adjustments required to reconcile this analysis to the financial statements are shown in Table 8.

### Total return

3i Infrastructure generated a total return for the period of £73.8 million, representing a 5.0% return on opening shareholders' equity, adjusted on a time weighted average basis for the capital raise of £379 million net of costs on 10 June 2016 (September 2015: £80.7 million, 6.5%).

The return was underpinned by the good performance of the portfolio and enhanced by the net impact of foreign exchange movements, which were substantially offset by the Company's hedging programme, see page 20.

**Table 4: Summary total return**

	Six months to 30 September 2016 £m	Six months to 30 September 2015 £m
Capital return	113.9	64.9
Movement in fair value of derivatives	(65.5)	(0.4)
<b>Net capital return</b>	<b>48.4</b>	<b>64.5</b>
 Total income	 35.5	 27.7
Costs	(14.7)	(11.9)
Other net income/(costs) including exchange movements	4.6	0.4
<b>Total return</b>	<b>73.8</b>	<b>80.7</b>

## Capital return

Total capital return for the period was £113.9 million (September 2015: £64.9 million) of which £114.4 million was an unrealised value gain (September 2015: £64.9 million) offset by a realised loss on disposal of £0.5 million from the partial sale of Adani Power.

### Unrealised value movement, including foreign exchange movements

The portfolio generated an unrealised value gain of £114.4 million in the six months to 30 September 2016 (September 2015: £64.9 million). This comprised a £35.9 million value increase (September 2015: £66.7 million) and a £78.5 million foreign exchange gain (September 2015: loss of £1.8 million).

The portfolio achieved good returns, driven by the valuation uplift for the Company's holding in XLT where the discount rate was reduced and valuation gains in Elenia, AWG, Oystercatcher, ESVAGT, and the projects portfolio. There was a small valuation reduction of £0.2 million for the India Fund, including foreign exchange movements. These value movements are described on pages 19 to 20.

### Realised return

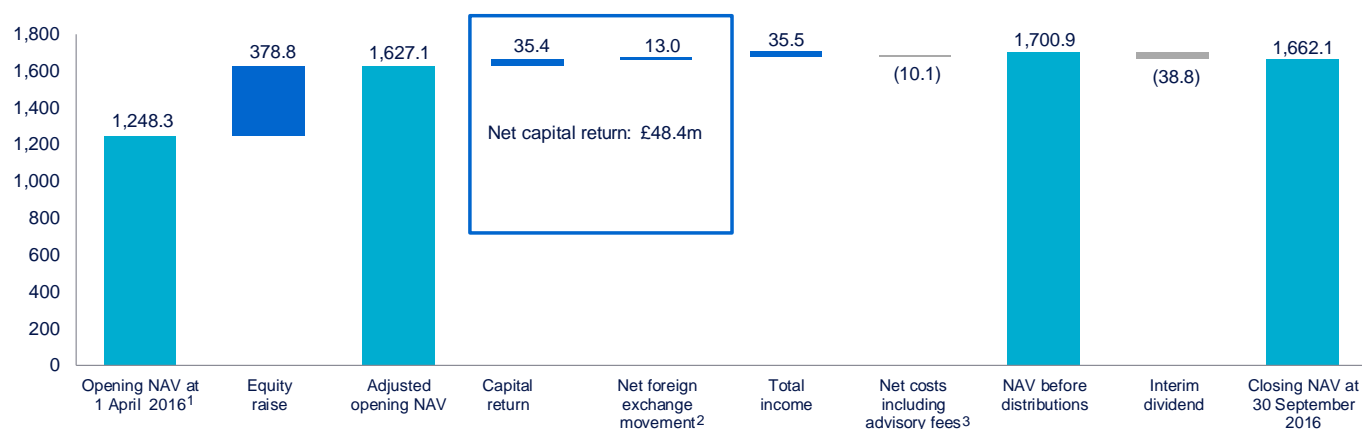
3i Infrastructure generated a realised capital loss of £0.5 million over the carrying value in the period (September 2015: nil) from the disposal of shares in Adani Power held through the India Infrastructure Fund.

### Net capital return

Net capital return, including the loss of £65.5 million in the fair value of foreign currency hedging derivatives, was £48.4 million (September 2015: £64.5 million), as shown in Chart 4 below.

Movements in the fair value of derivatives represents a loss of £65.5 million (September 2015: loss of £0.4 million) in the fair value of the euro, Singapore dollar and Danish krona hedging programme. This substantially offsets the foreign exchange gain in the European portfolio of £74.4 million (September 2015: £2.6 million).

**Chart 4: Reconciliation of the movement in net asset value** (six months to 30 September 2016, £m)



<sup>1</sup> Net of final dividend for the prior year.

<sup>2</sup> Foreign exchange movements are described in Table 3 on page 20.

<sup>3</sup> Includes non-portfolio exchange.

## Income

### Total income

Total income of £35.5 million comprises portfolio income of £35.2 million (September 2015: £27.1 million) and interest receivable on cash balances of £0.3 million (September 2015: £0.6 million).

### Portfolio income

The portfolio generated income of £35.2 million in the period (September 2015: £27.1 million). Of this amount, £9.0 million was through dividends (September 2015: £9.8 million) and £26.2 million through interest on shareholder loans (September 2015: £17.3 million).

The Company accrued interest of £9.8 million from Elenia in the period (September 2015: £9.4 million). The small period-on-period increase is due to the impact of foreign exchange movements as the EUR denominated loan has actually declined due to the partial repayment of the loan in the intervening period.

AWG paid a dividend of £1.1 million in the period; the Company also accrued interest of £2.4 million (September 2015: £3.2 million, £2.4 million). The dividend was lower than the dividend received in the comparable period last year due to a refined dividend timing profile to optimise debt covenant levels. Overall dividends planned over the current regulatory period ("AMP6") remain unchanged.

The Company received a dividend of £6.5 million from Oystercatcher in the period (September 2015: £4.4 million). The uplift is partly attributable to income received from the new investments in the OTT and OTG terminals that were not received in the comparative period.

Interest income of £5.4 million was accrued from ESVAGT in the period (September 2015: £0.4 million), following a full period of income from this investment. The new investments in WIG, TCR and Valorem contributed £3.6 million to accrued income.

The Company received interest payments of £2.4 million from XLT, in line with the corresponding period last year.

The Projects portfolio generated income of £4.0 million (September 2015: £4.2 million). Of this amount, £1.4 million was through dividends (September 2015: £2.2 million) and £2.6 million was through interest (September 2015: £2.0 million).

Looking ahead, portfolio income is expected to increase from the second half of FY2017, as income is earned from the new investments completed in the period.

### Interest receivable on cash balances

Interest income from cash and cash equivalents totalled £0.3 million (September 2015: £0.6 million), reflecting a decrease in the average cash balances held during the period compared to the first six months of last year. The Company's cash balances generated interest at an average rate of 0.2% in the period (September 2015: 0.5%). At 30 September 2016, the Company's cash balance was £135.9 million.

**Table 5: Breakdown of portfolio income (six months to 30 September, £m)**

	2016		2015		Comments
	Dividends	Interest	Dividends	Interest	
Eversholt Rail	–	–	–	0.7	Sold in April 2015
Elenia	–	9.8	–	9.4	Higher due to exchange movements in the period
AWG	1.1	2.4	3.2	2.4	Overall dividends planned across AMP6 remain unchanged, but with timing differences
Oystercatcher	6.5	–	4.4	–	Addition of two new terminals to the portfolio
TCR	–	1.9	–	–	New investment in the period
ESVAGT	–	5.4	–	0.4	New investment in Sept 2015
XLT	–	2.4	–	2.4	
WIG	–	1.6	–	–	New investment in the period
Valorem	–	0.1	–	–	New investment in the period
Projects portfolio	1.4	2.6	2.2	2.0	Higher interest income following the investment in WODS in August 2015
<b>Total</b>	<b>9.0</b>	<b>26.2</b>	<b>9.8</b>	<b>17.3</b>	

## Costs

### Advisory fees and performance fees

During the six months to 30 September 2016, the Company and its unconsolidated subsidiaries incurred advisory fees of £11.1 million (September 2015: £7.5 million). The increase is due to new investment activity in the period. The advisory fee, payable to 3i plc, is calculated as 1.5% of the Gross Investment Value, which is based on the opening portfolio value and the cost of any new investments or commitments made during the period. The advisory fee for new projects transactions is 1.0%. For non-projects transactions the advisory fee reduces from 1.5% to 1.25% for any proportion of an asset held for more than five years. As several of the Company's investments have been held for more than five years, the advisory fee rate chargeable for those investments (e.g. AWG, three of the five terminal investments held within Oystercatcher, Octagon, Elgin and various assets within the 3i India Fund) is 1.25%.

An annual performance fee is also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the growth in net asset value per annum, adjusting for the impact of share capital raised. This hurdle was not achieved in the first half of the year, as the total return for the period was 5.0%. For a more detailed explanation of how advisory and performance fees are calculated and of the high water mark definition, please refer to Note 9 on pages 60 and 61.

### Fees payable

Fees payable for costs in relation to transactions that did not reach, or have yet to reach completion, totalled £0.2 million. Potential abort costs for on-going deals which were accrued in the last financial year, were capitalised following the successful completion of those transactions during the course of this financial period. The transaction costs relating to investments, excluding those that were subsequently capitalised following completion of the investment, totalled £0.6 million at 30 September 2016. The comparable figure at the end of September last year stood at £0.9 million.

### Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £1.2 million in the period (September 2015: £1.4 million). The decrease reflects an ongoing focus on costs, and timing differences in some areas of spend.

Finance costs of £2.2 million (September 2015: £3.1 million) in the period comprise £1.8 million of arrangement, commitment and utilisation fees for the Company's £300 million revolving credit facility, together with £0.4 million in relation to the arrangement and commitment fees for the additional £200 million accordion increase in the facility which was arranged and subsequently cancelled during the period. The prior period costs included £1.5 million associated with cancelling the previous credit facilities.

### Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in the table below, against the average net asset value over the reporting period.

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ("AIC") recommended methodology, and was 1.68% for the period on an annualised basis (September 2015: 1.41%). The ongoing charges ratio is higher in periods where new investment levels are high and new equity is raised.

The AIC methodology does not include performance fees or finance costs. However, the AIC recommends that the impact of performance fees on the ongoing charges ratio is noted, where performance fees are payable. The cost items that contributed to the ongoing charges ratio are shown below. As no performance fee was accrued in the period, no additional disclosure is required.

**Table 6: Ongoing charges** (six month to 30 September, £m)

	2016	2015
	£m (annualised)	£m (annualised)
Investment Adviser's fee	22.2	15.0
Auditor's fee	0.3	0.3
Directors' fees and expenses	0.5	0.5
Other ongoing costs	2.0	2.1
<b>Total ongoing charges</b>	<b>25.0</b>	<b>17.9</b>
<b>Ongoing charges ratio</b>	<b>1.68%</b>	<b>1.41%</b>

## Balance sheet

The net asset value at 30 September 2016 was £1,700.9 million (March 2016: £1,277.0 million). The principal components of the net asset value are the portfolio assets, cash holdings, other financial assets, the fair value of derivative financial instruments and other net assets and liabilities, principally relating to accrued interest.

The financial statements require cash or other net assets/liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and total aggregate cash and net assets/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 9.

At 30 September 2016, the Company's net assets after the deduction of the interim dividend were £1,662.1 million (March 2016: £1,248.3 million after the deduction of the final dividend). A summary balance sheet is included in Table 7.

**Table 7: Summary balance sheet**

	As at 30 September 2016 £m	As at 31 March 2016 £m
Portfolio assets	1,592.7	1,222.1
Cash balances	135.9	49.9
Financial assets	33.8	36.7
Derivative financial instruments	(85.3)	(24.4)
Other net assets	23.8	(7.3)
<b>Net asset value</b>	<b>1,700.9</b>	<b>1,277.0</b>

## Cash and other financial assets

Cash balances at 30 September 2016 totalled £135.9 million (March 2016: £49.9 million), including £9.1 million (March 2016: £2.4 million) of unrestricted cash balances held within intermediate unconsolidated holding companies. In addition, an amount of £33.8 million (March 2016: £36.7 million), held on the balance sheet as “Other financial assets”, comprises predominantly cash held on deposit in third-party bank accounts on behalf of the Mersey Gateway Bridge and A9 projects. The balance has reduced in the period following the Company’s investment in the Ayrshire College project.

Cash on deposit was managed actively by the Investment Adviser and there are regular reviews of counterparties and their limits by the Board. Cash is principally held in AAA-rated money market funds.

## Revolving credit facility

The Company has a £300 million revolving credit facility (“RCF” or “the Facility”) in order to maintain a good level of liquidity for further investment whilst minimising returns dilution from holding excessive cash balances. The Facility is a three year facility, and the maturity date was extended during the period by one year to May 2019. The Company has the right to increase the size of the Facility by up to a further £200 million, provided that existing lenders have a right of first refusal, and the Company has the right to request a further one year extension to the maturity date of the Facility, which may be granted at the discretion of each lender individually.

In April 2016, the Company increased the size of the Facility from £300 million to £500 million on a temporary basis to December 2016. This increase was cancelled in July 2016 following receipt of the capital raise proceeds.

