3i Infrastructure plc

# Half-yearly report

for the six months to 30 September 2015


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# Performance highlights

For the six months to 30 September 2015

## Good progression in net asset value

A total return of £80.7 million for the half year, or 6.5% of opening Net Asset Value ("NAV")[1]. This is a good result in the context of the Company's return target of 8% to 10% per annum, to be achieved over the medium term

The European portfolio continued to perform well both financially and operationally. The portfolio value increase in the period was driven mainly by the positive impact of regulatory developments on the value of the Company's holding in Elenia. This more than offset the weak performance of the India Fund during the period

**6.5%**
Total return on opening NAV

**153.8p**
NAV per share[2]

## Healthy level of investment

Three new investments, for a total consideration of £187 million, were completed during the period. These investments were in the European mid-market economic infrastructure and low-risk energy sectors

**£187m**
Invested in the period

## Portfolio income in line with expectations

The portfolio generated income[3] in the period of £27.1 million, in line with expectations. Portfolio income is expected to increase in the second half, as income is earned from new investments made during the first half

**£27m**
Portfolio income

## Efficient balance sheet

The Company is well funded for new investment, with total liquidity of £335 million, including cash balances of £51 million and an undrawn revolving credit facility ("RCF") balance of £284 million

**£51m**
Cash balances

**£284m**
Undrawn RCF balance

## Interim dividend in line with full year target

Interim dividend of 3.625 pence per share or £28.8 million in aggregate. On track to deliver the full year target distribution of 7.25 pence per share and to continue to grow this progressively beyond FY2016

**3.625p**
Interim dividend per share

1. Opening NAV, adjusted on a time-weighted basis for the payment on 31 July 2015 of a special dividend of £150 million.
2. The movement in NAV per share in the period includes a 2.6 pence per share reduction resulting from the share consolidation undertaken in conjunction with the payment of the special dividend in July 2015 (see page 31).
3. Portfolio income comprises aggregate dividends, interest income and fees received during the period from portfolio assets and is consistent with the measure used in previous periods. Further details are included in the Financial review on page 28.

# Our portfolio

At 30 September 2015

## 22 investments, valued at £1,163 million[1]

### Economic infrastructure businesses

- Five investments:
  - **Elenia**
    Finland: regulated electricity distribution
  - **Anglian Water Group**
    UK: regulated water utility
  - **Oystercatcher** *(investment in two further terminals completed in the period)*
    Belgium, the Netherlands, Malta and Singapore: oil and oil product storage terminals
  - **ESVAGT**
    *(new investment in the period)*
    Denmark: emergency rescue and response vessels
  - **Cross London Trains**
    UK: rail rolling stock procurement and leasing

**80%**

### Public Private Partnership ("PPP") and low-risk energy projects

**Primary projects:**

- Six investments:
  - **A9**
    Netherlands: road project
  - **A12**
    Netherlands: road project
  - **Ayrshire College**
    UK: education facilities project
  - **La Santé**
    France: prison accommodation project
  - **Mersey Gateway Bridge**
    UK: bridge project
  - **RIVM**
    Netherlands: government office accommodation project

**Operational projects:**

- Four investments, including 64 underlying projects
  - **Dalmore Capital Fund**
    UK: operational PFI projects
  - **Elgin**
    UK: school and community healthcare facilities
  - **NMM**
    Netherlands: museum facilities
  - **Octagon**
    UK: healthcare facility

**Low-risk energy projects:**

- One investment
  - **West of Duddon Sands ("WODS")**
    *(new investment in the period)*
    UK: Offshore Transmission Owner ("OFTO") project

**16%**

### India Fund

- Six investments across the following sectors:
  - Power generation
  - Roads
  - Ports
- The India Fund is closed to new investment and its existing investments will be realised over the next few years
- During the period, the India Fund sold its holding in Ind-Barath Utkal (see page 19)

**4%**

| | 30 September 2015 | | 31 March 2015 | |
|---|---|---|---|---|
| | Valuation[1] (£m) | % of portfolio | Valuation[1] (£m) | % of portfolio |
| **Economic infrastructure businesses** | **926** | **80%** | **1,051** | **83%** |
| Elenia | 291 | | 239 | |
| Anglian Water Group ("AWG") | 253 | | 242 | |
| Oystercatcher | 166 | | 110 | |
| ESVAGT | 112 | | - | |
| Cross London Trains ("XLT") | 104 | | 100 | |
| *Eversholt Rail* | *Sold* | | *360* | |
| **PPP and low-risk energy projects** | **184** | **16%** | **159** | **12%** |
| Primary projects[1] | 50 | | 50 | |
| Operational projects | 134 | | 109 | |
| **India Fund** | **53** | **4%** | **63** | **5%** |
| **Total investments and commitments** | **1,163** | | **1,273** | |
| **Total cash balances** | **51** | **100%** | **75** | **100%** |

[1] Includes investment commitments.

# Our largest investments

## Elenia

Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 415,000 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 next four-year regulatory period will commence from 1 January 2016. 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 area. 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. See page 33 for further information.

## Anglian Water Group

Anglian Water Group Limited ("AWG") 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 current regulatory period started on 1 April 2015 and runs to 31 March 2020. See page 35 for further information.

## Oystercatcher

Oiltanking GmbH ("Oiltanking") is one of the world's leading independent storage partners for oils, chemicals and gases, operating 73 storage terminals in 22 countries, with a total storage capacity of 19 million cubic metres. Oystercatcher is the holding company through which the Company invested in 45% interests in five subsidiaries of Oiltanking, including two acquired in the period. The businesses, which are located in the Netherlands, Belgium, Malta and Singapore, provide over 5 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. See page 37 for further information.

## ESVAGT


ESVAGT, a new investment in the period, is a leading provider of emergency rescue and response vessels and related services to the offshore energy industry in and around the North Sea and the Barents Sea. Headquartered in Denmark, ESVAGT has been operating since 1981, employs over 800 people and owns a fleet of 43 vessels. It has an established position as a leading provider of emergency response and rescue vessels in offshore Denmark and Norway, as well as a growing presence in the UK and offshore wind services segments. See page 15 for further information.

## Cross London Trains

Cross London Trains ("XLT") 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 for a period of 20 years. Siemens will manufacture and deliver the trains over five years, with the first delivery into service expected in early 2016. See page 39 for further information.

# 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 through our engaged asset management approach, by adopting a selective approach to new investment and by maintaining an efficient balance sheet.

## Clear strategic priorities

| | |
|---|---|
| **Maintaining a balanced portfolio** | ▪ Delivering an attractive mix of income yield and capital growth for our shareholders<br>▪ 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 |
| **Adopting a 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 |

# Our investment approach

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 its broader European network, with offices in Amsterdam, Frankfurt, Madrid and Stockholm. This platform provides us with a comprehensive coverage of our target markets, as well as the asset management skills to drive value from our portfolio.

## Investment approach

The Investment Adviser's approach is summarised as follows:

- originate investment opportunities which provide stable cash flows over the long-term, preferably inflation-linked;
- engage with portfolio company management at board level to define the strategic direction and business plan;
- invest in the underlying asset base to support profitable growth over the long term;
- assess acquisitions if suitable opportunities arise;
- access the Investment Adviser's network of industry specialists and senior management to bring in expertise and/or bolster management teams;
- 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.

## Market conditions

The sustained growth in demand for long duration assets in a low interest rate environment has driven a significant increase in competition for infrastructure investments over recent years. The infrastructure asset class attracts 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, however, 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.

## Implementing our investment approach in current markets

In this highly competitive market environment, we remain **disciplined in our approach to new investment,** focusing selectively on investments that are value enhancing to the Company's portfolio. Our new investment activity in economic infrastructure is currently focused on the mid-market space, as well as adjacent sectors where we can access attractive risk-adjusted returns, consistent with the Company's overall return objective. We also target investments in primary PPP and low-risk energy projects. The Investment Adviser is managing the investments in the India Fund portfolio for realisation over the next few years.

**Economic infrastructure businesses** are dynamic businesses that own their asset base in perpetuity, not concessions with a finite life. They tend to have a strong market position, often operating within regulatory frameworks, or with revenues underpinned by long-term contracts. They are attractive investments as they offer stable, often inflation-linked returns, including attractive cash yields. As shown in the graph in the next page, economic infrastructure businesses cover a range of the infrastructure asset class risk-return spectrum and some may have characteristics which can be managed to enhance returns. These include, for instance, investments with some demand or market risk and/or a greater degree of operational complexity compared to traditional large Core economic infrastructure investments such as regulated utilities, as well as more opportunities to grow the business. These investments therefore tend to attract investors with the ability to manage that operational complexity and higher market risk profile and to exploit growth opportunities. We seek investments which offer returns typically in the range of 9% to 14%. We continue to focus on investments in the energy, utilities and transportation sectors, but also in adjacent sectors such as network infrastructure, leasing and storage.

**The Investment Adviser has a proven track record of driving value from economic infrastructure businesses**. Examples include investments such as Eversholt Rail and Oystercatcher.

Through the period of ownership, the Investment Adviser, with the Company's consortium partners, engaged closely with the management team of Eversholt Rail initially to separate the business from its previous owner, and then to support the business in its ongoing re-franchising programme and to assess a range of capital investment opportunities, both to add further trains to the overall fleet and to invest in upgrading existing assets. Throughout the period of ownership, Eversholt Rail was repositioned as an asset management business, capable of renewing its asset base in perpetuity, no longer just a lessor of its existing train fleets. The Investment Adviser also optimised Eversholt Rail's capital structure through the issuance of long-dated public bonds and a private placement, significantly reducing the ongoing debt servicing costs and refinancing risks, leaving the business in a strong position for future growth. As a result of these and other initiatives, the business was de-risked substantially over the period of ownership, becoming attractive to a broader range of infrastructure investors. This resulted in the successful sale of the business in May 2015, which generated a gross money multiple of 3.4x and an IRR of over 40% over the period of ownership.

In the case of Oystercatcher, the Investment Adviser has been actively involved in the assessment of a range of capital expenditure project proposals that have delivered capacity expansion and long-term value accretion. In addition, the acquisition debt facilities were refinanced on two occasions, achieving better terms. In June this year, Oystercatcher's portfolio of investments was diversified further through the acquisition of 45% holdings in two additional terminals alongside Oiltanking.

Our experience of managing investments such as Eversholt Rail and Oystercatcher was key in assessing and pricing the new investment in ESVAGT (see new investment case study on page 15). ESVAGT shares a number of the characteristics of these investments: it is an asset-intensive infrastructure business, which operates in a market with limited competition and high barriers to entry, but with some exposure to demand risk. It also has good growth opportunities in the UK and other markets, including in the adjacent wind service vessels market.

PPP investing involves making investments in projects to build, operate and maintain an asset and making it available for a procuring authority for a concession period of typically 20 to 30 years, in return for secure, often index-linked, availability-based payments. **Primary PPP investments** are greenfield projects, made when the assets are still in construction. Investments in **low-risk energy projects** are typically in wind and solar projects, as well as Offshore Transmission Owner projects.

