



25 September 2014

3i Infrastructure plc – Pre-close update

3i Infrastructure plc (“3i Infrastructure” or “the Company”) announces its trading update as it enters the close period for the six months ending 30 September 2014. The data in this statement relates to the period from 1 April 2014 to 24 September 2014 (“the period”).

Highlights

- Portfolio assets continue to perform well operationally and financially, generating portfolio income of £31 million in the period, in line with the six months to 30 September 2013
- Prices for infrastructure assets, particularly in core infrastructure, continue to rise as recent competitive auction processes have evidenced. This is positive news for the valuation of our existing European portfolio. At the same time, these highly competitive market conditions make it challenging for the Company to find new investment opportunities in core infrastructure consistent with its return target
- The Company committed to invest £8.6 million in aggregate in two new primary Public Private Partnership (“PPP”) projects
- Independent shareholders approved the extension of the investment advisory agreement between the Company and the Investment Adviser at an Extraordinary General Meeting on 8 July 2014

Peter Sedgwick, Chairman of 3i Infrastructure, said: “We continue to see good operational and financial performance in the portfolio, driven by stable market fundamentals and positive developments for a number of our investments. The portfolio overall delivered income of £31 million in the period, in line with income levels delivered in the comparable six-month period last year.”

Ben Loomes and Phil White, Managing Partners for Infrastructure, 3i Investments plc, added: “Recent competitive auction processes in certain sectors have evidenced the strengthening demand for long duration assets in a low interest rate environment. This is expected to be positive for the Company in terms of the value of its existing European portfolio assets which were acquired in a more favourable return environment. We continue to work hard to develop a good pipeline of core infrastructure and primary PPP project investments, and during the period, the Company completed two new primary PPP investments, which are expected to deliver attractive risk-adjusted returns.”

Portfolio and returns

The Company maintains an active asset management role in its portfolio through the Investment Adviser's experienced team. The high quality European portfolio continues to perform well operationally and financially. The portfolio generated income (dividends and interest receivable from portfolio assets) of £31 million in the period, in line with the six months to 30 September 2013.

During the period, Eversholt Rail Group was successful in securing extended leases for a number of its key fleets, as the UK Government's rail refranchising programme gathered momentum. We have also seen evidence of return compression in recent bids to finance the procurement of new train fleets, and our expectations are that this may be reflected in upcoming M&A activity in the sector. These factors are likely to have positive value implications for the Company's two rolling stock investments, Eversholt Rail Group and Cross London Trains.

The UK water sector is undergoing its regulatory review for the 2015-2020 period. Ofwat published its draft determination for Anglian Water on 29 August 2014, and the Investment Adviser is working closely with co-shareholders and with Anglian Water's management team on its response, which will be submitted in early October. Ofwat's Final Determination is expected to be published in December 2014.

The valuation of the Company's holding in the 3i India Infrastructure Fund, which represented only 7% of portfolio value at 31 March 2014, is influenced by a number of market factors, including foreign exchange fluctuations. Over the period, the exchange rate of the Indian rupee against sterling remained steady. The share price of Adani Power rose in the first half of the period enabling a partial sale of shares, as described below. On 24 September 2014 the share price of Adani Power was 46.7 rupees per share, compared to 48.7 rupees per share at the beginning of the financial year.

As usual, an important element of the determination of the Company's results for the six months to 30 September 2014 will be the valuation of the investment portfolio as at that date. The Board notes the positive developments in the European portfolio and, as stated earlier, the continuing upward pricing pressure in the core infrastructure market. This will be taken into consideration in the next valuation.

3i Infrastructure expects to announce its results for the six months to 30 September 2014 in early November 2014.

Realisations and capital returns

The Company received aggregate proceeds of £19.3 million in the period.

As announced in the Company's latest Interim Management Statement, during April and May the 3i India Infrastructure Fund sold a material portion of its holding in Adani Power, a listed company. The sale was achieved at an average price of 55 rupees per share, ahead of current market value (46.7 rupees per share at 24 September 2014). Following this sale, the Company received a distribution of proceeds from the 3i India Infrastructure Fund of £7.4 million.

In addition, the Company received proceeds of £8.0 million from Elenia relating to income capitalised in the previous financial year and a £3.9 million partial shareholder loan repayment from Eversholt.

Investment pipeline

The Investment Adviser continues to build on its pipeline of potential investment opportunities, in both the core infrastructure and primary PPP and low-risk energy market segments.

The market for core infrastructure investment remains highly competitive, with an increasing number of investors developing direct investment capabilities. The asset class provides attractive risk-adjusted returns versus other asset classes in a low interest rate environment. This continues to drive the prices of core infrastructure assets higher and we expect these conditions to persist for the foreseeable future. The Company is positioning itself to bid for a number of core infrastructure investments expected to come to market in the second half of the financial year.