At 30 September 2016, the RCF had been used to issue letters of credit for undrawn commitments to projects comprising €4.8 million (£4.2 million) for the RIVM project, €11.7 million (£10.0 million) for the La Santé project, €7.9 million (£6.8 million) for the Condorcet project and €4.5 million (£3.9 million) for the Hart van Zuid primary project. During the period the letter of credit relating to the A12 project was cancelled following the Company’s investment in the project.

## Capital raising

The Company successfully completed a substantial capital raise during the period, with gross proceeds of £385 million by way of an open offer, placing and intermediaries offer at 165 pence per share. This was increased from the original target size of £350 million. The offer was significantly oversubscribed and the final size was set so as to ensure that the Company continues to maintain an efficient balance sheet whilst at the same time having sufficient liquidity to bid for new investment opportunities. 233,333,333 new ordinary shares were admitted to trading on the London Stock Exchange main market for listed securities on 10 June 2016. The Company now has a total of 1,026,549,746 shares in issue.

All applications made by existing shareholders under open offer entitlements were met in full, and the Company was able to admit a number of new shareholders to the register.

## Net asset value per share

The total net asset value per share at 30 September 2016 was 165.7p (March 2016: 161.0p). This reduces to 161.9p (March 2016: 157.4p) after the payment of the interim dividend of 3.775p. There are no dilutive securities in issue.

The movement in NAV per share in the period includes a 1.1 pence per share increase resulting from raising capital in June 2016 at a premium to the NAV per share at the time of the capital raise.

## Dividend and dividend cover

The Board has proposed a dividend for the period of 3.775 pence per share, or £38.8 million in aggregate (September 2015: 3.625 pence; £28.8 million). This is in line with the Company’s target of paying a full year dividend for FY2017 of 7.55 pence per share.



When considering the coverage of the proposed dividend, the Board assesses the income earned from the portfolio, interest received on cash balances and any additional non-income cash distributions from portfolio assets which do not follow from a disposal of the underlying assets, as well as the level of ongoing operational costs incurred in the period. The Board also takes into account any surpluses retained from previous years, and net capital profits generated through asset realisations, which it considers available for distribution as dividend.

For the period to 30 September 2016, total income and other income, including non-income cash distributions from portfolio companies, amounted to £48.9 million (September 2015: £28.6 million). For dividend cover, operational costs relating to advisory fees, operating expenses and financing costs, totalled £14.5 million for the period (September 2015: £12.0 million). The interim dividend cover shortfall of £4.4 million, which was expected following the capital raise and accommodated in the Company's cash flow planning, is covered from the amounts available for distribution as detailed above. The Board is therefore proposing that the interim dividend payment is made in line with the Company's FY2017 full year dividend target. The retained amount available for distribution, following the payment of the interim dividend, will be £46.2 million.

## Reconciliation of summary total return and summary balance sheet

**Table 8: Summary total return** (six months to 30 September 2016, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial statements
Capital return	113.9 <sup>1</sup>	1.5 <sup>2,3</sup>	115.4
Movement in fair value of derivatives	(65.5)	(1.2) <sup>2</sup>	(66.7)
<b>Net capital return</b>	<b>48.4</b>	<b>0.3</b>	<b>48.7</b>
Total income	35.5	(2.3) <sup>3</sup>	33.2
Costs	(14.7)	2.7 <sup>3</sup>	(12.0)
Other net income/(costs)	4.6	(0.7)	3.9
<b>Total return</b>	<b>73.8</b>	<b>-</b>	<b>73.8</b>

1 Capital return includes a £78.5 million foreign exchange gain.

2 Movement in fair value of derivatives relating to hedging specific to the Oystercatcher subsidiary, reclassified as capital return, as it is monitored by the Board as part of the unrealised value movement in Oystercatcher.

3 Costs of £2.7 million were incurred within unconsolidated subsidiaries, comprising predominantly fees paid directly to 3i Group (£2.2 million), operating expenses (£0.1 million) and transaction fees (£0.4 million). These are reflected in capital returns or income as they have reduced either the carrying value, or the income distributed from these subsidiaries.

**Table 9: Reconciliation of summary balance sheet** (as at 30 September 2016, £m)

	Underlying aggregate portfolio amounts and other balances	Adjustments for transactions in unconsolidated subsidiaries <sup>1</sup>	Financial statements
Portfolio assets	1,592.7	8.2	1,600.9 <sup>2</sup>
Cash balances	135.9	(9.1) <sup>3</sup>	126.8
Financial assets	33.8	-	33.8
Derivative financial instruments	(85.3)	(3.6) <sup>4</sup>	(88.9)
Other net assets	23.8	4.5	28.3
<b>Net asset value</b>	<b>1,700.9</b>	<b>-</b>	<b>1,700.9</b>

1 "Investments at fair value through profit and loss" in the financial statements includes £9.1 million of unrestricted cash balances and £4.5 million of other net liabilities with or within intermediate unconsolidated holding companies and a £3.6 million reclassification of derivative liabilities relating to the Oystercatcher subsidiary. These adjustments reclassify these balances to show the underlying value of the portfolio assets, the total cash holdings and other net assets/(liabilities) position, as monitored by the Board.

2 Described as "Investments at fair value through profit and loss" in the financial statements.

3 Cash balances held in unconsolidated subsidiaries totalled £9.1 million.

4 A £3.6 million derivative liability relating to hedging specific to the Oystercatcher subsidiary is reclassified as Portfolio assets, as it is monitored by the Board as part of the valuation of Oystercatcher.

# Risk review

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## Risk appetite

As an investment company, the Company seeks to take investment risk. The Company seeks to limit or manage exposure to other risks to acceptable levels.

## Review of significant key risks

The Company was affected by a number of significant key risks during the period, which have potential to affect materially the achievement of the Company's strategic objectives and impact its financial performance. This disclosure shows the developments in these significant key risks during the period, it is not an exhaustive list of risks and uncertainties faced by the Company.

The Company's risk profile and appetite remains broadly stable.

## External risks – market and competition

The period has seen significant macro-economic uncertainty with the UK's decision to leave the EU. It is expected that the UK will cease to be a member of the EU by April 2019 and so the longer term macro impact remains uncertain. There are wide-ranging legal and regulatory implications from Brexit, but none are immediately applicable, since the UK has not yet started the process to leave the EU and much will depend upon the terms of the eventual deal between the UK and EU. The Company is monitoring the situation closely.

The markets in which the Company seeks to invest, and in particular the European economic infrastructure markets, are competitive, with strong demand for large core assets. This is being reflected in higher asset prices. While this has supported value gains for existing assets in the portfolio, it has made securing new investments at total returns and yield consistent with the Company's targets more challenging. Despite the more challenging market environment the Investment Adviser continues to leverage its network and skills to make investments that can continue to deliver attractive risk-adjusted returns to the Company's shareholders.

Interest rates remained low throughout the period. Elenia's regulatory allowed return is currently determined with reference to the 10-year Finnish government bond yield. During the period, the Finnish 10-year government bond yield reduced by approximately 0.5% from an average of 0.8% for the six month period to 31 March 2016. As at 30 September 2016, the Finnish 10-year government bond yield was 0.4%. This has had a negative impact on the valuation of the Company's holding in Elenia. However, this has been offset by Elenia continuing to take advantage of the favourable credit market conditions and, since March 2016, Elenia has issued €82 million of new bonds with maturities between 2030 and 2034.

Inflation remained low in the period, continuing to impact the assets with inflation-linked revenues. However, cost inflation has also been low across the portfolio. The Company monitors the outlook for inflation closely.

There was significant currency volatility in the period, with sterling depreciating 9.1% against the euro and 9.3% against the Indian rupee in the six months to the end of September. The Company's objective is to hedge the significant majority of its euro exposure and the Singapore dollar exposure (associated with the investment in Oiltanking Singapore within the Oystercatcher valuation). The revaluation of the hedging programme for the euro, Singapore dollar and Danish krona is impacted by movements in forward exchange rates which are not necessarily matched exactly by an equivalent change in the spot exchange rate at which the assets are translated.

The exposure to the Indian rupee remains unhedged and resulted in a foreign exchange gain in the period. In relation to this exposure, the Board's assessment remains that the cost of hedging the exposure would considerably outweigh the potential benefits, given the lack of liquidity, and therefore high execution costs, but also due to the significant interest rate differential between sterling and rupee which impact the forward currency rates and hedging derivative valuation. The Board monitors the effectiveness of the Company's hedging policy on a regular basis.

## External risks – regulatory

Following on from the December 2015 publication of the final guidelines for the 2016-19 and 2020-23 regulatory periods by the Finnish Energy Authority, on 3 June 2016 the Ministry of Employment and Economy issued a draft government bill which, if enacted, would amend the Electricity Market Act by implementing certain restrictions on price increases by Distribution Service Operators (“DSOs”). According to the draft bill, DSOs, including Elenia, would be restricted from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12-month period. The new regulation would apply with respect to both consumer and corporate customers. The proposed amendment is expected to be submitted to the Finnish Parliament in late 2016 and is expected to become law during 2017. Elenia’s business plan is not expected to be impacted materially by this new legislation.

During the period Ofwat announced the key proposals from the ‘Water 2020’ reform programme for the next regulatory period which will have an impact on Anglian Water Group. The proposals include a change in revenue indexation to CPI (or CPIH) from RPI from 2020, promoting competitive markets for sludge and water resources through the regulatory framework and encouraging companies to tender the construction, finance and, where appropriate, operation of high value projects rather than delivery in-house.

In September 2016, Ofwat presented its report on the costs and benefits of introducing household competition, highlighting that there are potential benefits available and that customers would welcome having greater choice. Customer bill reductions could be limited. The Government is considering the report.

## External risks – taxation

During October 2015, the OECD’s Base Erosion and Profit Shifting (“BEPS”) project announced a set of proposals for changes designed to tighten international tax regimes and prevent tax planning strategies used by multinational businesses to artificially shift profits to low tax jurisdictions. The Company and the Investment Adviser have been monitoring the progress of the BEPS project since its inception in 2013 and this has included the Investment Adviser contributing to representations made by infrastructure bodies on certain of the proposals, notably those concerning the limiting of tax deductions for interest expenses of companies, BEPS Action 4.

The Company and the Investment Adviser will continue to, monitor further developments as different jurisdictions now consider the questions of which proposals they will implement when and to what extent. The BEPS proposals are extremely wide ranging and, subject to their adoption and implementation by jurisdictions, are likely to affect all multinational businesses to some extent. At this stage it is not possible to determine the precise impact of the proposals on the Company and its investments, but the impact of BEPS Action 4 interest deductibility in the UK, based on the current proposals, has been reflected in the valuation of its UK investments as at September 2016.

## Strategic risks

During the period, the Company balanced the funding requirements of its pipeline of investments with the objective of running its balance sheet efficiently. The Board assessed the Company’s liquidity requirements regularly including the liquidity impact from the foreign exchange hedging programme. The Company proved its flexible funding model by holding a low cash balance throughout the period and it took advantage of the accordion feature of its revolving credit facility which added a further £200m of temporary funding, to position itself to make commitments for potential new investments.

## Investment risks

The Company made four new investments during the period, in WIG, TCR, Valorem, and the Hart van Zuid social infrastructure primary PPP project. These new investments have increased the geographical and sector diversification of the Company’s portfolio.

## Operational

The key areas of operational risk include the loss of key personnel at the Investment Adviser, and whether the Investment Adviser’s team can continue to support the delivery of the Company’s objectives. The Board monitors the performance of the Investment Adviser through the Management Engagement Committee. It also monitors the performance of key service providers, receiving reports on any significant control breaches.

# Review of investments

## Elenia

### Performance in the period

Cost	£183.2m
Closing value	£396.3m
Equity interest	39.3%
Opening value	£362.4m
Income in the period	£9.8m
Divestment in the period <sup>1</sup>	£(13.5)m
Value movement in the period	£15.6m
Net exchange movement in the period <sup>2</sup>	£2.0m
Asset total return in the period	£27.4m
Valuation basis	DCF



- 1 Capitalised income of £1.9 million and shareholder loan repaid of £11.6 million in the period. Opening cost was £194.8 million.  
 2 Exchange movement of £31.8 million and allocated foreign exchange hedging movements of £(29.8) million.

### Description

Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 417,000 customers in the south west of the country and has a market share of approximately 12%. The business is regulated on a four-year cycle, delivering a set return on its regulated asset base. The electricity distribution business accounts for approximately 90% of Elenia's overall value.

Elenia Lämpö owns and operates 16 local district heating networks, each with strong market shares in their local areas. District heating, which involves the pumping of hot water directly into homes and businesses from central hubs, is not regulated in Finland. This business accounts for approximately 10% of Elenia's overall value.

### Investment rationale

Elenia has strong infrastructure characteristics and operates in an attractive market:

- the electricity distribution business operates in a stable and transparent regulatory environment, with regulatory incentives providing opportunities for value-accretive growth;
- the businesses are profitable and provide inflation linkage. This is likely to support a robust yield to 3i Infrastructure over the long term; and
- Finland is an attractive market, providing opportunities for consolidation over the medium term.

## Achievements in the period of ownership

The businesses were rebranded with the “Elenia” name in May 2012, reinforcing the separation from Vattenfall to domestic audiences.