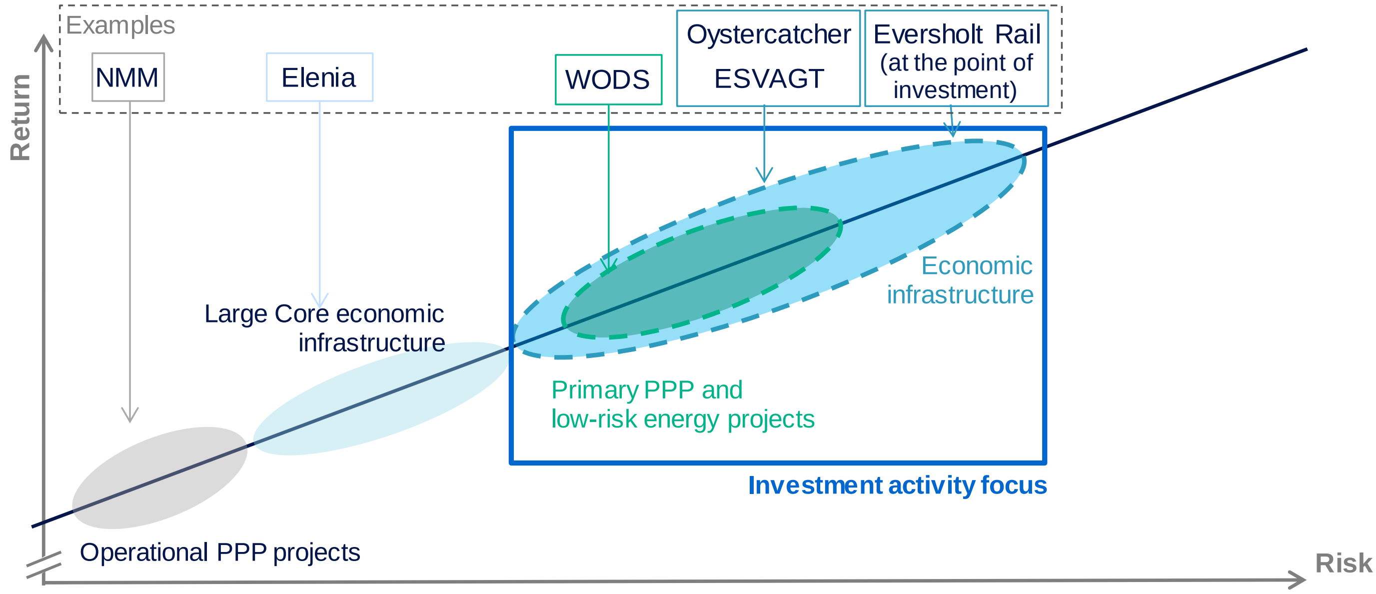
The **primary PPP and low-risk energy project** markets also continue to offer attractive risk-adjusted returns, in a range of 9% to 12%. Returns from investments in these projects have remained stable over time as there are few investors with the relationships with primary developers to access these opportunities and the skill set to manage some of the risks, including construction and execution risk. The Investment Adviser has a strong track record in the origination and management of investments in these markets. The investment in the West of Duddon Sands OFTO project (see page 17), also completed in the period, was the first OFTO investment completed by the Company, and the fifth completed by the Investment Adviser.

## Our target markets

Our portfolio offers exposure to investments across the infrastructure risk/return spectrum and is predominantly weighted towards economic infrastructure businesses. The portfolio includes a number of large Core economic infrastructure assets, such as AWG and Elenia, acquired in a more favourable returns environment. Their valuation has benefited from the strong demand and the resulting compression in market returns for such assets.

Market conditions have shaped our investment activity to focus on:

- economic infrastructure and particularly on mid-market economic infrastructure, including businesses with characteristics that can be managed to enhance value over the period of ownership, in the energy, utilities and transportation sectors, as well as in adjacent sectors; and
- primary PPP and low-risk energy projects.



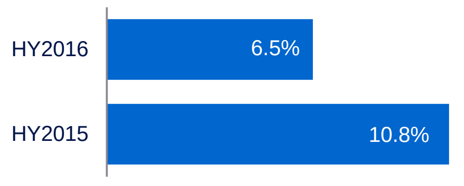

## Characteristics of our target markets

| Economic infrastructure businesses |
|---|
| Businesses generally:<br>▪ own their asset base in perpetuity<br>▪ often provide essential services<br>▪ have a strong market position<br>▪ generate stable cash flows |
| Some businesses may have some characteristics which, through our engaged asset management approach, can enhance returns:<br>▪ growth opportunities<br>▪ demand/market risk<br>▪ greater operational complexity |
| Equity investments typically between **£50m and £250m** |
| Returns typically between **9% and 14%** |

| Projects | |
|---|---|
| **Primary PPP** | **Low-risk energy** |
| Greenfield projects in the education, transport, healthcare, and public sector accommodation sectors | Low-risk energy projects in wind, solar or offshore transmission |
| Concession-based with typical life of 20-30 years | Typical life of 20-30 years |
| Equity investments typically between **£5m and £50m** | |
| Returns typically between **9% and 12%** | |

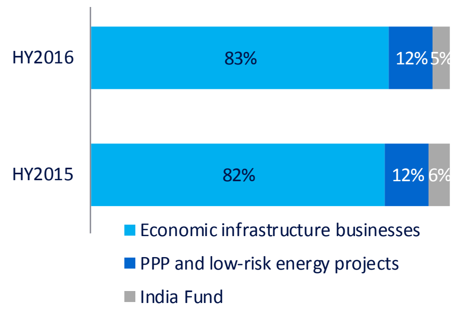
# Key performance indicators

## Total return
% on opening Net Asset Value




## Annual distribution
pence per share (pps)


## Portfolio balance[1]
% of portfolio




### Target

**Total return:** To provide shareholders with a total return of 8% to 10% per annum, to be achieved over the medium term

**Annual distribution:** Progressive dividend per share policy, targeting a full year dividend for FY2016 of 7.25 pence per share

**Portfolio balance:** At least 75% of the portfolio invested in economic infrastructure businesses

### Outcome for the first half of the year

**Total return:** Total return of 6.5% for the six months to 30 September 2015

**Annual distribution:** Interim dividend of 3.625 pence per share declared

**Portfolio balance:** 83%[1] of the portfolio invested in economic infrastructure businesses at 30 September 2015

### Rationale and definition

**Total return:**

- Total return is how we measure the overall financial performance of the Company
- 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
- 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

**Annual distribution:**

- This measure reflects the dividends distributed to shareholders each year
- 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
- The dividend is measured on a pence per share basis, and is targeted to be progressive

**Portfolio balance:**

- 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
- This provides shareholders with a differentiated investment proposition compared with other UK-listed infrastructure investment vehicles
- The India Fund portfolio is being managed by the Investment Adviser with a view to realisation over the next few years

### Performance in the first half of the year

**Total return:**

- Total return of £80.7 million in the first six months of the year, or 6.5% on opening net asset value, adjusted for the special dividend
- The return was driven by the good performance of the European portfolio, including the valuation uplift on our holding in Elenia as a result of positive regulatory developments in the period
- Costs were managed in line with expectations

**Annual distribution:**

- Declared interim dividend of 3.625 pence per share, or £28.8 million
- On track to deliver a full year dividend of 7.25 pence per share for FY2016
- Income generated from the portfolio and cash deposits, including non-income cash distributions from portfolio companies, totalled £28.6 million for the period. Operational costs and finance costs used to assess dividend coverage totalled £12.0 million in the period. The resulting dividend coverage shortfall of £12.2 million is covered by accumulated realised profits (see page 31)

**Portfolio balance:**

- 83%[1] of the portfolio invested in economic infrastructure businesses
- Portfolio balance reflects new investment activity in the period and the realisation of the Company's holding in Eversholt Rail, which was completed in April 2015

[1] 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 80%.

# Chairman's statement

*The total return of 6.5% for the period builds on the Company's strong recent performance and contributes to the average annualised total return of 10.8% delivered by the Company since its IPO in 2007. This supported an annualised Total Shareholder Return over the same period of 11.4%, which compares favourably with the broader market. With the Investment Adviser's strong origination and portfolio management track record, and with good liquidity to invest, the Company is in a strong position to continue delivering attractive returns to its shareholders.*

**Peter Sedgwick**
**Chairman, 3i Infrastructure plc**
5 November 2015

After almost nine years as Chairman, I will be stepping down from the Board at the end of the current calendar year. During this period, the Company has grown and delivered strong returns to its shareholders. The infrastructure asset class has many attractive characteristics, which have contributed to the increase in the amount of capital seeking to invest in this market over the last few years. Despite greater competition for available investments, 3i Infrastructure has adapted well to market developments and I am pleased that we have made good progress across the range of initiatives we announced in May. The Company is in a strong position to continue delivering attractive returns to its shareholders.

## Good progress across the range of initiatives announced in May 2015

In May, the Board took steps to position the Company to continue delivering attractive returns to its shareholders in increasingly competitive market conditions. The Company made good progress against those initiatives during the period:

| | Objective/Action | Progress in H1 2016 |
|---|---|---|
| **Updated total return target to be sustainable** | ▪ Updated the Company's total return objective from a 10% annual target to a **sustainable target of 8% to 10% per annum, to be achieved over the medium term** | ▪ **Total return of 6.5%** for the six months to 30 September 2015 |
| **Set a new progressive dividend policy** | ▪ Introduced a new and **progressive dividend policy**, which sets an absolute dividend per share, beginning with a **target dividend of 7.25 pence per share** in respect of FY2016<br>▪ Distributions to be covered through income generation and any profits from the realisation of portfolio assets | ▪ Interim distribution of 3.625 pence per share<br>▪ **On track to achieve full year target** |
| **Manage liquidity actively and maintain an efficient balance sheet for future investment** | ▪ Objective to **minimise returns dilution from holding excessive cash balances while maintaining a good level of liquidity for future investment**<br>▪ Paid a £150 million special dividend to shareholders, returning part of the exceptional return from the sale of Eversholt Rail<br>▪ Negotiated a new Revolving Credit Facility ("RCF"), **increasing the facility** from £200 million to £300 million, **on improved terms** | ▪ Total liquidity of £335 million as at 30 September 2015, comprising **cash balances of £51 million** and an **undrawn RCF balance of £284 million** |

## Performance

The Company generated a total return of £80.7 million in the six months to 30 September 2015, or 6.5% of opening Net Asset Value (“NAV”), adjusted for the payment of the special dividend on 31 July 2015. The NAV per share increased to 153.8 pence at 30 September 2015. This was a good result in the context of the Company’s total return target of 8% to 10% per annum, to be achieved over the medium term. The European portfolio continued to perform well both financially and operationally. The portfolio value increase in the period was driven mainly by the positive impact of regulatory developments on the value of the Company’s holding in Elenia. This more than offset the impact of the weak performance of the India Fund, which was partly driven by the further depreciation of the Indian rupee against sterling. Changes in discount rates did not have a material impact on the value of the portfolio in the period.

We delivered a Total Shareholder Return (“TSR”) of 7% in the six-month period to 30 September 2015 (FTSE 250: (0.6)%), improving further our performance record since inception. The Company generated an average TSR of 11.4% on an annualised basis in the period from IPO in March 2007 to 30 September 2015. This compares favourably with the returns in the broader market (FTSE 250: 8.0% on an annualised basis over the same period). The Company has achieved this outperformance with relatively low share price volatility.

The TSR performance is underpinned by the strong performance of the portfolio. Our engaged asset management approach, which is an integral part of our business model, has delivered an annualised total return (based on NAV growth and dividends paid) of 10.8% since IPO.

## Interim dividend

We are on track to deliver the target dividend for FY2016 of 7.25 pence per share through a combination of income from the existing portfolio, income from new investments and realised profits from the sale of Eversholt Rail. In line with this target, we are announcing the payment of an interim dividend of 3.625 pence per share, scheduled to be paid on 7 January 2016.

## Investment and realisation activity

In a competitive market, we have remained disciplined in our investment approach and were pleased to have completed three new investments for a total consideration of £187 million, redeploying a significant portion of the proceeds from the sale of the Company’s holding in Eversholt Rail, which completed in April this year. These investments in the mid-market economic infrastructure and low-risk energy sectors are complementary additions to the Company’s existing portfolio, while providing both geographical and sector diversification. These new investments are expected to deliver attractive risk-adjusted returns, consistent with the Company’s return objective.

As set out on page 11, the Investment Adviser has announced a number of senior appointments to its team, enhancing further its ability to target a broad range of opportunities in these markets.

The Investment Adviser continues to make good progress in the realisation of the assets in the India Fund. During the period, the India Fund sold its holding in Ind-Barath Utkal. The proceeds from the sale are expected to be received in the second half of the year.

## Balance sheet efficiency and special dividend

The Company manages its balance sheet and liquidity position actively, ensuring that it maintains good liquidity to pursue new investment opportunities, while not diluting shareholder returns by holding excessive cash balances. Consistent with this objective, the Company announced in May 2015 that it had negotiated a new RCF, increasing the facility from £200 million to £300 million, and that it would pay a special dividend of £150 million. This special dividend was paid in July 2015. Following the payment of the ordinary and special dividends, as well as investment and realisation flows, the Company ended the period with total liquidity of £335 million, including cash balances of £51 million, and an undrawn RCF balance of £284 million.