There remain good opportunities for primary PPP and low-risk energy project investing, and the Investment Adviser is one of relatively few financial investors able to access these opportunities across Europe. During the period, the Company committed to invest a total of £8.6 million in two new primary PPP projects: Ayrshire College in Scotland and RIVM laboratories in the Netherlands. In addition, the Company has achieved commercial close on the A12 PPP road project in the Netherlands, which is expected to reach financial close within the first half of the financial year. It has also achieved preferred bidder status for three new primary PPP and low-risk energy project investments: the West of Duddon Sands OFTO project in the UK, La Santé Prison in France and the A9 road project in the Netherlands, which are expected to reach financial close in the second half of the financial year. The aggregate value of the commitments to these investments is expected to approximate to £55-60 million.

In line with its strategy, 3i Infrastructure is not pursuing any opportunities in the secondary PPP market.

Investment activity

The Company continues to pursue its strategy of maintaining a balanced portfolio of infrastructure investments in developed economies focusing on core economic infrastructure, as well as building exposure to primary PPP and low-risk energy projects. During the period, 3i Infrastructure committed to invest a total of £8.6 million in the following projects.

RIVM

On 28 August 2014, the Company announced it had committed to invest €5.1 million (£4.0 million) for a 28% holding in the RIVM project, a primary PPP 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 was procured under a typical PPP framework by the State of the Netherlands. The project scope comprises the design, build, finance, maintenance and operation of 70,000m² facility comprising an office building and laboratories on the site of Utrecht Science Park. Construction is expected to be completed in November 2018.

Ayrshire College

On 5 June 2014, 3i Infrastructure announced it had committed to invest £4.6 million in a primary PPP project to build a new campus for Ayrshire College in Kilmarnock, Scotland. The project, procured by Ayrshire College, involves the design, build, finance, operation and maintenance of a new college campus, against availability-based payments over a concession period of 25 years. Construction is expected to be completed in May 2016.

Balance sheet

At 24 September 2014, the Company had net cash balances of £96.3 million and an unutilised revolving credit facility ("RCF") balance of £196.0 million. Net cash includes cash balances of £98.7 million and other financial assets of £17.7 million, net of undrawn commitments to primary PPP investments, Mersey Gateway Bridge, Ayrshire College and NMM, of £20.1 million. The Company's £200 million RCF has been utilised to issue a letter of credit totalling £4.0 million for the undrawn commitment to the RIVM primary PPP investment.

Investment Advisory Agreement and EGM

On 9 May 2014, the Company announced that it had entered into an agreement (the "Amendment Agreement") with its Investment Adviser to amend the terms of the existing investment advisory agreement between the Company and the Investment Adviser (the "Advisory Agreement"), conditional only on obtaining the approval of both the Jersey Financial Services Commission and the Company's shareholders (other than 3i Group plc) at an Extraordinary General Meeting ("EGM").

The Company's EGM was held on 8 July 2014 and the resolution to approve the Amendment Agreement was approved by independent shareholders. Jersey Financial Services Commission approval was also obtained.

The principal changes effected by the Amendment Agreement include a reduction in the fee rate for future PPP projects and certain individual low-risk energy project investments and, in response to feedback received from shareholders, the addition of a "high water mark" requirement to the performance fee calculation. With the exclusivity arrangements close to expiry at the time, the Company's Board also agreed an extension of the fixed term of the Advisory Agreement by four years, with one year's rolling notice thereafter. The term of the exclusivity provisions with the Investment Adviser was extended to match the term of the Advisory Agreement, provided that the Company maintains sufficient liquidity to continue investing through its cash holdings or undrawn debt facilities.

Ends

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Notes to editors

3i Infrastructure plc is a Jersey-incorporated, closed-ended investment company, listed on the London Stock Exchange and regulated by the Jersey Financial Services Commission. The Company is a long-term investor in infrastructure businesses and assets. The Company's market focus is on core economic infrastructure in developed economies, principally in Europe, in the utilities and transportation sectors, investing in operational businesses which generate long-term yield and can provide capital growth. It also has investments in social infrastructure and is building its exposure to primary PPP and renewable energy projects.

3i Investments plc, a wholly-owned subsidiary of 3i Group plc, is authorised and regulated in the UK by the Financial Conduct Authority and acts as Investment Adviser to 3i Infrastructure plc.

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This statement aims to give an indication of material events and transactions that have taken place during the period from 1 April 2014 to 24 September 2014 and their impact on the financial position of 3i Infrastructure plc. These indications reflect the Board's current view. They are subject to a number of risks and uncertainties and could change. Factors which could cause or contribute to such differences include, but are not limited to, general economic and market conditions and specific factors affecting the financial prospects or performance of individual investments within the portfolio of 3i Infrastructure plc.