The business successfully completed the post-acquisition corporate reorganisation in early January 2013. This allowed Elenia to begin distributing dividends to shareholders. In December 2013, Elenia’s original acquisition debt was fully refinanced through a Whole Business Securitisation, the first of its kind to be applied to a non-UK European utility. This was an important milestone for the business, with positive implications for value, as it provided a platform for access to the long-term capital markets and reduced the ongoing cost of debt. Elenia’s governance was enhanced through the appointment of new independent chairmen to the boards of each business, as well as through a number of management appointments to further strengthen the executive teams. In addition, management incentives were put in place to align management incentivisation to the objectives of the shareholders. On 1 August 2015, Tommi Valento, formerly Group Treasurer at Pohjolan Voima Oy, was appointed as CFO of the business, replacing Aapo Nikunen.

Since acquisition in January 2012, Elenia has invested more than €400 million in developing its electricity network, with a particular emphasis on improving service reliability and weather proofing.

Throughout the period of ownership, the consortium has supported the management team in its dialogue with the regulator. In December 2015, the Finnish Energy Authority, which regulates electricity distribution in Finland, published its final determination for the 2016–2019 and 2020–2023 regulatory periods. The new guidelines include several changes to address the issue of the low allowed return on capital experienced by all distribution companies over recent years, with the objective of incentivising distribution companies to improve the security of supply.

## Developments in the period

Overall, both businesses continued to perform well operationally and financially.

Elenia has continued the roll-out of its long-term investment plan which is designed to improve the security of supply. In the first half of 2016, network investments were €59 million, totalling €118 million on a rolling twelve month basis. The underground cabling rate increased as planned to approximately 35%.

Elenia has continued to take advantage of the favourable credit market conditions and, since March 2016, has issued €82 million of new bonds with maturities between 2029 and 2034. The proceeds were used to fund capital expenditure.

Following a request from the Energy Authority, the Ministry of Employment and Economy has proposed new legislation to restrict the Distribution Service Operators from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12-month period. We do not expect this new legislation to impact materially the value of the Company’s holding in Elenia, which has increased prices by 9.4% with effect from 1 April 2016.

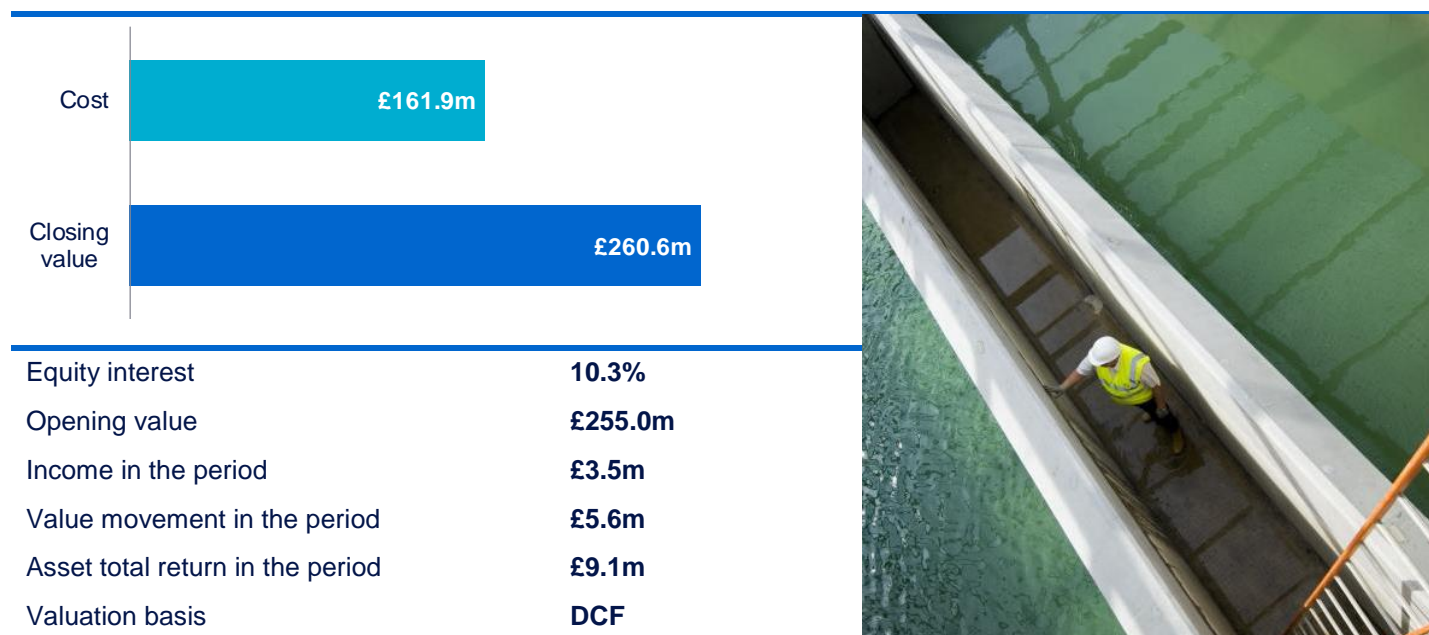
Elenia, supported by the consortium, continues to monitor potential acquisition opportunities in the fragmented electricity distribution market. Consolidation of the existing network would allow Elenia to leverage its operational expertise.

As announced on 15 January 2016, and further to the announcement by Elenia Finance Oyj on the same date, the shareholders in Elenia are undertaking a strategic review of their interests in the business. The shareholders continue to explore their options, and no decisions have been made.



## Anglian Water Group (“AWG”)

### Performance in the period



### Description

Anglian Water Group Limited is the parent company of Anglian Water, the largest water and water recycling company in England and Wales by geographical area and the fourth largest as measured by regulatory capital value. The majority of the group's revenue is earned through tariffs regulated by Ofwat and linked to RPI.

The investment is held through 3i Osprey LP, an intermediary limited partnership whose partners comprise other third parties (including 3i Group, which has a small interest) and which is managed by the Investment Adviser.

### Investment rationale

AWG was taken private in 2006 by a group of investors, including 3i Group, which “seeded” part of its AWG holding into 3i Infrastructure when the Company was set up in 2007. The business has strong infrastructure characteristics:

- a regulated near-monopoly position in its geographical area for the provision of water and water recycling services;
- stable and predictable earnings and cash flows through RPI-linked tariffs; and
- largely predictable operating costs.

In addition, AWG has attractive fundamentals:

- a strong and well-established management team;
- a well maintained asset base;
- operations in a geographic region with high population growth and relatively low industrial exposure, limiting cyclical correlation; and
- a track record of strong operational performance.



## Achievements in the period of ownership

AWG has flourished under private ownership. It has refocused on its core business, selling Morrison Utilities Services, Morrison Facilities Services and much of its property portfolio. The company has been able to optimise its capital structure compared to listed peers and to distribute a higher proportion of cash flows to shareholders, resulting in a strong yield. The regulated capital value has grown steadily, underpinned by a comprehensive capital expenditure programme, which will be maintained for the 2015–2020 regulatory period (“AMP6”), which began on 1 April 2015. In order to preserve greater financial flexibility, the board of AWG has decided to manage gearing downwards slightly through to the end of AMP6. This will reduce dividends to the Company from those previously anticipated, as announced previously.

A new management incentive scheme was put in place post investment, aligning compensation with long-term value growth, asset quality and customer service rather than short-term earnings and share price performance. The management team now balances long-term planning, for example, to respond to the challenges of climate change, with a clear focus on operational efficiency and customer service.

In FY2016, AWG completed its IRIS programme, which involved upgrading the telemetry system across its entire asset base. The new system gives AWG a much greater level of oversight of its asset base and operations, which assists it in planning and implementing its asset maintenance programme.

AWG ranked second among the Water and Sewerage Companies in Ofwat’s Customer Service Survey for the financial year to March 2016, the first to be measured under the new regime.

## Developments in the period

AWG continues to perform well, with operational performance and income levels in line with expectations.

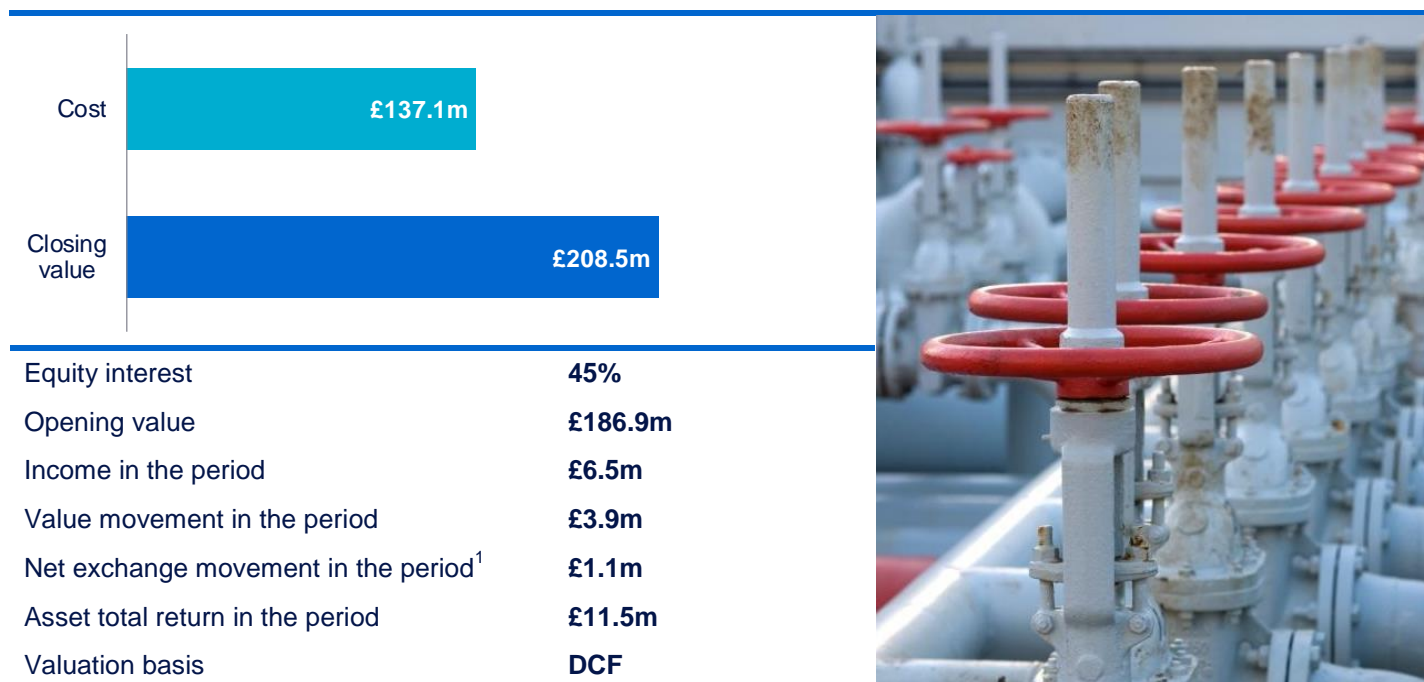
The business is currently focused on implementing its cost efficiency and capital spending programmes to drive value through AMP6 and has so far achieved its targeted savings. As part of the regulatory settlement, AWG also has a set of 32 Outcome Delivery Incentives (“ODIs”). These are key operational performance parameters against which AWG is judged and which carry material financial incentives and penalties. During the first year of the regulatory period, all of AWG’s ODIs met at least their base targets, with three achieving near maximum rewards.

The core water business continues to perform well operationally. There were no major operational incidents and water resource levels are normal for this point in the year. During FY2016, AWG achieved its best ever performance in minimising interruptions to supply, leakage and pollution incidents.

AWG continues to make good progress in preparing for the non-household retail market opening in April 2017. During the period, Ofwat continued to consult on its Water 2020 plan, which sets out its proposals for the regulatory framework for wholesale markets and the 2019 price review, including opening up of the sludge and water resources markets and the introduction of CPI indexation. AWG, along with the rest of the industry, continues to engage proactively in this consultation. In September 2016 Ofwat published its report into the costs and benefits of introducing competition to residential customers in England.

# Oystercatcher

## Performance in the period



<sup>1</sup> Exchange movement of £17.7 million and allocated foreign exchange hedging movements of £(16.6) million.

## Description

Oystercatcher Luxco 2 S.à r.l. ("Oystercatcher") is the holding company through which the Company holds 45% interests in five subsidiaries of Oiltanking GmbH ("Oiltanking"), located in Belgium, Malta, the Netherlands and Singapore. These businesses provide over five million cubic metres of oil, petroleum and other oil-related storage facilities and associated services to a broad range of clients, including private and state oil companies, refiners, petrochemical companies and traders.

Oiltanking is one of the world's leading independent storage partners for oils, chemicals and gases, operating 73 terminals in 22 countries with a total storage capacity of 19 million cubic metres.

## Investment rationale

The investment in the Amsterdam, Malta and Singapore terminals was completed in August 2007, while the investment in the Ghent (Belgium) and Terneuzen (Netherlands) terminals was completed in June 2015.

The key elements of the investment case for the terminals are:

- there is strong projected demand for oil and oil-related products;
- storage capacity remains scarce and is a key component of the oil and oil product supply chain, resulting in high occupancy;
- the businesses provide essential services and the terminals benefit from facilities and operational capabilities that make them attractive to existing and potential clients;
- the terminals are defensively located in key trading hubs and continue to benefit from high utilisation levels;

- contracts are let on a use-or-pay basis with fixed terms of up to 10 years, often with tariffs linked to local inflation rates, resulting in reliable cash flows; and
- the transactions allowed 3i Infrastructure to partner with a leading player in the oil storage market, with a strong operational reputation.