## Corporate governance

Today we have announced the appointment of Richard Laing to succeed me as Chairman of the Board with effect from 1 January 2016. The appointment is subject to the approval of the Jersey Financial Services Commission. Richard brings an in-depth understanding of investing in infrastructure from his time as CEO of CDC Group plc. He also has substantial experience of investment trusts, and is currently a non-executive director of JP Morgan Emerging Markets Investment Trust plc and of Perpetual Income and Growth Investment Trust plc.

The Company’s Annual General Meeting and an Extraordinary General Meeting were held on 7 July 2015. All resolutions were approved by shareholders, including the election or re-election of all the Directors to the Board. The special resolutions relating to the share consolidation implemented in conjunction with the payment of the special dividend and the increase to the single investment concentration limit from 20% to 25% of gross assets were also approved.

## Outlook

The infrastructure market remains highly competitive, but continues to offer attractive investment opportunities as demonstrated by the new investments completed by the Company in the period. With the Investment Adviser’s strong origination and portfolio management track record, and with good liquidity to invest, the Company is well placed to continue to grow and deliver attractive returns to its shareholders.

# Investment Adviser's review


*"The Company had a good first half of the year. The European portfolio continued to perform well, underpinning a solid return for the period. We were also pleased to complete three new investments in the period, demonstrating our ability to access attractive investments in the Company's target market segments. We continue to develop the Company's investment pipeline and we are assessing a broad range of early-stage opportunities. In these highly competitive markets, we will remain disciplined in the assessment and pricing of these opportunities."*

**Ben Loomes and Phil White**
**Managing Partners and Co-heads, Infrastructure, 3i Investments plc**
5 November 2015

## 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 Placing and Open Offer in 2008, and 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.

There have been a number of new appointments to the investment advisory team over recent months. Bernardo Sottomayor joined the team as Partner from Antin Infrastructure in October 2015, with a focus on the origination and execution of new investments across Europe. Prior to Antin, Bernardo was Managing Director, Head of Acquisitions for Deutsche Bank's European infrastructure fund. In addition, James Dawes has been appointed as Chief Financial Officer of 3i's Infrastructure business, in succession to Stephen Halliwell, from January 2016. James is currently a divisional finance head in Legal & General Investment Management. He has been with Legal & General Investment Management since 1997 in a variety of finance roles, including as Finance Director of LGV Capital, Legal & General's private equity business. Stephen has been Chief Financial Officer of 3i's Infrastructure business since April 2007, and has contributed significantly to the development of the Company since its IPO. We would like to thank him for his contribution and support over the years and to wish him well for the future.

The profiles of the key members of the investment advisory team are on page 14.

As announced in May, Peter Sedgwick will be stepping down from the Company's Board at the end of December, after almost nine years as Chairman. We would like to acknowledge the great contribution he has made to the success of the Company, and thank him for his dedication and support. We wish him well for the future.

# 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, reinvesting a substantial portion of the proceeds from the sale of Eversholt Rail**

As competition for large Core economic infrastructure businesses remains very strong, the Investment Adviser has remained disciplined in its approach to new investment, targeting more attractive risk-adjusted returns in other areas of the infrastructure market, such as mid-market economic infrastructure businesses as well as primary PPP and low-risk energy projects, consistent with the Company's investment focus (outlined on pages 5 to 7).

The team leveraged its partnerships, international network and local knowledge to invest a total of £187 million across the Company's target markets during the period. Of this amount, £111.1 million was invested in ESVAGT, £52.6 million in two further oil storage terminals alongside Oiltanking, and the balance of £23.5 million in the West of Duddon Sands ("WODS") Offshore Transmission Owner ("OFTO"). These investments are complementary additions to the Company's existing portfolio, providing both geographical and sector diversification, and will contribute to portfolio income generation from the second half of the year. The new investments in ESVAGT and the WODS OFTO project are described on pages 15 to 17.

**Driving value from the economic infrastructure portfolio**

Regulatory developments were an important feature for Elenia and AWG during the period and the Investment Adviser engaged with both management teams in assessing the impact of these developments.

Elenia's regulatory period ends in December 2015. In June 2015, the Finnish Energy Authority, which regulates electricity distribution in Finland, released a second draft of its guidelines for the next two regulatory periods, beginning from 1 January 2016. These refine and clarify the regulator's proposals to change the calculation of the allowed return on capital for the industry, and certain other parameters. While some aspects of the regulatory determination remain to be decided, the second draft reinforces the regulator's intent to address the low allowed return on capital experienced by all distribution companies over recent years. The Investment Adviser has been working with the business to assess the impact of the regulator's proposals and on framing Elenia's response to these proposals. The publication of the final regulatory settlement is expected by the end of December 2015.

The 2015-2020 regulatory period for AWG ("AMP6") commenced on 1 April 2015. The AWG management team is now focusing on the implementation of the capital expenditure and efficiency programmes to drive value through AMP6. As part of the regulatory settlement for AMP6, AWG also has a set of Outcome Delivery Incentives. These are key operational performance parameters against which AWG will be judged and which carry material financial incentives and penalties. The business, with input from the Investment Adviser and other shareholders, is currently implementing initiatives to optimise performance against these parameters.

In favourable debt market conditions, the optimisation of portfolio companies' capital structures has been a key driver of value creation by the Investment Adviser. Elenia was able to refinance the last tranche of its acquisition debt during the period, on attractive terms.

The Investment Adviser is heavily involved in strengthening the boards and management teams of its investee companies. In August 2015, Elenia appointed Tommi Valento as CFO, replacing Aapo Nikunen. Tommi was formerly Group Treasurer at Pohjolan Voima Oy, a Finnish power company, and has significant debt capital markets experience. Stephen Billingham, former CFO of British Energy and currently chairman of Punch Taverns, took over as chairman of AWG from Robert Napier in April 2015. On 2 November 2015, ESVAGT announced the appointment of Jesper Lok, formerly CEO of the Danish Railroads and of Falck's Emergency Division, as chairman.

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 Adviser aims to provide the Company and its shareholders with a platform offering 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 Bernardo Sottomayor, a Partner in the business (see profile on page 14), as well as two hires at 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. During the period, the India Fund sold its entire holding in Ind-Barath Utkal. The Company expects to receive proceeds of approximately £7 million from that sale in the second half of the year. This builds on the progress in FY2015, when the India Fund achieved the sale of approximately 54% of its holding in Adani Power at an average price of 55 rupees per share, considerably higher than the closing price of 25 rupees per share on 30 September 2015. Proceeds received by the Company in relation to the Adani Power sale last year totalled £10.2 million.

## Outlook

The Company delivered a good return over the first half of the year, underpinned by the robust performance of the European portfolio. Demand for large Core economic infrastructure investments in Europe 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 are shaping 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 three new investments completed by the Company in the period demonstrate our ability to access investments in these target markets. They provide geographical and sector diversification, and are likely to contribute to portfolio income from the second half of the financial year.

We continue to build the Company's investment pipeline and we are assessing a broad range of early-stage opportunities. In these highly competitive markets, we will remain disciplined in the assessment and pricing of these opportunities.

# Profiles of senior members of the investment advisory team

**Ben Loomes**, Managing Partner and Co-head, Infrastructure

Ben is Managing Partner, Co-head of 3i's Infrastructure business. Previously, Ben was a director of 3i Infrastructure plc. 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 the management, origination activities and strategic development of 3i's Infrastructure business. Ben leads the relationship with the Board of 3i Infrastructure plc. He led the sale of Eversholt Rail and is a board director of ESVAGT. Prior to joining 3i, Ben's experience included mergers and acquisitions, financing advisory and restructuring, including roles at Goldman Sachs, Greenhill and Morgan Stanley.

**Phil White**, Managing Partner and Co-head, Infrastructure

Phil joined 3i in 2007 and is Managing Partner, 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 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.

**Stephen Halliwell,** CFO, Infrastructure

Stephen has been Chief Financial Officer for 3i Group's Infrastructure business since April 2007. 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. Stephen joined 3i Group's Finance Team in 1998. Between 2001 and 2005 he was Operations Director for 3i Group's businesses in the Benelux countries. He qualified as a Chartered Accountant while at Binder Hamlyn (London) and Arthur Andersen between 1991 and 1998. Stephen will be stepping down from his role in January 2016 and will be replaced by James Dawes.

**Stéphane Grandguillaume,** Partner, Infrastructure

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. Previously, Stéphane was head of Egis Investment Partners.

**Nigel Middleton**, Partner, Infrastructure

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 ($I^2$), 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 $I^2$ in 2009.

**Scott Moseley**, Partner, Infrastructure

Scott joined 3i in 2007 and is a Partner in 3i's Infrastructure team, focusing on investment origination and execution. He has 14 years experience in European Infrastructure, spanning utilities, transportation and social infrastructure. Whilst at 3i, Scott has been responsible for the investments in Elenia and Cross London Trains and was a senior deal team member for the investment in Eversholt Rail. Scott's prior experience was in the infrastructure businesses of WestLB and Crédit Agricole.

**Bernardo Sottomayor**, Partner, Infrastructure

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. 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.

ESVAGT

## New investment: mid-market economic infrastructure business


## About ESVAGT and its market

On 7 July 2015, 3i Infrastructure plc and AMP Capital announced that they had entered into an agreement to jointly acquire 100% of ESVAGT A/S (“ESVAGT”), from A.P. Møller-Maersk Group (“Maersk”) and minority shareholders. The transaction completed on 17 September 2015, following the receipt of clearance from the European Commission under the EU Merger Regulation. The Company invested £111.1 million for its 50% interest in ESVAGT.

Headquartered in Esbjerg, Denmark, ESVAGT is a leading provider of emergency rescue and response vessels 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.

Offshore oil platforms in the North Sea are often under a regulatory obligation to secure the services of standby emergency rescue and response vessels. There are high barriers to entry around the provision of such services, because of the technical specifications of the purpose-built vessels, as well as the need for well trained crews with proven track records of delivery. In addition, it can be challenging for operators based outside the North Sea to enter the market, as weather conditions in the North Sea are often more challenging than in most other regions, frequently resulting in more stringent regulatory and customer requirements. In this market, the likelihood of contract renewals is typically high, if satisfactory services have been provided. With its state-of-the-art fleet and proven track record of delivery to its loyal customer base, ESVAGT is well positioned to maintain its market position in the North Sea and to grow it in adjacent areas.

By leveraging its market leading position, ESVAGT intends to build its presence in the UK emergency rescue service market, as well as grow its position in the wind service operation vessels sector as new deep offshore windfarms are built.

## A strong investment case

ESVAGT is a mid-market economic infrastructure business with a leading market position and stable cash flows, likely to underpin a strong yield to the Company. In addition, the investment is consistent with the Company's increased investment focus on mid-market economic infrastructure, in a market environment where projected returns from large Core economic infrastructure assets remain under pressure. The key elements of the investment case are:

- ESVAGT is a **market leader** in the provision of emergency and rescue support services to the offshore energy industry in Denmark and Norway, and 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. Its stable and predictable cash flows are expected to underpin an **attractive and stable yield** for the Company;
- emergency response and rescue vessels are an **essential service** for the offshore energy industry in light of regulatory health and safety requirements; in addition, such services are a small component of the overall production cost, resulting in stringent customer requirements and lower price sensitivity;
- there are **high barriers to entry** for the provision of such services in the North Sea. Customers require vessels equipped to the right specifications, manned by experienced crews with a strong safety track record. The harsh weather conditions in the North Sea and language barriers are also factors which inhibit new market entrants based outside the region;
- ESVAGT's revenues are driven principally by serving manned, producing platforms, which are less exposed to movements in the oil price. Lower oil prices have affected exploration activity, however an oil price recovery could drive short term demand for ESVAGT's services in support of drilling rigs, but longer term it could also increase the number of manned producing platforms and decommissioning projects requiring the service; 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 market, and potentially further afield, as well as in the offshore wind support market.