## Achievements in the period of ownership

The investment case has largely been confirmed, with the investments performing well. Storage capacity has been substantially let throughout the period of investment, and throughput levels have been high.

The Investment Adviser was actively involved in the assessment of a range of capital expenditure project proposals that have delivered long-term value accretion. In Singapore, a 160,000 cubic metre expansion project was completed in June 2009 to accommodate increasing demand from adjacent refineries and petrochemical industries. In Amsterdam, a 42,000 cubic metre expansion project to provide dedicated storage for biodiesel products for a new production facility adjacent to the site was completed in June 2011. This capacity was pre-let on a use-or-pay basis. In Malta, investment in a new 13,000 cubic metre tank was completed in February 2012, and let on a use-or-pay basis to an existing customer. Since investment, total capacity at these three terminals has increased by 28%.

Oystercatcher's portfolio of investments was diversified further in June 2015 through the acquisition of 45% stakes in the Oiltanking Ghent and Oiltanking Terneuzen terminals, located in the strategically important Amsterdam-Rotterdam-Antwerp region.

Oystercatcher completed a refinancing of its acquisition debt facilities in March 2013, and a further refinancing in October 2014. Both achieved good terms, extending the maturity date and lowering debt servicing costs.

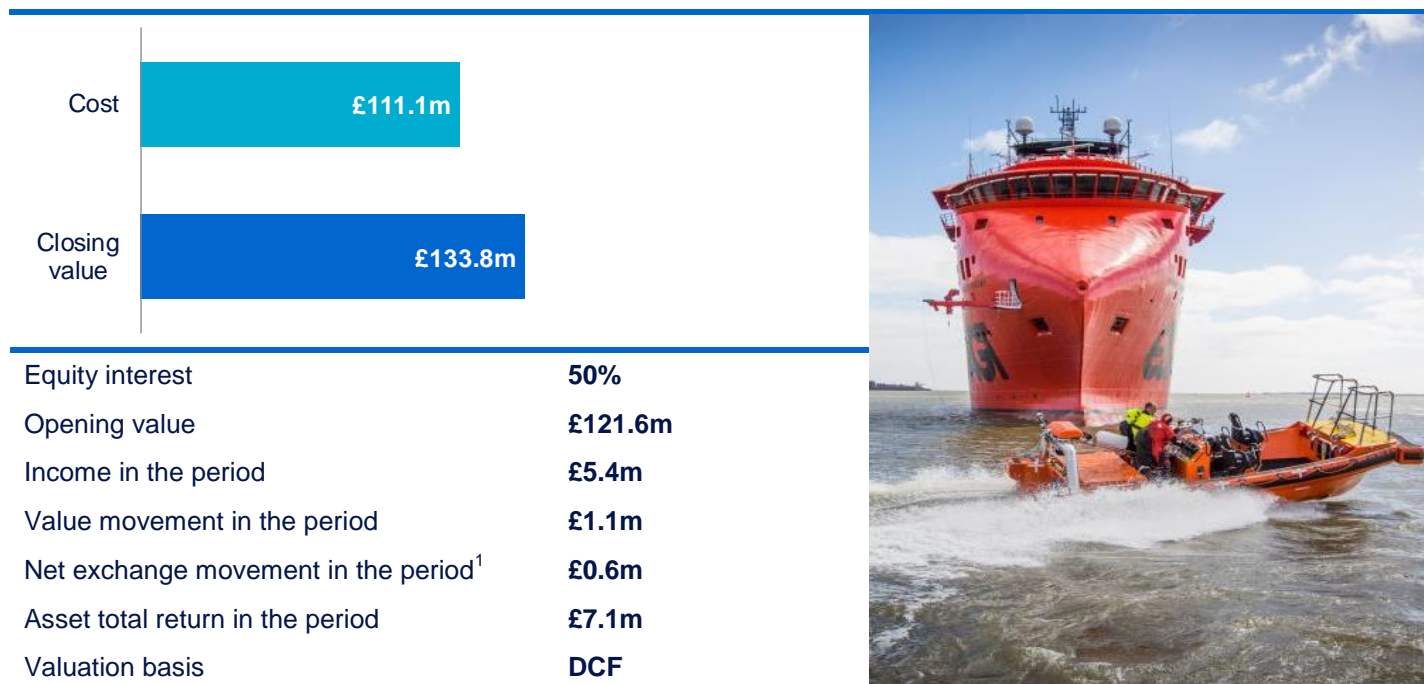
## Developments in the period

The market conditions for trading customers remained supportive, with periods of contango (when the spot or cash price of a commodity is lower than the forward price) in key product markets. This continues to be partially offset by a reduction in demand for storage of certain products in parts of Europe, and by additional storage capacity in the Singapore region. The strong market position of the five terminals continues to ensure that capacity at each terminal remains substantially let and that contract renewals continue to be agreed on good terms. Overall, the terminals performed well during the period and faced no significant operational issues.

A number of capital investment projects, to expand capacity and/or to improve further the operational capabilities of the terminals are currently being explored, as well as a potential refinancing of part of the existing bank debt into longer term finance.

# ESVAGT

## Performance in the period



<sup>1</sup> Exchange movement of £11.1 million and allocated foreign exchange hedging movements of £(10.5) million.

## Description

Headquartered in Esbjerg, Denmark, ESVAGT is a leading provider of emergency rescue and response vessels ("ERRV") and related services to the offshore energy industry in and around the North Sea and the Barents Sea. ESVAGT has been operating since 1981, employs over 900 people and owns a fleet of 43 vessels. Its services mainly involve the rescue and recovery of personnel, but also include the dispersion and recovery of oil spills, crew transfers, towing, and the warning of vessels that approach platforms too closely. It has an established position as a leading provider of emergency response and rescue services in offshore Denmark and Norway, with market shares of approximately 100% and 50% respectively, as well as a growing presence in the UK and high growth offshore wind services segments. Approximately 80% of ESVAGT's ERRV revenues are associated with North Sea oil and gas production support, with the balance associated with North Sea oil and gas exploration expenditure and offshore wind services.

## Investment rationale

3i Infrastructure acquired ESVAGT from AP Møller-Maersk and other minority shareholders in September 2015, in a consortium with AMP Capital.

ESVAGT has strong infrastructure characteristics and operates in an attractive market:

- it is a market leader in Denmark and Norway, and has a small but growing presence in the UK offshore oil and gas market and in the expanding North Sea offshore wind sector;
- it is an asset intensive business, with a modern state-of-the-art fleet of purpose-built vessels;
- a high proportion of its revenues are contracted over the medium term with a diverse customer base featuring limited customer concentration, underpinning stable and predictable cash flows;
- it provides an essential service for the offshore energy industry in light of regulatory health and safety requirements, which constitutes a small component of the overall production cost, resulting in lower price sensitivity;

- it operates in a market with high barriers to entry, as customers require bespoke vessels, manned by experienced crews with a strong safety track record. The harsh weather conditions and language barriers also inhibit new market entrants based outside the region; and
- with its leading market position, strong safety track record and state-of-the-art fleet, ESVAGT is optimally positioned to exploit growth opportunities in the UK and potentially further afield, as well as in the offshore wind energy market.

## Achievements in the period of ownership

The Investment Adviser has developed a strong working relationship with members of the management team and is working closely with them to drive the business forward. As part of this process, the Investment Adviser assisted with the appointment of a new Chairman, Jesper Lok, who took office on 1 November 2015. Jesper is a strong addition to the Board and brings over 25 years of experience from A.P. Møller-Maersk, having worked in Japan, Taiwan, Pakistan and Nigeria before heading SVITZER, the Maersk subsidiary that was formerly ESVAGT's parent company, as CEO. In 2012, he joined DSB, the Danish railroads, as CEO and led the company's turnaround. Most recently, he was CEO of Falck's Emergency division.

ESVAGT is well placed to leverage its strong market position to capitalise on growth opportunities in the UK market as well as the offshore wind energy support market. In December 2015, it announced that it had signed an agreement with MHI Vestas to provide a bespoke service operation vessel in support of the Belwind 1 and Nobelwind Belgian offshore wind power developments. Under the terms of the agreement, ESVAGT will operate the vessel for the exclusive use of MHI Vestas' on-site wind park engineering team for a period of 10 years from vessel delivery, which is expected in mid-2017. This agreement builds on an existing five-year partnership with MHI Vestas and demonstrates the company's strong customer relationships, its best in class operations and its partnership approach.

## Developments in the period

ESVAGT performed in line with our investment case during the period despite the low oil price environment.


In June 2016, ESVAGT signed a binding agreement with Hess, a leading independent energy company, in relation to the Danish sector of the North Sea. Under the terms of the agreement, ESVAGT will provide safety and support services to Hess at the South Arne field for a period of 12 years, continuing a successful 17 year partnership at the field. ESVAGT's duties will be performed by a new, purpose-built vessel, scheduled for delivery in 2018. In the interim period, the 'ESVAGT Connector' vessel will provide support to Hess until the new vessel is delivered.



## Wireless Infrastructure Group (“WIG”)

### Performance in the period

Cost	£74.7m
Closing value	£75.2m
Equity interest	36%
Opening value	-
Investment in the period	£74.7m
Income in the period	£1.6m
Value movement in the period	£0.5m
Asset total return in the period	£2.1m
Valuation basis	DCF



### Description

WIG is an independent communications infrastructure provider headquartered in Bellshill, Scotland. The business builds and operates communication towers (masts) in rural and suburban areas, together with fibre based networks, to improve mobile coverage in large buildings and on city streets. WIG is independent of any network operator and invests in shareable infrastructure that is made available to all networks to access.

Following its inception in 2006, WIG has invested in over 2,000 shared communications towers and other wireless infrastructure across the UK and its high quality infrastructure enables industry leading levels of mobile and other wireless connectivity. The business has recently expanded into the Netherlands and Ireland.

### Investment rationale

3i Infrastructure acquired a 36% economic interest in WIG investing approximately £75 million and joining existing majority shareholder Barings Alternative Investments (formerly known as Wood Creek Capital Management) and the management team as shareholders.

This investment diversifies the Company’s portfolio with exposure to a growing communications infrastructure business:

- wireless broadband data usage in the UK is forecast to increase significantly over the coming years as 4G becomes the standard technology in mobile video and other data intensive services continues to rise. As usage grows, increased coverage and densification of the mobile network is required, creating demand for further infrastructure;
- communication towers are critical pieces of infrastructure that are largely agnostic to technological change. Independent ownership and operation of towers enables higher level of connectivity than infrastructure owned by mobile and other wireless networks.
- the cash flows of the business are inflation-linked and are underpinned by long-term contracts; and
- with its scalable platform and track record of building new infrastructure and making accretive acquisitions, WIG is well placed to target further growth in the UK and across Europe.



## Developments in the period


Since investment, WIG is performing in line with our investment case.

Together with the management team and our co-shareholders, we are actively reviewing growth opportunities, including acquisitions. WIG remains focused on building out towers as well as new small cell networks in large buildings and in densely populated areas.

# TCR

## Performance in the period

Cost	£150.9m
Closing value	£162.1m
Equity interest	50%
Opening value	-
Investment in the period	£150.9m
Income in the period	£1.9m
Value movement in the period	£(1.1)m
Net exchange movement in the period <sup>1</sup>	£5.0m
Asset total return in the period	£5.8m
Valuation basis	DCF



1 Exchange movement of £12.3 million and allocated foreign exchange hedging movements of £(7.3) million.

## Description

Headquartered in Brussels, Belgium, TCR is Europe's largest independent asset manager of airport ground support equipment ("GSE") and operates at over 100 airports. Since inception, TCR has defined the market for leased GSE, providing high quality assets and a full service leasing, maintenance and fleet management offering to its clients, which are predominantly independent ground handling companies, airlines and airports. This enables GSE operators to concentrate on their core business of ground handling. The GSE that TCR provides is critical infrastructure, without which some of Europe's busiest airports could not operate.

## Investment rationale

TCR fits with the Company's strategy of investing in companies with good asset backing, strong market positions and barriers to entry, yet with operational levers to achieve attractive returns for shareholders through active asset management:

- GSE is a scarce resource that is critical to the functioning of an airport; through first mover advantage, TCR has benefited from securing the largest independent GSE fleet in Europe. TCR has access to maintenance workshops in prime locations at airports, many of which are located airside. This means that a high quality maintenance and asset management service can be provided, resulting in high availability of TCR's fleet;
- TCR is able to offer full-service rentals on a pan-European basis. This creates competitive advantages against competitors, which tend to offer either dry leases or only repair and maintenance services. TCR's network means it can offer pan-European solutions at multiple locations, matching the footprints of its customers;
- outsourcing ownership of GSE equipment makes economic sense for independent ground handlers, as it allows them to manage the mismatch between short-term handling contracts and the typically 10-15 year useful life of equipment;
- TCR's rental contracts are aligned with the ground handlers' contracts with the airlines and are typically 3-5 years in duration. TCR has experienced a high level of contract renewal;

- the business has a diversified portfolio and is present at over 100 airports across 12 countries with a diverse contract and customer base meaning the revenues of the business are not materially reliant on a single client or geography; and
- the investment will provide exposure to the long-term growth in the aviation market, which is fundamentally GDP driven, yet it is expected to be insulated from short-term shocks to demand due to its exposure to aircraft movements rather than passenger numbers.

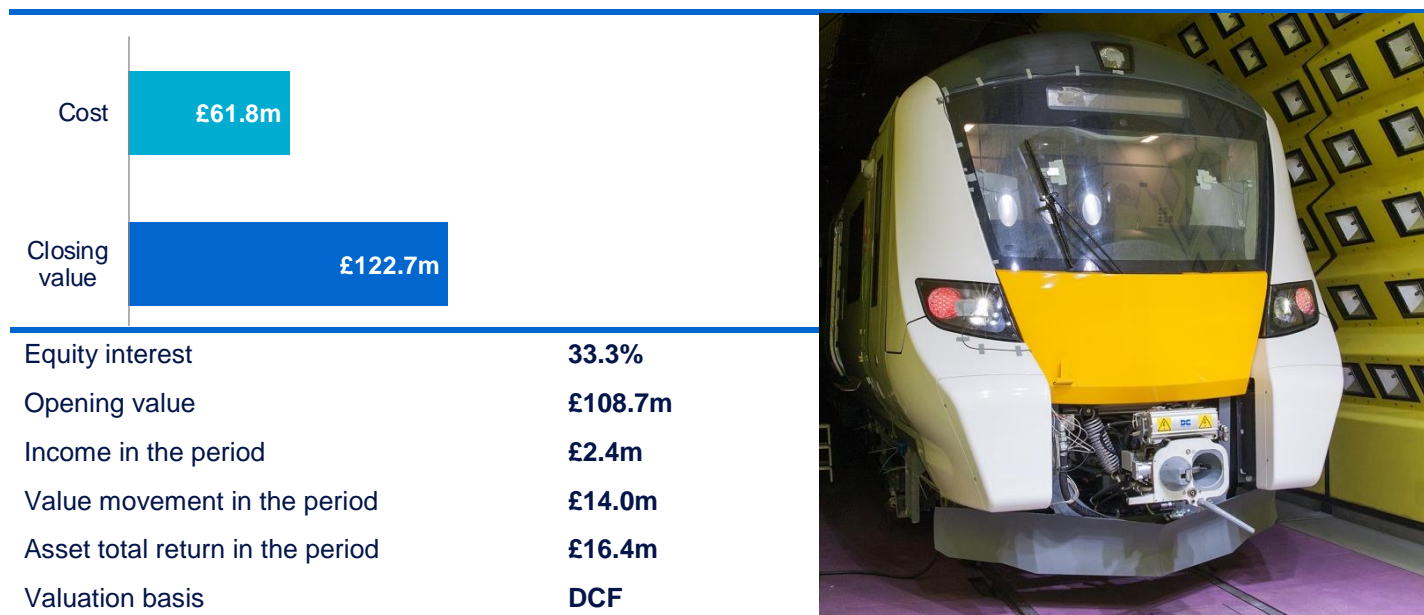
## Developments in the period

Since the completion of the transaction in July, the revenues and EBITDA of TCR have been in line with our investment case.

TCR has made good progress on its international expansion in the period, in particular in the United States and in Malaysia. TCR has also won new contracts in Germany, Spain, Norway and the UK. The acquisition debt facilities have been successfully syndicated and a management incentive plan has been put in place.

## Cross London Trains (“XLT”)

### Performance in the period



### Description

Cross London Trains is a company established to procure and lease the rolling stock for use on the Thameslink passenger rail franchise. As part of a wider upgrade of the Thameslink rail network, XLT is investing £1.6 billion in a fleet of new Siemens Desiro City commuter rail carriages to be leased to the Thameslink rail franchise operator, with the continued leasing of the trains underpinned by the Department for Transport (“DfT”) for a period of 20 years (the “s54 period”).

Siemens is manufacturing and will deliver the trains over a period of five years, with the first delivery into service in 2016. The fleet will comprise 1,140 Desiro City commuter rail carriages, capable of running on both overhead and third rail lines.

The fleet will be maintained by Siemens under a long-term service agreement. Following the initial 20-year s54 period, XLT will retain the ownership of the fleet and will be free to lease the trains for the remainder of their useful life. The Company owns 33.3% of the equity in XLT, in consortium with Siemens Project Ventures GmbH and Innisfree Limited.

### Investment rationale

The investment has strong infrastructure characteristics and fits well within 3i Infrastructure’s investment mandate as:

- it is a strategic asset, operating in the capacity-constrained London commuter market;
- it will generate high quality, low-risk cash flows, with rentals due on a “hell or high water” basis and lease revenues underpinned for 20 years by the DfT;
- it will retain ownership of the trains following this initial 20-year period, with their residual value supported by favourable market dynamics; and
- it allows the Company to partner with Siemens, a market leader in UK rolling stock manufacture and maintenance.

## Achievements in the period of ownership

A senior management team was installed at XLT, comprising an executive chairman and a managing director with relevant industry experience. Andy Pitt, executive chairman, was previously managing director of South West Trains. Charles Doyle, managing director, was previously a commercial principal at Transport for London. They have successfully set up all necessary business functions and built a strong working relationship with Eversholt Rail, which provides technical engineering and administrative services to the business under a long-term management services contract.

XLT, supported by its shareholders, has engaged proactively with a number of stakeholders, including Siemens, the DfT, Network Rail and the franchise holder, Govia Thameslink Railway ("GTR"). GTR has been the holder of the Thameslink franchise since September 2014 and XLT has built a good working relationship with its management team.

The Company and the Investment Adviser have built a strong working relationship with Siemens and Innisfree, the other shareholders in XLT.

## Developments in the period

During the period, Siemens made good progress with the manufacturing of the trains. In total, 54 trains have been manufactured of which 31 trains have been delivered for testing in the UK. The focus remains on the acceptance of trains for passenger service in the UK. The acceptance process involves running on the UK network without fault and relies on acceptance from the train operator (GTR). GTR is ultimately responsible for the safe operation of the trains. Conditional acceptance of the fourteenth train, which was a significant milestone in the programme, was achieved on 30 September 2016. The delivery programme is scheduled to complete in 2018.

# Projects portfolio

## Performance in the period

Cost	£108.9m
Closing value	£143.9m
Opening value	£134.6m
Investment in the period	£9.1m
Divestment in the period <sup>1</sup>	£(0.9)m
Income in the period	£4.0m
Value movement in the period	£0.4m
Net exchange movement in the period <sup>2</sup>	£0.2m
Asset total return in the period	£4.6m
Valuation basis	DCF and LP share of funds for Dalmore



Notes: In addition to the value of the investments shown above (Elgin, Octagon, WODS, Dalmore, NMM, Ayrshire College and A12), the Company also has undrawn commitments to primary PPP projects totalling £57.2 million. The total invested and committed portfolio value at 30 September 2016 was £201.1 million.

<sup>1</sup> Partial shareholder loan repaid in the period. Opening cost was £100.7 million.

<sup>2</sup> Exchange movement of £0.7 million and allocated foreign exchange hedging movements of £(0.5) million.

## Description

### Projects in construction

**Mersey Gateway Bridge**, a project involving the design, build, finance, operation and maintenance of a 1km tolled bridge across the river Mersey in Liverpool, as well as 9km of approach roads, against availability based payments commencing from 2017. Construction commenced in April 2014, with completion expected in September 2017.

3i Infrastructure, alongside partner FCC, a Spanish construction company, is invested in a vehicle that holds a 25% interest in the project.

**RIVM**, a project to build the new premises of the National Institute for Public Health and the Environment and the Dutch Medicines Evaluation Board in Utrecht, the Netherlands. The project scope involves the design, build, finance, maintenance and operation of 70,000m<sup>2</sup> facility comprising an office building and laboratories on the site of Utrecht Science Park. 3i Infrastructure has a 28% interest in this project through Heijmans Capital BV, a joint venture in which 3i Infrastructure has an 80% interest, with the balance held by Heijmans NV, the Dutch construction group.

**A9**, a project involving the design, build, management, maintenance and financing of the existing and new infrastructure of the A9 motorway between Diemen and Holendrecht in the Netherlands. The project will reconstruct and expand the A9 motorway between these junctions, including a bridge over the river Gaasp. It will also include the construction of an approximately 3km overground tunnel. 3i Infrastructure has a 45% interest in the project, with the balance held by Heijmans NV, Ballast Nedam and Fluor Infrastructure BV.

**La Santé**, a project involving the design, build, refurbishment, finance and maintenance of various buildings for La Santé prison in Paris. The project will also include the provision of facilities management services once construction is complete, which is expected to be by the end of 2018. 3i Infrastructure has an 80% interest in the project, with the balance held by subsidiaries of Vinci Construction France and GDF-Suez.



**Condorcet Campus**, a project involving the design, build and finance of new buildings for the Condorcet Campus, as well as the provision of facilities management services, in Aubervilliers, France. The project will also include classrooms, student housing, a faculty club, cafeterias and other student living facilities to be built for the use of social sciences students, faculty and research staff. Construction is expected to be completed by the summer of 2019. 3i Infrastructure has an 80% interest in the project, with the balance held by entities of the Vinci Construction France and ENGIE groups.

**Hart van Zuid**, a project involving the renewal and revitalisation of the area surrounding the Zuidplein and Ahoy centres in a PPP project with the Municipality of Rotterdam. During the multi-year project, the Ahoy convention centre will be expanded to include an international conference centre, a music hall, a cinema and a hotel. An art building with a library and theatre will be constructed on the new Plein op Zuid square. In addition, the Zuidplein shopping centre will be renovated and expanded and the new Charlois swimming pool will be incorporated into the current city hall. Furthermore, the metro and bus transportation hubs will be renewed. Construction work commenced in the second quarter of 2016.

### Operational projects

**Elgin**, a portfolio of PFI project investments, comprising five schools projects and 11 community healthcare schemes, all of which are fully operational, under concessions of up to 32 years. The portfolio companies receive inflation linked payments to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Facilities services are sub-contracted to Robertson Facilities Management (in 15 projects) and Carillion Facilities Management (in one project).

**Octagon**, a concession company under a 35-year PFI contract to build, operate and maintain the Norfolk and Norwich University Hospital. Construction of the hospital was completed in August 2001. Octagon receives RPI-linked payments from the NHS Trust to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Octagon sub-contracts the provision of facilities services to Serco.

**WODS OFTO** is a project involves the acquisition, financing and operation of power transmission cables and associated electrical equipment connecting the WODS offshore wind farm in the Irish Sea to the onshore grid. The OFTO assets include one offshore substation platform, two 40km long subsea cables, two 3km land cables and a new onshore substation. The project operates under a licence awarded by Ofgem, with a 20-year revenue entitlement period. The project was fully commissioned at acquisition and is generating good levels of income.

**Dalmore Capital Fund**, a 25-year LP fund managed by Dalmore Capital Limited, investing in equity and subordinated debt in secondary PFI transactions which are operational and do not have volume-based payment regimes. The fund can invest across the social infrastructure sector and targets gross returns of 10% for its investors. The fund was fully drawn at 31 March 2015 with total commitments of £249 million.

**National Military Museum**, a project procured by the Dutch Ministry of Defence comprising the design, build, finance and maintenance of a museum facility on the site of the former Soesterberg Airbase, located approximately 60km south east of Amsterdam.

**Ayrshire College**, a project to build a new campus for Ayrshire College in Kilmarnock, Scotland. The project involves the design, build, finance, operation and maintenance of a new college campus, against availability-based payments over a concession period of 25 years. 3i Infrastructure has a 100% interest in the project, which became operational during the period.

**A12**, a project involving the refurbishment, widening and maintenance of an 11km section of the A12 motorway in the Netherlands, as well as the maintenance of an additional 8km section. 3i Infrastructure has an 80% interest in the project, through Heijmans Capital BV. Construction was completed during the period.

## Investment rationale

Exposure to PPP and low-risk energy projects provides the Company's portfolio with low risk, index-linked cash flows. Investments in primary PPP projects tend to generate capital uplifts as the investments are managed from the construction phase through ramp-up.

## Achievements in the period of ownership

All operational assets in the projects portfolio have performed well through their period of ownership, in line with, or ahead of, expectations, providing a good return to the Company since inception. This has been due principally to engaged portfolio management on the part of the Investment Adviser and other shareholders. The Investment Adviser has a strong track record in managing the development and construction risks for the primary PPP portfolio.

The Investment Adviser generated significant value through the sale of the Company's holdings in Alma Mater, I<sup>2</sup> and Alpha Schools at material uplifts over cost in 2008, 2009 and 2013 respectively, generating an aggregate IRR of 30%.