## Leveraging the Investment Adviser's expertise and network to secure an attractive infrastructure asset

We identified the opportunity to invest in ESVAGT through our network of advisers in the Nordic region. The investment advisory team's experience with the investments in Eversholt Rail and in the Oiltanking companies, which have some characteristics in common with ESVAGT, was key to building a robust understanding of the fundamentals of the business, to developing the investment case, assessing the potential risks of the investment and pricing these risks appropriately. In doing so, the team was also able to leverage the resources and contacts of 3i's Nordic team, based in Stockholm. Our experience and track record with similar assets, as well as our local presence in the Nordic region, differentiated us from competing investors and allowed us to secure the investment at an attractive price.

West of Duddon Sands Offshore Transmission Owner

# New investment: low-risk energy project

## About the WODS OFTO project

The WODS OFTO project involves the acquisition, financing and operation of power transmission cables and associated electrical equipment connecting the West of Duddon Sands offshore wind farm, located off the coast of Cumbria in the Irish Sea, to the onshore grid. The OFTO assets include one offshore substation platform, two approximately 40km long subsea cables, two 3km land cables and a new onshore substation. The project operates under a licence awarded by Ofgem, the UK's electricity regulator, with a 20-year revenue entitlement period. The project was fully commissioned at acquisition and is expected to provide a cash yield to its shareholders within the first year of operations.

The Company, in a consortium with Macquarie Corporate Holdings Pty Limited ("Macquarie"), had been named preferred bidder to acquire the project from Dong Energy West of Duddon Sands (UK) Limited ("Dong Energy") and Scottish Power Renewables (WODS) Limited ("Scottish Power") in July 2014. The transaction achieved financial close on 21 August 2015, with 3i Infrastructure paying a consideration of £23.5 million for its 50% holding in the project. Macquarie subsequently sold its holding in the project to PPP Equity PIP L.P., a fund managed by Dalmore Capital Limited.

## A strong investment case

The project has similar characteristics to most UK availability-based PPP projects, providing stable and predictable cash flows over the long term:

- the project is underpinned by a stable regulatory framework that provides for **predictable cash flows** over the **20-year revenue period**. Revenues from the project are **not exposed to the performance of the wind farm**, and will be generated irrespective of whether it generates power;
- the OFTO will **retain ownership of the asset and the licence is granted in perpetuity**;
- the project is operational and will **provide the Company with a cash yield within the first year of ownership**;
- the operation and maintenance of the project have been subcontracted to a joint venture between Dong Energy and Scottish Power, two of the largest developers and operators of wind farms in the European electricity market, with a **strong track record of delivery**;
- the project will benefit from **long-term operational and management synergies**. Two of the OFTOs currently managed by the Investment Adviser are also located in the Morecambe Bay area; and
- the investment contributes to the **diversification of the Company's portfolio**, providing exposure to an attractive low-risk energy asset in a sector in which the Investment Adviser has an established track record and expertise.

## Leveraging the Investment Adviser's network and expertise

The investment contributes to diversifying the Company's portfolio, providing exposure to an attractive asset in the low-risk energy sector. While the WODS OFTO is the first to have been acquired by the Company, the Investment Adviser has extensive experience of managing OFTO investments as part of the Blue Transmission consortium, of which it has been a member since 3i Group's acquisition of the Barclays European infrastructure fund management business in November 2013. The Blue Transmission consortium has a successful track record of investing in OFTOs and currently manages four other OFTOs. Including WODS, the Investment Adviser manages one-third of the OFTO assets tendered by Ofgem in the UK to date. The Investment Adviser's experience in managing other OFTO assets provided the Company with confidence in the investment case and the pricing of the asset.

# Portfolio

Table 1 summarises the valuation and movements in the portfolio, as well as the return for each investment, for the period. As a result of the adoption of new accounting standards, described in detail in the 2014 Annual Report, “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 2015, £m)

| Portfolio assets | Directors' valuation 31 March 2015 | Investment in the period | Divestment in the period | Value movement | Foreign exchange translation | Directors' valuation 30 September 2015 | Profit/ (loss) on disposal | Underlying portfolio income in the period | Allocated foreign exchange hedging | Asset total return in the period |
|---|---|---|---|---|---|---|---|---|---|---|
| Economic infrastructure businesses | | | | | | | | | | |
| Elenia | **238.5** | - | (2.6)[1] | 51.4 | 3.8 | **291.1** | - | 9.4 | (2.6) | **62.0** |
| Anglian Water Group | **242.3** | - | - | 10.5 | - | **252.8** | - | 5.6 | - | **16.1** |
| Oystercatcher | **110.5** | 52.6 | - | 5.0 | (2.2) | **165.9** | - | 4.4 | 2.9 | **10.1** |
| ESVAGT | **-** | 111.1 | - | (0.3) | 0.9 | **111.7** | - | 0.4 | (0.6) | **0.4** |
| Cross London Trains | **99.8** | - | - | 4.4 | - | **104.2** | - | 2.4 | - | **6.8** |
| Eversholt Rail Group | **359.8** | - | (359.8) | - | - | **-** | - | 0.7 | - | **0.7** |
| | **1,050.9** | **163.7** | **(362.4)** | **71.0** | **2.5** | **925.7** | **-** | **22.9** | (0.3) | **96.1** |
| Primary PPP projects | | | | | | | | | | |
| Mersey Gateway Bridge | **-** | - | - | - | - | **-** | - | - | - | **-** |
| Ayrshire College | **-** | - | - | - | - | **-** | - | - | - | **-** |
| A12 | **-** | - | - | - | - | **-** | - | - | - | **-** |
| A9 | **-** | - | - | - | - | **-** | - | - | - | **-** |
| La Santé | **-** | - | - | - | - | **-** | - | - | - | **-** |
| RIVM | **-** | - | - | - | - | **-** | - | - | - | **-** |
| | **0.1** | **-** | **-** | **-** | **-** | **0.1** | **-** | **-** | - | **-** |
| Operational PPP projects | | | | | | | | | | |
| Elgin | **44.7** | - | (0.1) | 0.6 | - | **45.2** | - | 1.3 | - | **1.9** |
| Octagon | **42.2** | - | - | (0.4) | - | **41.8** | - | 2.1 | - | **1.7** |
| Dalmore | **17.4** | - | - | 0.5 | - | **17.9** | - | 0.5 | - | **1.0** |
| NMM | **4.6** | - | (0.1) | 0.7 | 0.1 | **5.3** | - | 0.1 | (0.1) | **0.8** |
| WODS | **-** | 23.5 | - | - | - | **23.5** | - | 0.2 | - | **0.2** |
| | **108.9** | **23.5** | **(0.2)** | **1.4** | **0.1** | **133.7** | **-** | **4.2** | (0.1) | **5.6** |
| India Fund | | | | | | | | | | |
| 3i India Infrastructure Fund | **63.2** | - | - | (5.7) | (4.4) | **53.1** | - | - | - | **(10.1)** |
| Total portfolio | **1,223.1** | 187.2 | (362.6) | 66.7 | (1.8) | **1,112.6** | - | 27.1 | (0.4) | **91.6** |
| Balance sheet adjustments related to unconsolidated subsidiaries[2] | **8.4** | - | (3.0) | (2.9) | - | **2.5** | - | - | - | **-** |
| Income statement adjustments related to unconsolidated subsidiaries[2] | **-** | - | - | - | | **-** | (0.1) | (2.2) | 3.0 | **(2.2)** |
| **Reported in the Consolidated financial statements** | **1,231.5** | **187.2** | **(365.6)** | **62.0** | **-** | **1,115.1** | **(0.1)** | **24.9** | 2.6 | **89.4** |

1. Capitalised income repaid in the period.
2. Income statement adjustments explained in Table 4 and Balance sheet adjustments explained in Table 5 in the Financial review.

## Investment and realisation activity

The Company was active in its key target markets, investing a total of £187.2 million during the period. Of this amount, £163.7 million was invested in two mid-market economic infrastructure investments, with the balance of £23.5 million invested in a low-risk energy project. In an environment of increased competition and rising prices, the investments are a strong endorsement of the Company's investment strategy and the Investment Adviser's ability to source attractive investment opportunities that are capable of delivering attractive risk-adjusted returns, in line with the Company's objectives.

In April 2015, as announced with the Company's full year results, the Company completed the sale of its investment in Eversholt Rail, crystallising a very strong return for shareholders, and generating net cash proceeds of £365 million.

During the period, the 3i India Infrastructure Fund completed the sale of its holding in Ind-Barath Energy Utkal. The transaction is expected to generate proceeds to the Company of approximately £7 million, an uplift of 14% over the underlying carrying value at 31 March 2015. The divestment is consistent with the India Fund's strategy of realising its investments over the next few years.

### Economic infrastructure businesses

On 7 July 2015, 3i Infrastructure and AMP Capital announced the joint acquisition of 100% of ESVAGT from Maersk. The transaction completed on 17 September 2015, following the receipt of clearance from the European Commission under the EU Merger Regulation. The Company invested £111.1 million (including transaction costs) to acquire its 50% interest. For more information on this investment, please refer to the new investment case study on page 15.

On 5 June 2015, following the receipt of the required regulatory approvals, the Company completed the acquisition of a 45% interest in each of Oiltanking Terneuzen B.V. ("OTT") in the Netherlands and Oiltanking Ghent N.V. ("OTG") in Belgium from Oiltanking GmbH. The total consideration for this investment was £77.8 million (including transaction costs), including £52.6 million in equity provided by the Company and £25.2 million of additional debt funding raised in Oystercatcher, which now holds these two investments alongside its existing 45% stakes in Oiltanking Amsterdam, Oiltanking Malta and Oiltanking Singapore. The investments are complementary additions to the Oystercatcher portfolio which will diversify its portfolio of oil storage terminals and deliver resilient cash flows to the Company. For more information on our Oystercatcher investment, please refer to the investment review on page 37.

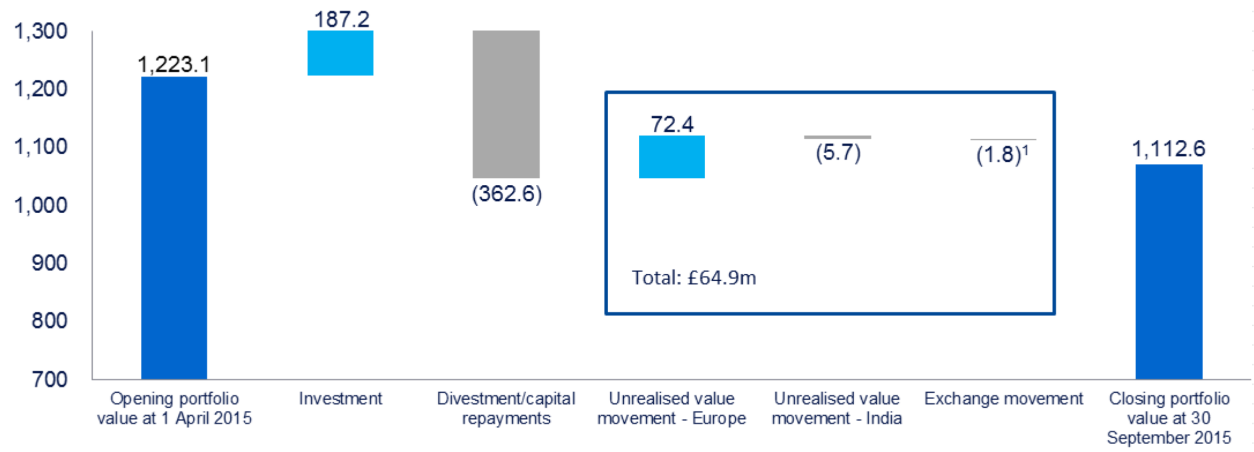
### Primary PPP and low-risk energy projects

The West of Duddon Sands ("WODS") OFTO project reached financial close on 21 August 2015, with 3i Infrastructure investing £23.5 million for its 50% holding. The project involves the acquisition, financing and operation of power transmission cables and associated electrical equipment connecting the WODS offshore wind farm to the onshore grid in the Irish Sea. For more information on this investment, please refer to the new investment case study on page 17.