## Developments in the year

All assets in the operational PPP portfolio performed well operationally during the period, delivering good levels of income:

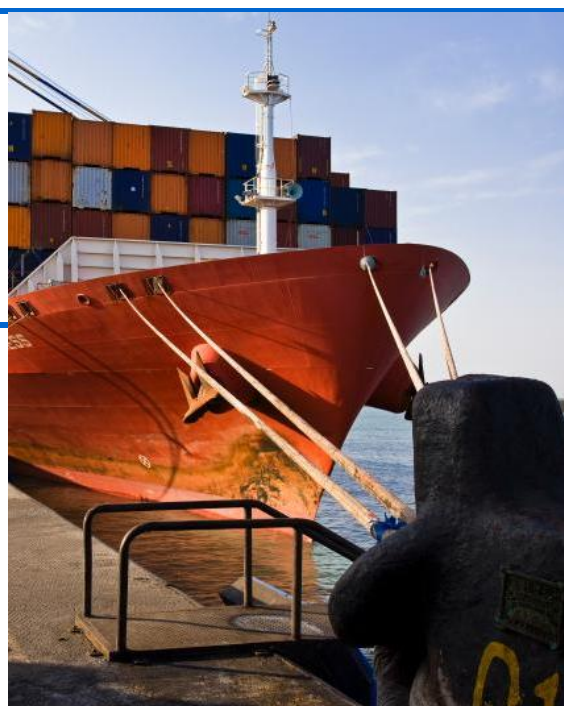
- Overall, the projects in the Elgin portfolio are performing in line with expectations. There is a construction defect in one of the schools which is being rectified by the original contractor.
- Octagon continues to perform in line with expectations.
- Ayrshire College and the A12 road projects completed construction during the period and became operational.
- The Dalmore Capital Fund is performing to plan.
- The commencement of construction of the RIVM project is significantly delayed and there is risk of termination. The authority, SPV and contractor are working together to address the issues causing delay, which relate to the suitability of the building design to meet the specification.

The Investment Adviser continues to be successful in sourcing and making investments in greenfield projects on behalf of the Company. In October 2016, the Company committed to invest a total of €6.5 million in the A27/A1 motorway PPP in the Netherlands.

## 3i India Infrastructure Fund

### Performance in the period

Cost	£71.5m
Closing value	£40.7m
Partnership interest	20.9%
Opening value	£52.9m
Divestment in period	£(12.0)m
Value movement in the period	£(4.3)m
Exchange movement in the period	£4.1m
Loss on disposal	£(0.5)m
Asset total return in the period	£(0.7)m
Valuation basis	LP share of funds



### Description

The 3i India Infrastructure Fund (the “India Fund”) is a US\$1.2 billion fund which closed in 2008, investing in a diversified portfolio of equity (or equivalent) investments in India, focusing on the port, road and power sectors. 3i Infrastructure committed US\$250 million to this fund.

The investment period for the India Fund ended on 30 November 2012 and the Board expects that the Company’s remaining commitment of US\$37.5 million will not be substantially drawn. As at 30 September 2016, the India Fund was invested in a portfolio of six assets in the power and transportation sectors. This portfolio is being managed for realisation over the next few years.

### Portfolio

**Krishnapatnam Port** has a concession to develop, operate and maintain the port of Krishnapatnam in the state of Andhra Pradesh.

**KMC Roads** has a portfolio of “build-operate transfer” (“BOT”) road projects, comprising projects which are both operating and under construction, among the largest portfolios of its kind in India.

**Supreme Roads** is building a portfolio of BOT road projects.

**Soma Enterprise** is an infrastructure developer in India, which focuses mainly on BOT road projects, but also on projects in the hydro power, irrigation, railways, power transmission and urban infrastructure sectors.

**Adani Power** focuses on the development and operation of power plants and the sale of power generated.

**GVK Energy** is developing a portfolio of power generation projects (4,047MW), diversified by fuel type, stage of development and geography.

Further progress has been made in realising the India Fund’s portfolio in the first half of the year through the sale of the majority of the remaining investment in Adani Power, alongside the receipt of proceeds from the sale of Ind-Barath Energy in the previous financial year. The remainder of the holding in Adani Power was sold in October 2016.

# Financials and other information

## Independent review report to 3i Infrastructure plc

### Introduction

We have been engaged by 3i Infrastructure plc (“the Company”) to review the condensed set of financial statements in the Half-yearly report for the six months ended 30 September 2016 which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement, notes 1 to 9 to the accounts and the accounting policies section. We have read the other information contained in the Half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The Half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the Basis of preparation section of the Accounting policies, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in the Half-yearly report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-yearly report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-yearly report for the six months ended 30 September 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### Ernst & Young LLP

Jersey, Channel Islands

Date: 2 November 2016

#### Notes

- 1 The maintenance and integrity of the 3i Infrastructure plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the condensed financial statements since they were initially presented on the web site.
- 2 Legislation in Jersey governing the preparation and dissemination of condensed financial statements may differ from legislation in other jurisdictions.

# Consolidated statement of comprehensive income

for the six months to 30 September 2016

	Notes	Six months to 30 September 2016 (unaudited) £m	Six months to 30 September 2015 (unaudited) £m
Realised losses over fair value on the disposal of investments		(0.5)	(0.1)
Net gains on investments at fair value through profit or loss	4	115.9	62.0
		115.4	61.9
Investment income		32.9	24.9
Fees payable on investment activities		0.2	0.1
Fees receivable on investment activities		-	-
Interest receivable		0.3	0.6
<b>Investment return</b>		<b>148.8</b>	<b>87.5</b>
Advisory and performance fees payable	2	(8.9)	(5.4)
Operating expenses		(1.1)	(1.4)
Finance costs		(2.2)	(3.1)
Movement in the fair value of derivative financial instruments		(66.7)	2.6
Other income		0.8	0.7
Exchange movements		3.1	(0.2)
<b>Profit before tax</b>		<b>73.8</b>	<b>80.7</b>
Income taxes	3	-	-
<b>Profit after tax and profit for the period</b>		<b>73.8</b>	<b>80.7</b>
<b>Total comprehensive income for the period</b>		<b>73.8</b>	<b>80.7</b>
<b>Earnings per share</b>			
Basic and diluted (pence)	6	7.9	9.6

# Consolidated statement of changes in equity

for the six months to 30 September 2016

	Notes	Stated capital account £m	Retained reserves £m	Total equity £m
<b>For the six months to 30 September 2016 (unaudited)</b>				
<b>Opening balance at 1 April 2016</b>		<b>181.6</b>	<b>1,095.4</b>	<b>1,277.0</b>
Issue of shares	5	378.8	-	378.8
Total comprehensive income for the period		-	73.8	73.8
Dividends paid to shareholders of the Company during the period	7	-	(28.7)	(28.7)
<b>Closing balance at 30 September 2016</b>		<b>560.4</b>	<b>1,140.5</b>	<b>1,700.9</b>
<b>For the six months to 30 September 2015 (unaudited)</b>				
Opening balance at 1 April 2015		181.6	1,139.7	1,321.3
Total comprehensive income for the period		-	80.7	80.7
Dividends paid to shareholders of the Company during the period	7	-	(181.7)	(181.7)
Closing balance at 30 September 2015		181.6	1,038.7	1,220.3

# Consolidated balance sheet

as at 30 September 2016

	Notes	30 September 2016 (unaudited) £m	31 March 2016 (audited) £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments at fair value through profit or loss	4	1,600.9	1,228.8
<b>Investment portfolio</b>		<b>1,600.9</b>	<b>1,228.8</b>
Derivative financial instruments	4	0.2	6.4
<b>Total non-current assets</b>		<b>1,601.1</b>	<b>1,235.2</b>
<b>Current assets</b>			
Derivative financial instruments	4	1.3	4.1
Trade and other receivables		33.9	16.6
Other financial assets		33.8	36.7
Cash and cash equivalents		126.8	47.5
<b>Total current assets</b>		<b>195.8</b>	<b>104.9</b>
<b>Total assets</b>		<b>1,796.9</b>	<b>1,340.1</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Derivative financial instruments	4	(56.0)	(28.2)
Trade and other payables		(3.0)	(2.0)
<b>Total non-current liabilities</b>		<b>(59.0)</b>	<b>(30.2)</b>
<b>Current liabilities</b>			
Trade and other payables		(2.6)	(22.8)
Derivative financial instruments	4	(34.4)	(10.1)
<b>Total current liabilities</b>		<b>(37.0)</b>	<b>(32.9)</b>
<b>Total liabilities</b>		<b>(96.0)</b>	<b>(63.1)</b>
<b>Net assets</b>		<b>1,700.9</b>	<b>1,277.0</b>
<b>Equity</b>			
Stated capital account	5	560.4	181.6
Retained reserves		1,140.5	1,095.4
<b>Total equity</b>		<b>1,700.9</b>	<b>1,277.0</b>
<b>Net asset value per share</b>			
Basic and diluted (pence)	6	165.7	161.0

The financial statements and related Notes on pages 55 to 61 were approved and authorised for issue by the Board of Directors on 2 November 2016 and signed on its behalf by:

**Steven Wilderspin**  
Director



# Consolidated cash flow statement

for the six months to 30 September 2016

	Six months to 30 September 2016 (unaudited) £m	Six months to 30 September 2015 (unaudited) £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(278.0)	(187.2)
Proceeds from partial realisations of investments	18.9	5.7
Proceeds from full realisations of investments	7.2	360.6
Investment income <sup>1</sup>	18.2	29.8
Fees received on investment activities	0.2	-
Fees paid on investment activities	(0.9)	(4.2)
Operating expenses paid	(1.1)	(1.6)
Interest received	0.3	0.6
Advisory and performance fees paid	(27.9)	(51.2)
Amounts received on the settlement of derivative contracts	7.6	14.3
Amounts paid on the settlement of derivative contracts	(12.3)	(3.0)
Temporary loan to unconsolidated subsidiaries	(2.0)	-
Other income received	0.7	0.7
<b>Net cash flow from operations</b>	<b>(269.1)</b>	<b>164.5</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of share capital	385.0	-
Transaction costs for issue of share capital	(6.2)	-
Fees paid on financing activities	(2.3)	(4.3)
Dividends paid	(28.7)	(181.7)
<b>Net cash flow from financing activities</b>	<b>347.8</b>	<b>(186.0)</b>
<b>Change in cash and cash equivalents</b>	<b>78.7</b>	<b>(21.5)</b>
Cash and cash equivalents at the beginning of the period	47.5	72.5
Effect of exchange rate movement	0.6	(0.6)
<b>Cash and cash equivalents at the end of the period</b>	<b>126.8</b>	<b>50.4</b>

<sup>1</sup> Investment income includes dividends of £0.5 million (September 2015: £1.0 million) and interest of £3.3 million (September 2015: £7.0 million) received from portfolio assets held directly by the Company and distributions of £14.4 million (September 2015: £21.8 million) received from unconsolidated subsidiaries.

# Notes to the accounts

## 1 Operating segments

The Directors review information on a regular basis that is analysed by portfolio segment; being Economic Infrastructure businesses, the Projects portfolio and the India fund and by geography. These segments are reviewed for the purpose of resource allocation and the assessment of their performance. In accordance with IFRS 8, the segmental information provided below uses these segments for the analysis of results as it is the most closely aligned with IFRS reporting requirements. The Group is an investment holding company and does not consider itself to have any customers.

The following is an analysis of the Group's investment return, profit before tax, assets, liabilities and net assets by portfolio segment for the six months to 30 September 2016.

For the six months to 30 September 2016 (unaudited)	Economic Infrastructure businesses £m	Projects portfolio £m	India Fund £m	Unallocated £m	Total £m
<b>Investment return</b>	<b>142.3</b>	<b>5.4</b>	<b>(0.7)</b>	<b>1.8</b>	<b>148.8</b>
<b>Profit/(loss) before tax</b>	<b>77.3</b>	<b>4.9</b>	<b>(0.7)</b>	<b>(7.7)</b>	<b>73.8</b>
For the six months to 30 September 2015 (unaudited)					
Investment return	93.8	6.2	(10.2)	(2.3)	87.5
Profit/(loss) before tax	93.5	6.1	(10.2)	(8.7)	80.7
<b>As at 30 September 2016 (unaudited)</b>					
<b>Assets</b>	<b>1,447.1</b>	<b>179.4</b>	<b>41.0</b>	<b>129.4</b>	<b>1,796.9</b>
<b>Liabilities</b>	<b>(94.1)</b>	<b>(0.7)</b>	<b>-</b>	<b>(1.2)</b>	<b>(96.0)</b>
<b>Net assets</b>	<b>1,353.0</b>	<b>178.7</b>	<b>41.0</b>	<b>128.2</b>	<b>1,700.9</b>
As at 31 March 2016 (unaudited)					
Assets	1,064.0	173.1	53.2	49.8	1,340.1
Liabilities	(42.4)	(0.4)	-	(20.3)	(63.1)
Net assets	1,021.6	172.7	53.2	29.5	1,277.0

The following is an analysis of the Group's investment return, profit before tax, assets, liabilities and net assets by geography for the six months to 30 September 2016.

For the six months to 30 September 2016 (unaudited)	UK and Ireland <sup>1</sup> £m	Continental Europe <sup>2</sup> £m	Asia £m	Total £m
<b>Investment return</b>	<b>28.7</b>	<b>120.8</b>	<b>(0.7)</b>	<b>148.8</b>
<b>Profit/(loss) before tax</b>	<b>17.3</b>	<b>57.2</b>	<b>(0.7)</b>	<b>73.8</b>
For the six months to 30 September 2015 (unaudited)				
Investment return	28.9	68.8	(10.2)	87.5
Profit/(loss) before tax	19.7	71.2	(10.2)	80.7
<b>As at 30 September 2016 (unaudited)</b>				
<b>Assets</b>	<b>739.0</b>	<b>1,016.9</b>	<b>41.0</b>	<b>1,796.9</b>
<b>Liabilities</b>	<b>(2.6)</b>	<b>(93.4)</b>	<b>-</b>	<b>(96.0)</b>
<b>Net assets</b>	<b>736.4</b>	<b>923.5</b>	<b>41.0</b>	<b>1,700.9</b>
As at 31 March 2016 (unaudited)				
Assets	562.8	724.1	53.2	1,340.1
Liabilities	(22.8)	(40.3)	-	(63.1)
Net assets	540.0	683.8	53.2	1,277.0

<sup>1</sup> Including Channel Islands.