## Movements in portfolio value

As set out in Chart 1, the portfolio assets were valued at £1,112.6 million at 30 September 2015, compared to £1,223.1 million at the beginning of the financial year. The movement in portfolio value was driven principally by investments and realisations during the period, as well as by good value growth for the European portfolio, offset in part by a decline in the value of the Company's holding in the India Fund and by foreign exchange retranslation.

**Chart 1 Reconciliation of the movement in portfolio value** (six months to 30 September 2015, £m)




1 Excludes movement in the foreign exchange hedging programme (see Table 3).

### Investment

The Company invested a total of £187.2 million in the period in three new investments. These investments are described on page 19.

### Divestment proceeds/capital repayments

The Company received aggregate proceeds of £365 million in the period, relating to the sale of its holding in Eversholt Rail, which completed on 16 April 2015. The sale generated no profit compared to the valuation of the investment as at 31 March 2015, as the asset was valued at its sales proceeds at that date.

The Company received proceeds of £2.6 million from Elenia and of £0.1 million from NMM relating to income capitalised in the previous financial year. In addition, the Company received £0.1 million in respect of a loan repayment from Elgin in the period.

### Unrealised value movement

The unrealised value movement in the period totalled £64.9 million (September 2014: £90.5 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 the table below.

**Table 2 Components of value movement** (six months to 30 September 2015, £m)

| Value movement component | Value movement in the period (£m) | Description |
|---|---|---|
| Planned value growth | 18.3 | 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 | 35.3 | 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. It also includes uplift to sales basis from last valuation. |
| Discount rate movement | 0.7 | Value movement relating to changes in the discount rate applied to the valuations. |
| Macro economic assumptions | 12.4 | 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. |
| **Total value movement before exchange** | **66.7** | |
| Foreign exchange retranslation | (1.8) | Movement in value due to currency retranslation to period-end rate. |
| **Total value movement** | **64.9** | |

The key drivers of the increase in portfolio value during the first half of the year were asset performance, which includes the uplift in value for Elenia, as described below, and planned value growth which together contributed to 82.6% of the total value movement in the period. There was limited impact from discount rate movements which contributed to only 1.1% of the total value movement in the period. The main driver of the changes in macro economic assumptions was low inflation and the improved regulatory returns for Elenia due to the improved Finnish 10-year gilt rate.

#### Economic infrastructure portfolio

The economic infrastructure portfolio was valued at £925.7 million at 30 September 2015 (March 2015: £1,050.9 million) and generated an unrealised value gain of £71.0 million in the period (or £73.5 million after exchange movements). This was driven by the continued robust operational performance of the underlying investments, principally by the valuation uplift for the Company's holding in Elenia.

**Elenia** was valued at £291.1 million at September 2015 (March 2015: £238.5 million), including foreign exchange gains of £3.8 million. During the period, the Finnish Energy Authority, which regulates electricity distribution in Finland, released a second draft of its guidelines for the next two regulatory periods (from January 2016 to December 2023). These refine and clarify the regulator's proposals to change the calculation of the allowed return on capital for the industry, and certain other parameters. While some aspects of the regulatory determination remain to be decided, this second draft reinforces the regulator's intent to address the low allowed return on capital experienced by all distribution companies over recent years. When taken together with the increase seen in the Finnish Government bond yield to which the allowed return remains linked, these new guidelines had a positive impact on the Company's valuation of Elenia at the September period end, resulting in an uplift of £51.4 million over the opening value. The publication of the final regulatory settlement is expected by the end of December 2015. These positive developments are reflected in our valuation and represent our best estimate of the carrying value for Elenia ahead of the publication of the final settlement. We have not made a reduction to the discount rate applied to the valuation of Elenia, which may be justified once the final settlement is agreed.

**AWG** was valued at £252.8 million at September 2015 (March 2015: £242.3 million). The business performed well during the period, with operational performance and income levels in line with expectations. The business is currently focused on implementing its efficiency and capital spending programmes and has made a good start against the targets for the 2015-2020 regulatory period, or AMP6, which began on 1 April 2015.

**Oystercatcher** was valued at £165.9 million at September 2015 (March 2015: £110.5 million), including foreign exchange losses of £2.2 million. Most of the increase over the period was attributable to the new investments in the OTT and OTG terminals, which are now held through the Oystercatcher vehicle, alongside the existing investments in Oiltanking Amsterdam, Oiltanking Malta and Oiltanking Singapore. The new investment is described on page 19. 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 continues to be impacted by its exposure to the euro and Singapore dollar exchange rate, and the underlying value gain was partly offset by the impact of currency movements. The euro and Singapore dollar exposures are partially hedged, as described below.

**XLT** was valued at £104.2 million at September 2015 (March 2015: £99.8 million). Delivery of the first unit is expected in the first half of 2016, with the delivery programme scheduled to complete in 2018.

### PPP and low-risk energy portfolio

The PPP and low-risk energy portfolio was valued at £133.8 million at September 2015, compared to £109.0 million six months earlier, reflecting the new investment in the WODS OFTO during the period, as well as the continued robust operational performance of the portfolio, offset in part by income receipts in the period and by the impact of lower than expected inflation. The discount rate used to value NMM was reduced during the period as the project became operational in the last financial year, generating a good value uplift for this asset of £0.7 million, or 15%.

### 3i India Infrastructure Fund

The India Fund was valued at £53.1 million at September 2015, compared to £63.2 million six months earlier, after exchange losses of £4.4 million as the Indian rupee declined against sterling in the period, as shown in Table 3. The negative value movement was due to a number of factors, including 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. During the period, the share price of Adani Power fell by 48%, resulting in a reduction in the value of the Company's holding of £3.5 million. Adani Power's share price has recovered since 30 September, and closed at 30.1 rupees per share on 5 November 2015, 22% above its closing price on 30 September 2015.

## Foreign exchange impact

As shown in Table 3, the reported net foreign exchange loss on investments of £2.2 million related mainly to the Company's exposure to the Indian rupee, which is not hedged and depreciated in value by 7% against sterling in the period.

In March 2014, the Board extended the Company's existing hedging policy to partially cover the Singapore dollar exchange rate risk that arises from the underlying investment in Oiltanking Singapore. This did not entirely offset losses on the Singapore dollar exposure during the period. More recently, the Board also extended the Company's hedging policy to partially cover the Danish krona exchange rate risk that arises from the investment in ESVAGT, which completed in July 2015.

There was a £2.6 million foreign exchange gain as the euro and Danish krona appreciated against sterling in the period. This was partially offset by a £0.4 million loss on the hedging programme.

**Table 3 Impact of foreign exchange movements on portfolio value** (six months to 30 September 2015, £m)

| | **£/rupee** | **£/€/SGD/DKK** | **Net impact** |
|---|---|---|---|
| Translation of unhedged assets (£/rupee) | (4.4) | | (4.4) |
| Translation of partially hedged assets (£/€/SGD/DKK) | | 2.6 | 2.6 |
| **Reported foreign exchange (losses)/gains on investments** | **(4.4)** | **2.6** | **(1.8)** |
| Movement in the fair value of derivative financial instruments (€/SGD/DKK hedging) | | (0.4) | (0.4) |
| **Net foreign exchange (losses)/gains** | **(4.4)** | **2.2** | **(2.2)** |

# Portfolio risks

The portfolio was affected by a number of specific regulatory and market risks during the period, which are expected to continue to have an impact over the second half of the financial year.

## Regulatory/political risks

During the period the Finnish Energy Authority, which regulates electricity distribution in Finland, released a second draft of its guidelines for the next two four-year regulatory periods (beginning in January 2016). These refine and clarify the regulator's proposals to change the calculation of the allowed return on capital for the industry, and certain other parameters. While some aspects of the regulatory determination remain to be decided, this second draft reinforces the regulator's intent to address the very low allowed return on capital experienced by all distribution companies over recent years. Further company specific matters were presented to Elenia by the regulator in October 2015. The publication of the final regulatory settlement is expected by the end of December 2015.

## Market risks

Interest rates remained low throughout the period. This had positive implications for some of the portfolio assets, including Elenia and AWG, which have been able to continue to raise debt on attractive terms. 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 rallied from a low of 0.2% in April 2015 to average 0.8% for the six month period. As at 30 September 2015, the Finnish 10-year government bond yield was 0.9%. This has had a positive impact on the valuation of the Company's holding in Elenia.

Inflation remained below expectations in the period, continuing to impact the assets with inflation-linked revenues. However, cost inflation has also been low across the portfolio. The impact of lower actual and forecast inflation in the period on the value of the Company's portfolio was £2.1 million.

## India

The India Fund's portfolio continued to be affected by a number of specific risks, including the depreciation of the Indian rupee against sterling. These are set out in the review on pages 44 to 46.

# 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 2015. During the period, the weighted average discount rate was updated to reflect the addition of the investments in ESVAGT, the two further Oiltanking terminals and of the WODS OFTO in the portfolio, as well as the increase in the weighting of Elenia in the calculation. As noted previously, the discount rate used to value the NMM PPP project was decreased in the period to reflect its status as an operational asset in the last financial year. These movements had no net impact on the weighted average discount rate, which remained at 10.2%, the position at the start of the financial year.

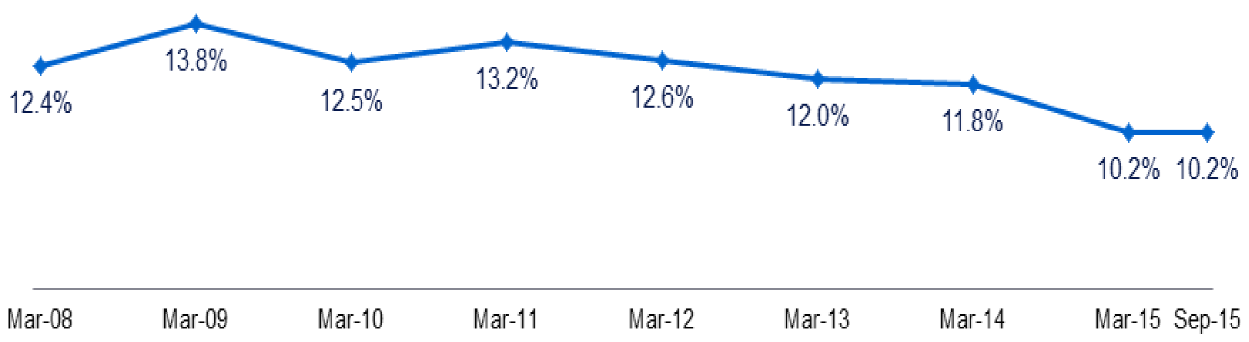
**3i India Infrastructure Fund and Dalmore Capital Fund**

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, Krishnapatnam Port was valued on the basis of consideration due under a put option, and Ind-Barath Utkal was valued based on the expected sales proceeds to be received from the India Fund. 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 2015, %)**



# 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.

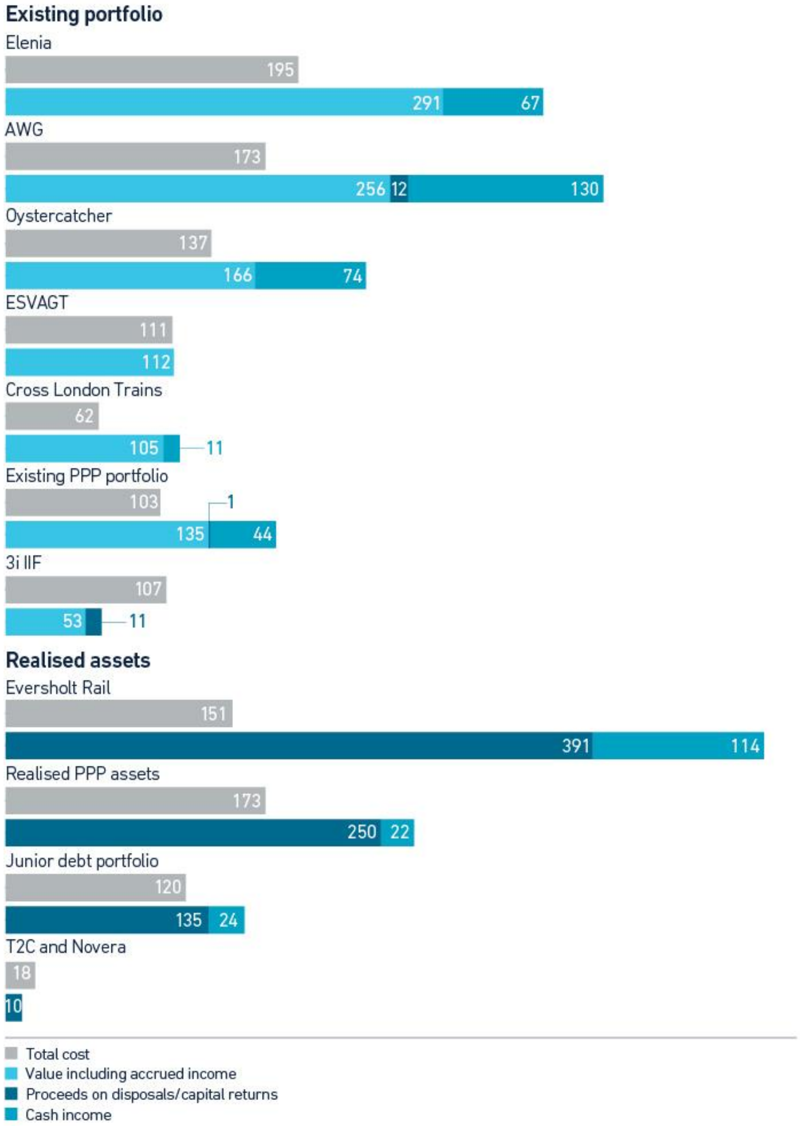
These have underpinned a 17% annualised IRR since the Company's inception. The economic infrastructure and PPP project portfolios, in particular, have generated strong returns, in line with, or in many cases ahead of, expectations.

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, $I^2$ 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

## Key financial measures

| | Six months to 30 September 2015 | Six months to 30 September 2014 |
|---|---|---|
| Total return | **£80.7m** | **£117.4m** |
| Net asset value per share | **153.8p** | **136.3p** |
| Portfolio income | **£27.1m** | **£32.6m** |
| Portfolio asset value[1] | **£1,112.6m** | **£1,067.9m** |
| Cash balances[1] | **£51.2m** | **£98.6m** |
| Total liquidity[2] | **£335.2m** | **£288.2m** |

1 Reconciliation of measures to the financial statement balances is set out in Table 5 on page 30.

2 Includes cash balances of £51.2 million and £284.0 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 generated from the sale or partial sale of portfolio assets above 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.

## Total return

3i Infrastructure generated a total return for the period of £80.7 million, representing a 6.5% return on opening shareholders' equity, adjusted on a time weighted average basis for the payment of the £150 million special dividend on 31 July 2015 (September 2014: £117.4 million, 10.8%).

The return was underpinned by the robust performance of the European portfolio and specifically by valuation uplift in the Company's holding in Elenia. This was partly offset by the weak performance of the India Fund and the impact of foreign exchange movements, as described on pages 20 to 22.

**Table 4 Summary total return** (six months to 30 September 2015, £m)

| | Underlying portfolio asset aggregate returns and costs | Adjustments for transactions in unconsolidated subsidiaries | Financial statements |
|---|---|---|---|
| Capital return | 64.9 | (3.0)[1] | 61.9 |
| Movement in fair value of derivatives | (0.4) | 3.0[1] | 2.6 |
| Total income | 27.7 | (2.2)[2] | 25.5 |
| | **92.2** | **(2.2)** | **90.0** |
| Costs | (11.9) | 2.1[2] | (9.8) |
| Other net income/(costs) | 0.4 | 0.1[2] | 0.5 |
| **Total return** | **80.7** | **-** | **80.7** |

1 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.

2 Costs of £2.2 million were incurred within unconsolidated subsidiaries, comprising predominantly fees paid directly to 3i Group (£2.1 million). These are reflected in income as they have reduced the income distributed from these subsidiaries.

### Capital return

Total capital return for the period was £64.9 million (September 2014: £91.3 million), all of which was an unrealised value gain (September 2014: £90.5 million).

#### Realised return

3i Infrastructure did not generate a realised capital gain over the carrying value in the period (September 2014: £0.8 million), as Eversholt Rail was valued at the expected sales proceeds at 31 March 2015.

#### Unrealised value movement, including foreign exchange movements

The portfolio generated an unrealised value gain of £64.9 million in the six months to 30 September 2015 (September 2014: £90.5 million). This comprised a £66.7 million value increase (September 2014: £111.1 million) and a £1.8 million foreign exchange loss (September 2014: £20.6 million loss).

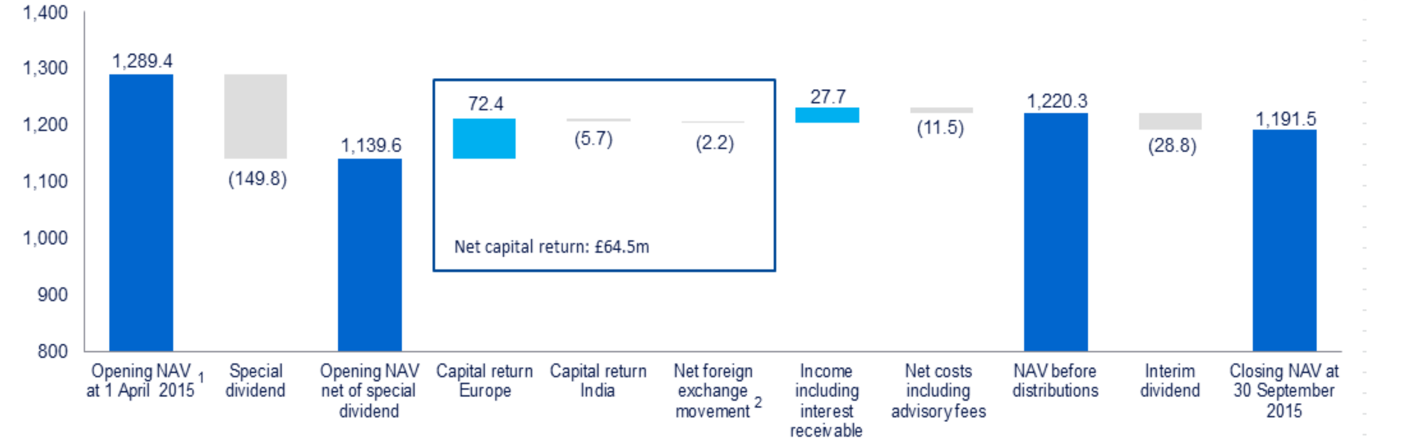
The European portfolio achieved good returns, driven by the valuation uplift for the Company's holding in Elenia. The solid performance of the European portfolio was offset in part by an unrealised value loss, including foreign exchange movements, of £10.1 million for the India Fund. These value movements are described on pages 20 to 22.

#### Net capital return

Net capital return, including the loss of £0.4 million in the fair value of foreign currency hedging derivatives, was £64.5 million (September 2014: £103.8 million), as shown in Chart 4 below.

Movements in the fair value of derivatives represents a loss of £0.4 million (September 2014: £12.5 million gain) in the fair value of the euro, Singapore dollar and Danish krona hedging programme. This partly offsets the foreign exchange gain in the European portfolio of £2.6 million (September 2014: loss of £20.3 million).

**Chart 4 Reconciliation of the movement in net asset value** (six months to 30 September 2015, £m)




1 Net of final dividend for the prior year.
2 Foreign exchange movements are described in Table 3 on page 22.

## Income

### Total income

Total income comprises portfolio income of £27.1 million (September 2014: £32.6 million) and interest receivable on cash balances of £0.6 million (September 2014: £0.2 million).

### Portfolio income

The portfolio generated income of £27.1 million in the period (September 2014: £32.6 million, including income of £7.8 million from the Company's interest in Eversholt Rail which was sold in April 2015). Of this amount, £9.8 million was through dividends (September 2014: £7.4 million) and £17.3 million through interest on shareholder loans (September 2014: £24.6 million). There were no arrangement fees for new primary PPP investments in the period (September 2014: £0.6 million).

The Company accrued interest of £9.4 million from Elenia in the period (September 2014: £10.3 million). The small period-on-period decline is attributable to a partial repayment of the shareholder loan in June 2014.

AWG paid a dividend of £3.2 million in the period; the Company also accrued interest of £2.4 million (September 2014: £5.7 million, £2.4 million). The dividend was lower than the dividend received in the comparable period last year due to the implementation of the regulatory settlement for the 2015-2020 regulatory period from 1 April 2015 and a generally conservative approach to distributions while UK inflation remains low.

The Company received a dividend of £4.4 million from Oystercatcher in the period (September 2014: nil). No income has yet been received from the investments in the OTT and OTG terminals added during the period. The Company did not accrue income from Oystercatcher in the corresponding period last year due to the costs associated with the refinancing of the debt in Oystercatcher which concluded in October 2014, and due to the impact on cash flows of the implementation of a significant capital expenditure programme in accordance with the new regulations being applied to the oil products storage sector in the Netherlands, as described on page 22.

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

The Company received interest payments of £0.7 million from Eversholt Rail (September 2014: £7.8 million), as the sale of the investment completed in April 2015, a few days into the financial period under review.

The PPP and low-risk energy investments generated income of £4.2 million (September 2014: £4.0 million, including £0.6 million of arrangement fees). Of this amount, £2.2 million was through dividends (September 2014: £1.7 million) and £2.0 million was through interest (September 2014: £1.7 million). This included accrued interest income of £0.2 million from the investment in the WODS OFTO project, which completed in August 2015.

Looking ahead, portfolio income is expected to increase from the second half of FY2016, 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 £0.6 million (September 2014: £0.2 million), reflecting an increase in the average cash balances held during the period compared to the first six months of last year following the sale of Eversholt Rail. The Company's cash balances generated interest at an average rate of 0.5% in the period (September 2014: 0.4%). At 30 September 2015, the Company's cash balances had reduced to £51.2 million, as a result of new investment activity and the payment of the ordinary and special dividends in the period.

## Costs

### Advisory fees and performance fees

During the six months to 30 September 2015, the Company and its unconsolidated subsidiaries incurred advisory fees of £7.5 million (September 2014: £7.1 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 primary PPP and low-risk energy transactions is 1.0%. For non-primary PPP 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. This hurdle was not achieved in the first half of the year, as the total return for the period was 6.5%. 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 59 and 60.

### Fees payable

Fees payable for costs in relation to transactions that did not reach, or have yet to reach completion, totalled a credit balance of £0.1 million, as 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 year. The transaction costs relating to investments, excluding those that were subsequently capitalised following completion of the investment, totalled £0.9 million at 30 September 2015. The comparable figure at the end of September last year stood at £1.8 million.

### Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £1.4 million in the period (September 2014: £1.3 million). The increase reflects the costs to the Company associated with the increased administration and activity to support the increased level of new investment.

Finance costs of £3.1 million (September 2014: £1.4 million) in the period comprise £1.6 million of arrangement, commitment and utilisation fees for the Company's £300 million revolving credit facility and costs of £1.5 million associated with cancelling the previously existing 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 1.41% for the period on an annualised basis (September 2014: 1.45%).

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. In the six-month period to September 2014 a performance fee was accrued and the ongoing charges ratio, including the performance fee, was 2.11%.

| | Six months to 30 September 2015 £m (annualised) | Six months to 30 September 2014 £m (annualised) |
|---|---|---|
| Investment Adviser's fee | 15.0 | 14.2 |
| Auditor's fee | 0.3 | 0.2 |
| Directors' fees and expenses | 0.5 | 0.4 |
| Other ongoing costs | 2.1 | 2.0 |
| **Total ongoing charges** | **17.9** | **16.8** |
| **Ongoing charges ratio** | **1.41%** | **1.45%** |

## Balance sheet

The net asset value at 30 September 2015 was £1,220.3 million (September 2014: £1,201.7 million). The principal components of the net asset value are the portfolio assets, cash holdings, the fair value of derivative financial instruments and other net assets and liabilities, principally relating to accrued interest.