<sup>2</sup> Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investments in Oiltanking, including those derived from its underlying business in Singapore.

## 1 Operating segments continued

The operating segments have been presented for the first time to provide additional information on the portfolio segments as well as the geographical areas in which the Group operates. Under this revised presentation, the geographical analysis of assets and liabilities for March 2016 has been restated mainly to allocate all derivative instruments against Continental Europe to better reflect the purpose of the hedging programme.

The Group generated 19% (September 2015: 33%) of its investment return in the period from investments held in the UK and Ireland and 81% (September 2015: 79%) of its investment return from investments held in continental Europe. During the period, the Group generated 96% (September 2015: 107%) of its investment return from investments in Economic Infrastructure businesses, 4% (September 2015: 7%) from investments in Projects and 0% (September 2015: -12%) from its investment in the India Fund. Given the nature of the Group's operations, the Group is not considered to be exposed to any operational seasonality or cyclicalities that would impact the financial results of the Group during the period or the financial position of the Group at 30 September 2016.

## 2 Advisory and performance fees payable

	Six months to 30 September 2016 (unaudited) £m	Six months to 30 September 2015 (unaudited) £m
Advisory fee payable directly from the Company	8.9	5.4
Performance fee	-	-
	8.9	5.4

Total advisory and performance fees payable by the Company for the period to 30 September 2016 were £8.9 million (September 2015: £5.4 million). In addition to the fees described above, management fees of £2.2 million (September 2015: £2.1 million) were paid to 3i plc from unconsolidated subsidiary entities. Note 9 provides further details on the calculation of the advisory fee, performance fee and management fees.

## 3 Income taxes

Profits arising from the operations of the Company are subject to tax at the standard corporate income tax rate in Jersey of 0% (September 2015: 0%). Subsidiaries of the Company have provided for taxation at the appropriate rates that are applicable in the countries in which each subsidiary operates. The returns of these subsidiaries are largely not subject to tax, in each of these relevant countries.

## 4 Investments at fair value through profit or loss and financial instruments

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level	Fair value input description	Financial instruments
Level 1	Quoted prices (unadjusted and in active markets)	Quoted equity investments
Level 2	Inputs other than quoted prices included in Level 1 that are observable in the market either directly (i.e. as prices) or indirectly (i.e. derived from prices)	Derivative financial instruments
Level 3	Inputs that are not based on observable market data	Unquoted investments and unlisted funds

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) for each reporting period.

**4 Investments at fair value through profit or loss and financial instruments continued**

At 30 September 2016, the Group held the following classes of financial instruments that are measured at fair value. For all other assets and liabilities their carrying value approximates to fair value. During the period ended 30 September 2016, there were no transfers of financial instruments between levels of the fair value hierarchy (March 2016: none). There were no non-recurring fair value measurements.

**Financial instruments classification**

	As at 30 September 2016 (unaudited)			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Investments at fair value through profit or loss	-	-	1,600.9	1,600.9
Derivative financial instruments	-	1.5	-	1.5
	-	1.5	1,600.9	1,602.4
<b>Financial liabilities</b>				
Derivative financial instruments	-	(90.4)	-	(90.4)
	As at 31 March 2016 (audited)			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Investments at fair value through profit or loss	-	-	1,228.8	1,228.8
Derivative financial instruments	-	10.5	-	10.5
	-	10.5	1,228.8	1,239.3
<b>Financial liabilities</b>				
Derivative financial instruments	-	(38.3)	-	(38.3)

**Reconciliation of financial instruments categorised within Level 3 of fair value hierarchy**

	As at 30 September 2016 (unaudited) £m
<b>Level 3 fair value reconciliation</b>	
<b>Opening fair value</b>	1,228.8
Additions	282.6
Disposal proceeds and repayment	(26.4)
Fair value movement (including exchange movements)	115.9
<b>Closing fair value</b>	1,600.9
	As at 31 March 2016 (audited) £m
<b>Level 3 fair value reconciliation</b>	
Opening fair value	1,231.5
Additions	187.2
Disposal proceeds and repayment	(376.9)
Fair value movement (including exchange movements)	187.0
Closing fair value	1,228.8

All unrealised movements on investments and foreign exchange movements are recognised in profit or loss in the consolidated statement of comprehensive income during the period and are attributable to investments held at the end of the period.

The holding period of the investments in the portfolio is expected to be greater than one year. Therefore investments are classified as non-current unless there is an agreement to dispose of the investment within one year and all relevant regulatory approvals have been received. It is not possible to identify with certainty where any investments may be sold within one year.

## 4 Investments at fair value through profit or loss and financial instruments continued

### Unquoted investments

The Group invests in private companies which are not quoted on an active market. These are measured in accordance with the International Private Equity Valuation guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted investments can be found in the section called Summary of portfolio valuation methodology on page 21.

The Group's policy is to fair value both the equity and debt investments in infrastructure assets together where they will be managed and valued as a single investment, were invested at the same time and cannot be realised separately. As at 30 September 2016, the fair value of unquoted investments was £1,574.7 million (March 2016: £1,203.8 million). Individual portfolio asset valuations are shown within the Portfolio summary on page 16.

The majority of the assets held within Level 3 are valued on a discounted cash flow basis, hence, the valuations are sensitive to the discount rate assumed in the valuation of each asset. Other significant unobservable inputs include the long-term inflation rate assumption and interest rates assumption used to project the future cash flows.

A discussion of discount rates applied can be found on page 21. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £159.7 million (March 2016: £124.7 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £195.4 million (March 2016: £151.1 million).

The majority of assets held within Level 3 have revenues that are linked, partially linked or in some way correlated to inflation. The long-term inflation rate assumptions for the country of domicile of the investments in the portfolio range from 5.0% (India) (March 2016: 5.0%) to 2.0% (Finland) (March 2016: 2.0%) but with the majority at 2.5% (UK) (March 2016: 2.5%). Changing the inflation rate assumption may result in consequential changes to other assumptions used in the valuation of each asset. The impact of increasing the inflation rate assumption by 1% for the next two years would increase the value of the portfolio by £41.8 million (March 2016: £29.1 million). Decreasing the inflation rate assumption used in the valuation of each asset by 1% for the next two years would decrease the value of the portfolio by £41.6 million (March 2016: £28.2 million).

The valuations are sensitive to changes to interest rates, which may result from: (i) unhedged existing borrowings within portfolio companies; (ii) interest rates on uncommitted future borrowings assumed within the asset valuations; and (iii) cash deposits held by portfolio companies. These comprise a wide range of interest rates from short-term deposit rates to longer-term borrowing rates across a broad range of debt products. Increasing the cost of borrowing assumption for unhedged borrowings and any future uncommitted borrowing and the cash deposit rates used in the valuation of each asset by 1% would reduce the value of the portfolio by £99.8 million (March 2016: £90.0 million). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £96.4 million (March 2016: £86.8 million). This calculation does not take account of any offsetting variances which may be expected to prevail if interest rates changed, the most significant impact would be in the portfolio assets with regulated returns where the future allowed return may also be influenced by the interest rate.

### Unlisted fund

The Company invests in one externally managed fund, the Dalmore Capital Fund, which is not quoted in an active market. The Company considered the valuation techniques and inputs used in valuing this fund to ensure they are reasonable and appropriate and therefore the Net Asset Value ("NAV") of this fund may be used as an input into measuring its fair value. In measuring this fair value, the NAV of the fund is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, illiquid nature of the investments and other specific factors of the fund and fund manager. The Company classifies the fair value of this investment as Level 3. As at 30 September 2016, the fair value of unlisted funds was £18.0 million (March 2016: £18.3 million). There are no adjustments currently made to the NAV of the fund (March 2016: none). A 10% adjustment in the NAV of the fund would result in a £1.8 million (March 2016: £1.8 million) change in the valuation.

### Intermediate holding companies

The Company invests in a number of intermediate holding companies that are used to hold the unquoted investments, valued as referred to above. All other assets and liabilities of the intermediate holding companies are held either at fair value or a reasonable approximation to fair value. The fair value of these intermediate holding companies therefore approximates to their NAV and the Company classifies the fair value as Level 3. As at 30 September 2016, the fair value of the other assets and liabilities within these intermediate holding companies was £8.2 million (March 2016: £6.7 million).

## 4 Investments at fair value through profit or loss and financial instruments continued

### Over-the-counter derivatives

The Company uses over-the-counter foreign currency derivatives to hedge foreign currency movements on portfolio assets. The derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, interest rate curves, and uses present value calculations. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

### Valuation process for Level 3 valuations

Valuations are the responsibility of the Board of the Company. The valuation of unquoted investments, unlisted funds and derivative investments held by the Group is performed on a half-yearly basis by the valuation team of the Investment Adviser and reviewed by the Investment Committee of the Investment Adviser. The valuations are also subject to quality assurance procedures performed within the valuation team. The valuation team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents and market information. On a half-yearly basis, the Investment Committee presents the valuations to the Board. This includes a discussion of the major assumptions used in the valuations, with an emphasis on the more significant investments and investments with significant fair value changes. The Investment Committee considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen. Any changes in valuation methods are discussed and agreed with the Audit and Risk Committee before being approved by the Board.

## 5 Issued capital

The Company is authorised to issue an unlimited number of shares with no fixed par value (March 2016: same).

	As at 30 September 2016 (unaudited)		As at 31 March 2016 (audited)	
	Number	£m	Number	£m
<b>Issued and fully paid</b>				
Opening	793,216,413	887.8	881,351,570	887.8
Issued as part of open offer and placing	233,333,333	385.0	-	-
Share consolidation	-	-	(88,135,157)	-
Closing balance	1,026,549,746	1,272.8	793,216,413	887.8

Aggregate issue costs of £13.1 million arising from IPO and subsequent share issues were offset against the stated capital account in previous years. In addition, the stated capital account was reduced by Court order on 20 December 2007 with an amount of £693.1 million transferred to a new, distributable reserve which has been combined with retained reserves in these accounts.

On 8 June 2016, the Company issued a further 233.3 million shares as part of an open offer and placing at an issue price of 165.0 pence per share or an aggregate amount of £385.0 million. Issue costs of £6.2 million arising from this offer have been offset against the stated capital account. Therefore as at 30 September 2016, the residual value on the stated capital account was £560.4 million.

In the prior year, a share consolidation took place, which was set at a ratio of 9 new ordinary shares for every 10 existing shares. The share consolidation ratio was based on a share price of 168.8 pence per share, equivalent to approximately 10% of the market capitalisation of the Company at that time.



## 6 Per share information

The earnings and net assets per share attributable to the equity holders of the Company are based on the following data:

	Six months to 30 September 2016 (unaudited)	Six months to 30 September 2015 (unaudited)
<b>Earnings per share (pence)</b>		
Basic and diluted	7.9	9.6
<b>Earnings (£m)</b>		
Profit after tax for the period	73.8	80.7
<b>Number of shares (million)</b>		
Weighted average number of shares in issue	936.0	840.4
	<b>As at 30 September 2016 (unaudited)</b>	<b>As at 31 March 2016 (audited)</b>
<b>Net assets per share (pence)</b>		
Basic and diluted	165.7	161.0
<b>Net assets (£m)</b>		
Net assets	1,700.9	1,277.0

## 7 Dividends

	As at 30 September 2016 (unaudited)		As at 30 September 2015 (unaudited)	
Declared and paid during the period	pence per share	£m	pence per share	£m
Special dividend paid on ordinary shares	-	-	17.0	149.8
Interim dividend paid on ordinary shares	-	-	-	-
Prior year final dividend paid on ordinary shares	3.625	28.7	3.62	31.9
	3.625	28.7	20.62	181.7

The Company proposes paying an interim dividend of 3.775p per share which will be payable to those shareholders that are on the register on 25 November 2016. On the basis of the shares in issue at 30 September 2016, this would equate to an interim dividend of £38.8 million.

## 8 Contingent liabilities

As at 30 September 2016, the Company had issued €28.9 million (re-translated £24.9 million) in the form of letters of credit, drawn against the revolving credit facility, for the investments into the RIVM, La Santé, Condorcet and Hart van Zuid projects (March 2016: €29.7 million, re-translated £23.4 million). During the period the letter of credit relating to the A12 project was cancelled following the Company's investment in the project.

## 9 Related parties

### Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 33.8% (March 2016: 34.0%) of the ordinary shares of the Company. This classifies 3i Group as a "substantial shareholder" of the Company as defined by the Listing Rules.

The Company has committed US\$250 million to the 3i India Infrastructure Fund ("the India Fund") to invest in the Indian infrastructure market. 3i Group also committed US\$250 million of investment capital to the India Fund. No commitments (March 2016: nil) were drawn down by the India Fund from the Company during the period. In total, commitments of US\$183.7 million or £141.5 million re-translated had been drawn down at 30 September 2016 (March 2016: US\$183.7 million or £127.6 million) by the India Fund from the Company. As the India Fund has reached the end of its investment period, the Company's outstanding commitment to the India Fund is limited to 15% of the original

## 9 Related parties continued

US\$250 million commitment. At 30 September 2016, the outstanding commitment was US\$37.5 million, or £28.9 million re-translated (March 2016: US\$37.5 million or £26.1 million).