The statutory 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 5 below.

At 30 September 2015, the Company's net assets totalled £1,220.3 million, or £1,191.5 million after the deduction of the interim dividend (September 2014: £1,201.7 million, £1,171.9 million), comprising the asset portfolio, valued at £1,112.6 million (September 2014: £1,067.9 million), cash and cash equivalents of £51.2 million (September 2014: £98.6 million), other financial assets of £34.2 million (September 2014: £17.8 million), net derivative financial instruments assets of £16.5 million (September 2014: £13.5 million) and other current assets of £9.7 million (September 2014: £15.1 million), primarily relating to accrued income from portfolio investments, offset by accrued transaction fees, advisory and other operating and financing costs of £3.9 million (September 2014: £11.2 million). A summary balance sheet is included in Table 5 below.

**Table 5 Summary balance sheet** (as at 30 September 2015, £m)

| | Underlying aggregate portfolio amounts and other balances | Adjustments for transactions in unconsolidated subsidiaries[1] | Financial statements |
|---|---|---|---|
| Portfolio assets | 1,112.6 | 2.5 | 1,115.1[2] |
| Cash balances | 51.2 | (0.8)[3] | 50.4 |
| Financial assets | 34.2 | - | 34.2 |
| Derivative financial instruments | 16.5 | (0.9)[4] | 15.6 |
| Other net assets | 5.8 | (0.8) | 5.0 |
| **Net asset value** | **1,220.3** | **-** | **1,220.3** |

1 "Investments at fair value through profit and loss" in the statutory Financial statements includes £0.8 million of unrestricted cash balances and £0.8 million of other net assets within intermediate unconsolidated holding companies and a £0.9 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 £0.8 million.
4 A £0.9 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.

## Cash and other financial assets

Cash balances at 30 September 2015 totalled £51.2 million (September 2014: £98.6 million), including £0.8 million (September 2014: £1.1 million) of unrestricted cash balances held within intermediate unconsolidated holding companies. In addition, an amount of £34.2 million (September 2014: £17.8 million), held on the balance sheet as "Other financial assets", comprises cash held on deposit in third-party bank accounts on behalf of the Mersey Gateway Bridge, Ayrshire College and A9 projects.

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

## Revolving credit facility

On 7 May 2015, the Company renewed its Revolving Credit Facility ("RCF") and increased the size of the facility from £200 million to £300 million. This, alongside the decision by the Board to return £150 million of capital to shareholders from the sale of Eversholt Rail, was in line with the Company's objective to minimise returns dilution from holding excessive cash balances, while maintaining a good level of liquidity for further investment. The new facility is a three year facility. 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 rights to request one or two-year extensions to the maturity date of the facility, which may be granted at the discretion of each lender individually.

At 30 September 2015, the RCF had been used to issue letters of credit for €4.8 million (£3.5 million) for the undrawn commitment to the RIVM primary PPP project, €5.3 million (£3.9 million) for the undrawn commitment to the A12 primary PPP project and €11.7 million (£8.6 million) for the undrawn commitments to the La Santé primary PPP project.

## Return of capital and share consolidation

Following the completion of the sale of Eversholt Rail in April, on 12 May 2015, the Company announced that it would return £150 million to shareholders by way of a special dividend of 17.0 pence per share, to enable shareholders to participate in the exceptional sale of the asset. The Company also announced a 9 for 10 share consolidation, which was subject to shareholder approval at the Extraordinary General Meeting ("EGM"), to neutralise the impact of the payment of the special dividend on the share price. The share consolidation was approved by the shareholders and the share consolidation was implemented shortly after the EGM on 8 July 2015. The special dividend was paid to shareholders on 31 July 2015.

## Net asset value per share

The total net asset value per share at 30 September 2015 was 153.8p (September 2014: 136.3p). This reduces to 150.2p (September 2014: 133.0p) after the payment of the interim dividend of 3.625p. There are no dilutive securities in issue.

The movement in NAV per share in the period includes a 2.6 pence per share reduction resulting from the share consolidation and special dividend payment implemented in July. The share consolidation ratio was based on a share price of 168.8 pence per share (being the share price on 1 June 2015, the date of the publication of the EGM circular). In line with market practice, the share consolidation targeted share price consistency, rather than consistency in NAV per share. As the share price was at a premium to NAV per share at the time of the consolidation, a reduction of 2.6 pence to NAV per share resulted from the share consolidation and special dividend payment.

## Dividend and dividend cover

The Board has proposed a dividend for the period of 3.625 pence per share, or £28.8 million in aggregate (September 2014: 3.38 pence; £29.8 million). This is in line with the Company's target of paying a full year dividend for FY2016 of 7.25 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 2015, total income and interest, including non-income cash distributions from portfolio companies, amounted to £28.6 million (September 2014: £36.7 million). For dividend cover, operational costs relating to advisory fees, operating expenses and financing costs, totalled £12.0 million for the period (September 2014: £9.8 million). The interim dividend cover shortfall of £12.2 million which was expected following the sale of Eversholt Rail and accommodated in the Company's cash flow planning, is covered from the amounts available for distribution as dividend as detailed above. The Board is therefore proposing that the interim dividend payment is made in line with the Company's FY2016 full year dividend target. The retained amount available for distribution, following the payment of the interim dividend, will be £75.5 million.

# Key financial risks

The principal financial risks faced by the Company in the period were in relation to movements in foreign exchange rates and potential changes to future taxation which may impact the valuation of the portfolio.

## Foreign exchange

There was currency volatility in the period, with the euro appreciating 1.6% against sterling and the Indian rupee depreciating 7.0% against sterling, in the six months to the end of September. The Company's objective is to hedge partially its euro exposure and the Singapore dollar exposure (associated with the investment in Oiltanking Singapore within the Oystercatcher valuation). During the period, the hedging programme was extended to cover the Company's exposure to the Danish krona, arising through the investment in ESVAGT, which completed in July 2015. The revaluation of the hedging programme for both 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 loss 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.

## Taxation

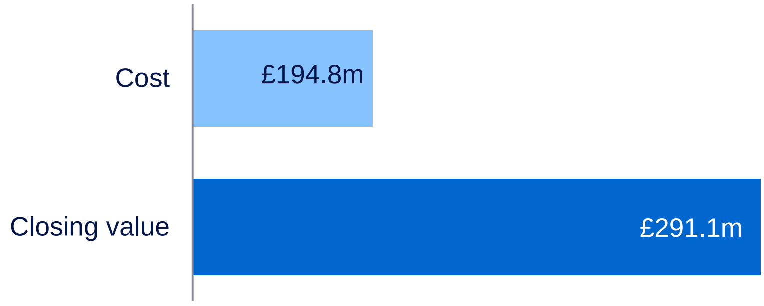
During October 2015, the OECD's Base Erosion and Profit Shifting ("BEPS") project announced a set of proposals for changes designed to tighten international tax regimes and prevent tax planning strategies used by multinational businesses to artificially shift profits to low tax jurisdictions. The Company 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.

Although the October announcements mark a significant milestone for the BEPS project, the Company and the Investment Adviser need to, and 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 OECD itself has noted that it needs to carry out further work and deliver further detail during 2016 on some of the proposals. 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 Company and the Investment Adviser will continue to monitor developments and consider the necessary actions.

# Review of investments

## Elenia

### Performance in the period

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|---|---|
| Equity interest | **39.3%** |
| Opening value | **£238.5m** |
| Income in the period | **£9.4m** |
| Divestment in the period[1] | **£(2.6)m** |
| Value movement in the period | **£51.4m** |
| Net exchange movement in the period[2] | **£1.2m** |
| Asset total return in the period | **£62.0m** |
| Valuation basis | **DCF** |

1 Capitalised income repaid in the period.

2 Exchange movement of £3.8 million net of allocated foreign exchange hedging movements of £(2.6) million.

### Description

Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 415,000 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.

The investment is held through 3i Networks Finland LP, an intermediary limited partnership which is managed by the Investment Adviser.

### Investment rationale

The Company purchased Elenia from Vattenfall AB in January 2012 in a consortium with 3i Group plc, GS Infrastructure Partners and Ilmarinen Mutual Pension Insurance Company.

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.

The consortium has engaged with the management team of Elenia to update and enhance its capital expenditure plans to improve network reliability. Since acquisition in January 2012, Elenia has invested more than €250 million in developing its electricity network, with a particular emphasis on improving service reliability and weather proofing. The rate of underground cabling has improved from 23.3% to 32.0% as at 30 June 2015. A number of acquisitions have also been examined, with the first bolt-on acquisition of an adjacent network completed in August 2012.

Throughout the period of ownership, the consortium has supported the management team in its dialogue with the regulator. The regulator introduced a new security of supply incentive, aimed at improving the reliability of electricity supply in response to outages caused by severe weather conditions in 2011 and 2012, effective from January 2014, and more recently confirmed a revised approach to asset depreciation. These had a positive effect on returns.

In July 2014, Elenia became the first electricity distribution network in Europe and second in the world to receive ISO 55001 certification. ISO 55001 is a set of international standards establishing best practice for the systems and operations of companies in asset-intensive industries.

## Developments in the period

Overall, both businesses continued to perform well operationally and financially, despite warmer than average weather conditions reducing demand.

During the period the Finnish Energy Authority, which regulates electricity distribution in Finland, released a second draft of its guidelines for the next two four-year regulatory periods (beginning in January 2016). These refine and clarify the regulator’s proposals to change the calculation of the allowed return on capital for the industry, and certain other parameters. While some aspects of the regulatory determination remain to be decided, this second draft reinforced the regulator’s intent to address the very low allowed return on capital experienced by all distribution companies over recent years. The positive impact that the implementation of these proposals would have on Elenia’s future cash flows, together with the impact of the increase seen in the Finnish Government bond yield to which the allowed return remains linked, led to a value uplift in the Company’s investment in Elenia of £51.4 million over the period. Publication of the final regulatory settlement is expected by the end of December 2015.

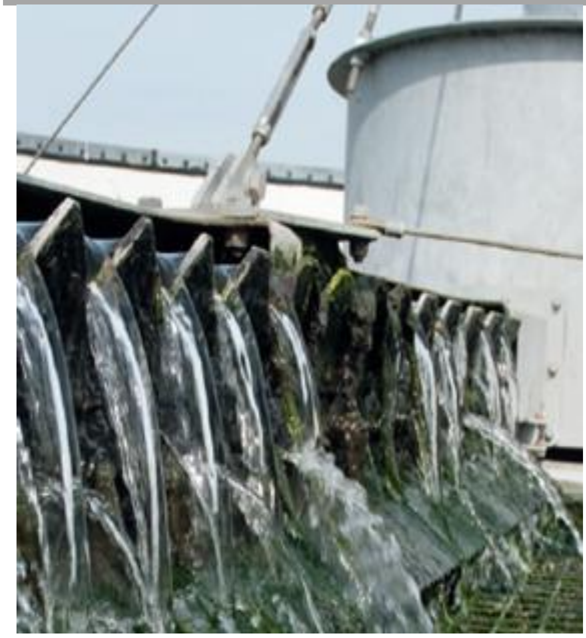
During the period, Elenia was able to continue to take advantage of the favourable credit market conditions, issuing a new bond with a maturity to 2030, on attractive terms, which it used to repay bank debt and fund capex.

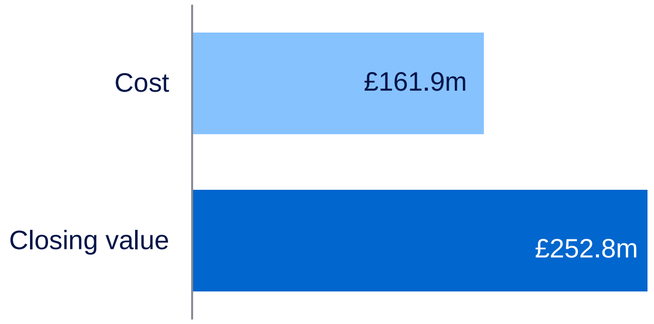
On 1 August 2015, Tommi Valento, formerly Group Treasurer at Pohjolan Voima Oy, was appointed as CFO of the business, replacing Aapo Nikunen.