3i Networks Finland Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Networks Finland LP, an unconsolidated subsidiary of the Company. During the period, £1.0 million (September 2015: £1.0 million) was payable directly to 3i Group, of which the Company's share was £0.9 million (September 2015: £0.9 million) and which was therefore offset against the total advisory fee payable by the Company. As at 30 September 2016, nil remained outstanding (March 2016: nil).

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, an unconsolidated subsidiary of the Company. During the period, £1.9 million (September 2015: £1.8 million) was payable directly to 3i Group, of which the Company's share was £1.2 million (September 2015: £1.2 million) and which was therefore offset against the total advisory fee payable by the Company. As at 30 September 2016, £0.4 million remained outstanding (March 2016: £0.3 million).

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company and provides its services under an Investment Advisory Agreement ("IAA"). It also acts as the manager for the India Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company.

Under the IAA, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of the Company at the end of each financial period. Gross Investment Value is defined as the total aggregate value (including any subscription obligations) of the investments of the Group as at the start of a financial period plus any investment (excluding cash) made during the period valued at cost (including any subscription obligations). The applicable annual rate is 1.5%, dropping to an annual rate of 1.25% for investments that have been held by the Group for longer than five years. A lower fee of 1% per annum is applicable for any investments in primary and operational projects. The advisory fee accrues throughout a financial period and quarterly instalments are payable on account of the advisory fee for that period. The advisory fee is not payable in respect of cash or cash equivalent liquid temporary investments held by the Group throughout a financial period. For the period to 30 September 2016, £11.1 million (September 2015: £7.5 million) was payable and £0.3 million (March 2016: £0.8 million) remained due to 3i plc at 30 September 2016. This amount includes fees of £2.2 million (September 2015: £2.1 million) which were paid directly from unconsolidated subsidiary entities to 3i plc.

The IAA also provides for an annual performance fee to be payable to 3i plc. This becomes payable when the Adjusted Total Return per ordinary share (being mainly the closing Net Asset Value per share aggregated with any distributions made in the course of the financial period and any accrued performance fees relating to the financial period) for the period exceeds the Target Total Return per share, being the Net Asset Value per ordinary share equal to the opening Net Asset Value per ordinary share, adjusted for the issue of new equity in the period, increased at a rate of 8% per annum ("the performance hurdle"). If the performance hurdle is exceeded, the performance fee will be equal to 20% of the Adjusted Total Return per share in excess of the performance hurdle for the relevant financial period, multiplied by the weighted average of the total number of shares in issue over the relevant financial period. In addition, the performance fee includes a high water mark requirement so that, before payment of a performance fee, besides the 8% performance hurdle, the return must also exceed the performance level in respect of which any performance fee has been paid in the previous three financial years. The performance hurdle and high water mark requirement was not exceeded for the period to 30 September 2016 and therefore no performance fee was recognised (September 2015: nil). The outstanding balance payable as at 30 September 2016 was nil (March 2016: £19.5 million).

Under the IAA, the Investment Adviser's appointment may be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing, to expire no earlier than 8 May 2019, unless 3i Investments plc has previously ceased to be a member of 3i Group, or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Pursuant to the UK Support Services Agreement, the Company also pays 3i plc an annual fee for the provision of support services. Such remuneration is payable quarterly in arrears. The cost incurred for the period to 30 September 2016 was £0.4 million (September 2015: £0.4 million). The outstanding balance payable as at 30 September 2016 was £0.2 million (March 2016: £0.2 million).

## Accounting policies

### Basis of preparation

These financial statements are the unaudited Half-yearly consolidated financial statements (the “Half-yearly Financial Statements”) of 3i Infrastructure plc (the “Company” or “3i Infrastructure”), a company incorporated and registered in Jersey, and its consolidated subsidiaries (together referred to as the “Group”) for the six-month period ended 30 September 2016.

The Half-yearly Financial Statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) and the accounting policies set out in the Annual report and accounts 2016. They should be read in conjunction with the consolidated financial statements for the year to 31 March 2016, as they provide an update of previously reported information. The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability and cash flows.

The Half-yearly Financial Statements were authorised for issue by the Directors on 2 November 2016.

The Half-yearly Financial Statements do not constitute statutory accounts. The statutory accounts for the year to 31 March 2016, prepared under IFRS as adopted by the European Union, and on which the auditors issued a report, which was unqualified, have been filed with the Jersey Financial Services Commission.

The preparation of the Half-yearly Financial Statements in conformity with IFRS requires the Board to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. All accounting policies and related estimates used in the preparation of the Half-yearly Financial Statements are consistent with those stated in the Annual report and accounts 2016.

## Statement of Directors' responsibilities

The Directors, who are required to prepare the financial statements on a going concern basis unless it is not appropriate, are satisfied that the Group has the resources to continue in business for the foreseeable future and that the financial statements continue to be prepared on a going concern basis.

The Directors confirm to the best of their knowledge that:

- a) the condensed set of financial statements have been prepared in accordance with IAS 34 as adopted by the European Union; and the interim report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance; and
- b) the Half-yearly report includes a fair review of the information required by the FCA's Disclosure and Transparency Rules (4.2.7 R and 4.2.8 R).

The Directors of 3i Infrastructure plc and their functions are listed below.

By order of the Board

**Richard Laing**

Chairman

2 November 2016

## Board of Directors and their functions

**Richard Laing**

Non-executive Chairman and chairman of the Nominations Committee and the Management Engagement Committee

**Philip Austin MBE**

Non-executive Director,

Senior Independent Director and chairman of the Remuneration Committee

**Doug Bannister**

Non-executive Director

**Wendy Dorman**

Non-executive Director

**Ian Loble**

Non-executive Director

**Paul Masterton**

Non-executive Director

**Steven Wilderspin**

Non-executive Director and chairman of the Audit and Risk Committee

## Investment policy

The Company aims to build a diversified portfolio of equity investments in entities owning infrastructure businesses and assets. The Company seeks investment opportunities globally, but with a focus on Europe, North America and Asia.

The Company's equity investments will often comprise share capital and related shareholder loans (or other financial instruments that are not shares but that, in combination with shares, are similar in substance). The Company may also invest in junior or mezzanine debt in infrastructure businesses or assets.

Most of the Company's investments are in unquoted companies. However, the Company may also invest in entities owning infrastructure businesses and assets whose shares or other instruments are listed on any stock exchange, irrespective of whether they cease to be listed after completion of the investment, if the Directors judge that such an investment is consistent with the Company's investment objectives. The Company will, in any case, invest no more than 15% of its total gross assets in other investment companies or investment trusts which are listed on the Official List.

The Company may also consider investing in other fund structures (in the event that it considers, on receipt of advice from the Investment Adviser, that that is the most appropriate and effective means of investing), which may be advised or managed either by the Investment Adviser or a third party. If the Company invests in another fund advised or managed by 3i Group, the relevant proportion of any advisory or management fees payable by the investee fund to 3i plc will be deducted from the annual advisory fee payable under the Investment Advisory Agreement and the relevant proportion of any performance fee will be deducted from the annual performance fee, if payable, under the Investment Advisory Agreement. For the avoidance of doubt, there will be no similar set-off arrangement where any such fund is advised or managed by a third party.

For most investments, the Company seeks to obtain representation on the board of directors of the investee company (or equivalent governing body) and in cases where it acquires a majority equity interest in a business, that interest may also be a controlling interest.

No investment made by the Company will represent more than 25% of the Company's gross assets, including cash holdings, at the time of the making of the investment. It is expected that most individual investments will exceed £50 million. In some cases, the total amount required for an individual transaction may exceed the maximum amount that the Company is permitted to commit to a single investment. In such circumstances, the Company may consider entering into co-investment arrangements with 3i Group (or other investors who may also be significant shareholders), pursuant to which 3i Group and its subsidiaries (or such other investors) may co-invest on the same financial and economic terms as the Company. The suitability of any such co-investment arrangements will be assessed on a transaction-by-transaction basis and would be subject to Board approval. Depending on the size of the relevant investment and the identity of the relevant co-investor, such a co-investment arrangement may be subject to the related party transaction provisions contained in the Listing Rules and may therefore require shareholder consent.

The Company's Articles require its outstanding borrowings, including any financial guarantees to support subsequent obligations, to be limited to 50% of the gross assets of the Group (valuing investments on the basis included in the Group's accounts).

In accordance with Listing Rules requirements, the Company will only make a material change to its investment policy with the approval of shareholders.

## Portfolio valuation methodology

A description of the methodology used to value the investment portfolio of 3i Infrastructure and its consolidated subsidiaries ("the Group") is set out below in order to provide more detailed information than is included within the accounting policies and the Investment Adviser's review for the valuation of the portfolio. The methodology complies in all material aspects with the "International Private Equity and Venture Capital valuation guidelines" which are endorsed by the British Private Equity and Venture Capital Association and Invest Europe (formerly the European Private Equity and Venture Capital Association).

### Basis of valuation

Investments are reported at the Directors' estimate of fair value at the reporting date in compliance with IFRS 13 Fair Value Measurement. Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.

### General

In estimating fair value, the Directors seek to use a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the overall portfolio. The methodology that is the most appropriate may consequently include adjustments based on informed and experience-based judgments, and will also consider the nature of the industry and market practice. Methodologies are applied consistently from period to period except where a change would result in a better estimation of fair value. Given the uncertainties inherent in estimating fair value, a degree of caution is applied in exercising judgments and making necessary estimates.

Investments may include portfolio assets and other net assets/liabilities balances. The methodology for valuing portfolio assets is set out below. Any net assets/liabilities within intermediate holding companies are valued in line with the Group accounting policy and held at fair value or approximate to fair value.

### Quoted investments

Quoted equity investments are valued at the closing bid price at the reporting date. In accordance with International Financial Reporting Standards, no discount is applied for liquidity of the stock or any dealing restrictions. Quoted debt investments will be valued using quoted prices provided by third-party broker information where reliable or will be held at cost less fair value adjustments.

### Unquoted investments

Unquoted investments are valued using one of the following methodologies:

- Discounted Cash Flow ("DCF")
- Proportionate share of net assets
- Sales basis
- Cost less any fair value adjustments required

### DCF

DCF is the primary basis for valuation. In using the DCF basis, fair value is estimated by deriving the present value of the investment using reasonable assumptions and estimation of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The terminal value attributes a residual value to the investee company at the end of the projected discrete cash flow period. The discount rate will be estimated for each investment derived from the market risk-free rate, a risk-adjusted premium and information specific to the investment or market sector.

### Proportionate share of net assets

Where the Group has made investments into other infrastructure funds, the value of the investment will be derived from the Group's share of net assets of the fund based on the most recent reliable financial information available from the fund. Where the underlying investments within a fund are valued on a DCF basis, the discount rate applied may be adjusted by the Company to reflect its assessment of the most appropriate discount rate for the nature of assets held in the fund. In measuring the fair value, the net asset value of the fund is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, illiquid nature of the investments and other specific factors of the fund.

### Sales basis

The expected sale proceeds will be used to assign a fair value to an asset in cases where offers have been received as part of an investment sales process. This may either support the value derived from another methodology or may be used as the primary valuation basis. A marketability discount is applied to the expected sale proceeds to derive the valuation where appropriate.

### Cost less fair value adjustment

Any investment in a company that has failed or, in the view of the Board, is expected to fail within the next 12 months, has the equity shares valued at nil and the fixed income shares and loan instruments valued at the lower of cost and net recoverable amount.



## Information for shareholders

### Note

The interim dividend is expected to be paid on 9 January 2017 to holders of ordinary shares on the register on 25 November 2016. The ex-dividend date will be 24 November 2016.

### Registrars

For shareholder services, including notifying changes of address, the registrar details are as follows:

Capita Registrars (Jersey) Limited  
12 Castle Street  
St. Helier  
Jersey JE2 3RT  
Channel Islands

e-mail: [registrars@capita.je](mailto:registrars@capita.je)

Telephone: +44 (0)1534 847 000  
Shareholder helpline: 0871 664 0300

Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. Capita are open between 9.00am-5.30pm, Monday to Friday, excluding public holidays in England and Wales.

### Website

For full up-to-date investor relations information including the latest share price, recent reports, results presentations and financial news, please visit our investor relations website [www.3i-infrastructure.com](http://www.3i-infrastructure.com)

If you would prefer to receive shareholder communications electronically, including your annual reports and notices of meetings, please go to [www.3i-infrastructure.com/shareholder-services/registrar-e-communications](http://www.3i-infrastructure.com/shareholder-services/registrar-e-communications) for details of how to register.

Frequently used registrars' forms may be found on our website at [www.3i-infrastructure.com/shareholder-services](http://www.3i-infrastructure.com/shareholder-services)

**Registered office:**

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Channel Islands

Tel: +44 (0)1534 847 410

Registered in Jersey No. 95682

3i Infrastructure plc is regulated by the  
Jersey Financial Services Commission.

**Annual report online**

To receive shareholder communications  
electronically in future, including Annual reports  
and Notices of meetings, please go to:

**[www.3i-infrastructure.com](http://www.3i-infrastructure.com)**