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.

# Anglian Water Group

## Performance in the period






| | |
|---|---|
| Equity interest | **10.3%** |
| Opening value | **£242.3m** |
| Income in the period | **£5.6m** |
| Value movement in the period | **£10.5m** |
| Asset total return in the period | **£16.1m** |
| Valuation basis | **DCF** |

## Description

Anglian Water Group Limited ("AWG") 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 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"). 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.

## Developments in the period

AWG performed well during the period, 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 the 2015-2020 regulatory period, which began on 1 April 2015. As part of the regulatory settlement for AMP6, AWG also has a set of Outcome Delivery Incentives. These are key operational performance parameters against which AWG will be judged and which carry material financial incentives and penalties. The business, with input from the Investment Adviser and other shareholders, is currently implementing initiatives to optimise performance against these parameters.

The core water business continues to perform well operationally. Revenues were down on the prior period due to the regulatory reduction in average bills from 1 April 2015. This was partially offset by underlying customer growth in the region and realised efficiencies in operating and maintenance costs relative to the regulatory determination. There have been no major operational incidents and water resource levels are normal for this point in the year.

The Water Act became law in 2014, setting out a number of changes to the structure of the industry, including placing water supply resilience at the heart of decision-making in the sector, extending competition for business customers and changing the abstraction regime to encourage more efficient use of water resources. Most of the changes in the Water Act had been well signalled and, as a top performing company, with a large residential customer base and a strong reliance on reservoir and ground water resources rather than abstraction from rivers, AWG is well placed to accommodate the proposed changes. However, the structural nature of market liberalisation means that increasing amounts of management time will be consumed over the next few years as AWG works towards the non-household retail market opening in April 2017.

On 1 April 2015, Stephen Billingham, former CFO of British Energy and currently chairman of Punch Taverns, took over as chairman of AWG from Robert Napier. In addition during April, John Hirst, formerly CEO of the Met Office, Steve Good, former CEO of Low & Bonar, and Polly Courtice, a Director of the University of Cambridge Institute for Sustainability Leadership, were appointed to the Board as non-executive directors.

As expected, distributions were lower in the period on a like-for-like basis due to the implementation of the regulatory settlement for AMP6 and a generally conservative approach to distributions while UK inflation remains low.

# Oystercatcher

## Performance in the period


| | |
|---|---|
| Equity interest | **45%** |
| Opening value | **£110.5m** |
| Investment in the period | **£52.6m** |
| Income in the period | **£4.4m** |
| Value movement in the period | **£5.0m** |
| Net exchange movement in the period[1] | **£0.7m** |
| Asset total return in the period | **£10.1m** |
| Valuation basis | **DCF** |

Note: Opening cost was £84.5 million.

1 Exchange movement of £(2.2) million net of allocated foreign exchange hedging movements of £2.9 million.

## Description

Oystercatcher Luxco 2 S.à r.l. ("Oystercatcher") is the holding company through which the Company invested in 45% interests in five subsidiaries of Oiltanking GmbH ("Oiltanking"), located in the Netherlands, Malta, Singapore and Belgium.

These businesses provide over 5.0 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;
- the strong market position of the terminals and the diversity of location has hedged the overall impact to the portfolio of oil price volatility on storage rates at the point of contract renewal;
- 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 approved in 2008 to accommodate increasing demand from adjacent refineries and petrochemical industries. This was completed in June 2009, with the capacity let on a use-or-pay basis under a long-term contract to an existing customer. 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. Several smaller investments were approved to upgrade throughput and customer service. In Malta, investment in a new 13,000 cubic metre tank was approved in 2011, 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 further diversified 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.

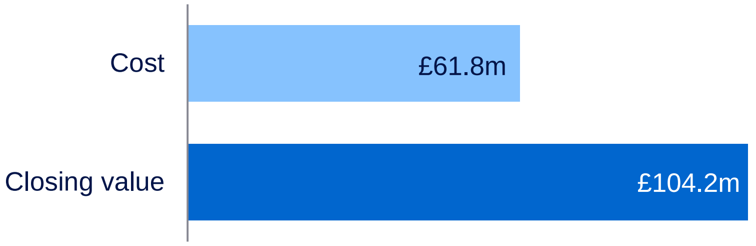
## Developments in the period

During the period, 3i Infrastructure completed its investment of 45% interests in two further Oiltanking terminals in Ghent in Belgium and Terneuzen in the Netherlands. Of the total £78 million consideration for these investments, £25.2 million was funded by additional debt in Oystercatcher, which now holds the two investments alongside its existing 45% interest in Oiltanking Amsterdam, Oiltanking Malta and Oiltanking Singapore.

The market conditions for trading customers improved during the period, with periods of contango (when the spot or cash price of a commodity is lower than the forward price) in key product markets. This was offset by a reduction in demand for storage of certain products in parts of Europe, and by additional storage capacity coming on line in the Singapore region. However, 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.

# Cross London Trains ("XLT")

## Performance in the period




| | |
|---|---|
| Equity interest | **33.3%** |
| Opening value | **£99.8m** |
| Income in the period | **£2.4m** |
| Value movement in the period | **£4.4m** |
| Asset total return in the period | **£6.8m** |
| Valuation basis | **DCF** |

## 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 expected in early 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

Siemens has made good progress in the manufacture and testing of the fleet of 115 trains. The first ten trains have been completed and are now undergoing testing. A senior management team was installed at XLT, comprising a new 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 ("NR") and the new franchise holder, Govia Thameslink Railway ("GTR").

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

The investment has been immediately accretive to the Company through interest payments, and generates an attractive yield.

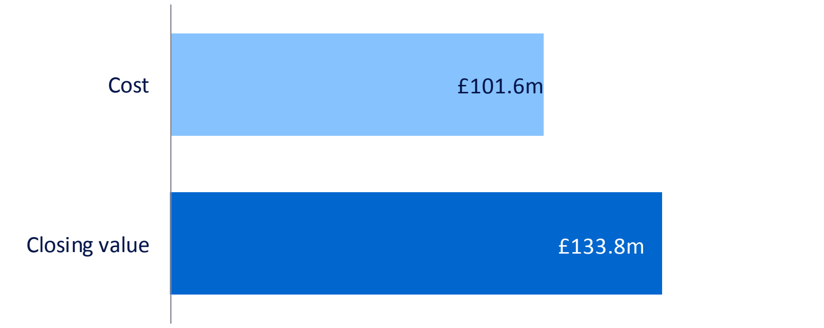
GTR has now been the holder of the Thameslink franchise since September 2014 and XLT has built a good working relationship with its management team.

## Developments in the period

During the period, Siemens has continued to deliver trains to its test track in Germany and two trains are now in the UK for testing. The focus is now on the acceptance of units for passenger service in the UK, a complex process driven by GTR as franchise holder, which also involves multiple third-party stakeholders, as well as Siemens, XLT and Eversholt Rail. GTR is ultimately responsible for the safe operation of the trains, while NR has to deliver the underlying infrastructure. Acceptance of the first unit by GTR is expected in the first half of 2016, with the delivery programme scheduled to complete in 2018.

# PPP and low-risk energy portfolio

## Performance in the period


| | |
|---|---|
| Opening value | **£109.0m** |
| Investment in the period | **£23.5m** |
| Income in the period | **£4.2m** |
| Value movement in the period | **£1.4m** |
| Net exchange movement in the period[1] | **-** |
| Asset total return in the period | **£5.6m** |
| Valuation basis | **DCF and LP share of funds for Dalmore** |

Notes: In addition to the value of the investments shown above (Elgin, Octagon, Dalmore, NMM and WODS), the Company also has undrawn commitments to primary PPP projects totalling £50.2 million. The total invested and committed portfolio value at 30 September 2015 was £184.0 million.
Opening cost was £78.3 million.

1 Exchange movement of £0.1 million net of allocated foreign exchange hedging movements of £(0.1) million.

## Description

### Primary project portfolio

**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 Fomento de Construcción y Contratas, a Spanish construction company, is invested in a vehicle that holds a 25% interest in the project.

**Ayrshire College**, a 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. Completion of construction is expected in May 2016. 3i Infrastructure has a 100% 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$^2$ facility comprising an office building and laboratories on the site of Utrecht Science Park. Completion of construction is expected in November 2018. 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.

**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. Construction is expected to be completed by the end of 2016. 3i Infrastructure has an 80% interest in the project, through Heijmans Capital BV.

**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.

### Operational PPP and low-risk energy portfolio

**Elgin** is 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** is 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.

**Dalmore Capital Fund** is 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** is 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. The construction of the project was completed in September 2014, and the project became operational in the last financial year. The facility exhibits military equipment and holds various related events including workshops and symposia on military research. The project is owned by Heijmans Capital BV.

**WODS OFTO** is a project jointly owned by 3i Infrastructure and PPP Equity PIP L.P., a fund managed by Dalmore Capital. The project involves the acquisition, financing and operation of power transmission cables and associated electrical equipment connecting the WODS offshore wind farm to the onshore grid in the Irish Sea. 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 will generate a cash yield for investors within the first year of operations.

## 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 assets in the PPP 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 principally due 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, $I^2$ and Alpha Schools at material uplifts over cost in 2008, 2009 and 2013 respectively, generating an aggregate IRR of 30%.

## Developments in the period

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

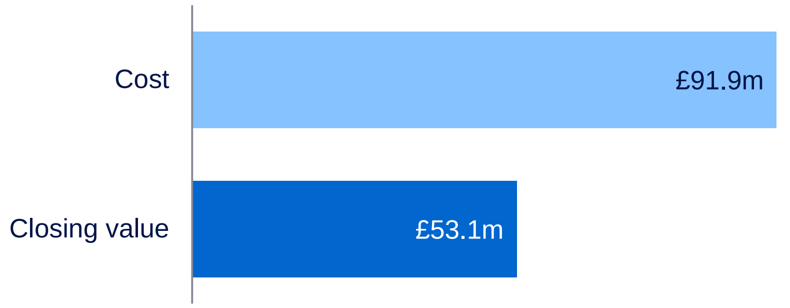
- Elgin is performing in line with expectations and all service providers are performing well.
- Octagon performed well in the period and has maintained its strong working relationship with the NHS Trust (despite significant pressures on the Trust as a result of increased budgetary constraints) and with Serco, which continues to provide a good service to the Trust.
- NMM became operational in September 2014. The discount rate used to value NMM was reduced during the period as it became operational in the last financial year, generating a value uplift of £0.7 million, or 15%. The investment is expected to provide sustainable long term yield for the Company. The first distributions from NMM were received in September 2015.
- The Dalmore portfolio now comprises 46 investments, which overall are performing to plan.

The Company's primary PPP portfolio is performing well, with construction proceeding to plan and within budget.

During the period, the Company reached financial close on its £23.5 million investment in a 50% holding in the West of Duddon Sands OFTO project. This is the first OFTO to have been acquired by the Company, however the Investment Adviser has extensive experience of managing OFTOs as a member of the Blue Transmission consortium, of which it has been a member since 3i Group's acquisition of the Barclays Infrastructure platform in November 2013. The Blue Transmission partnership currently manages four other OFTOs. For further details on the WODS investment please see page 17.

# 3i India Infrastructure Fund

## Performance in the period




| | |
|---|---|
| Partnership interest | **20.9%** |
| Opening value | **£63.2m** |
| Value movement in the period | **£(5.7)m** |
| Exchange movement in the period | **£(4.4)m** |
| Asset total return in the period | **£(10.1)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 2015, the India Fund was invested in a portfolio of six assets in the power and transportation sectors.

### Transportation

The investments in the Transportation sector accounted for 70% of the India Fund's value at 30 September 2015.

**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, aggregating 770km 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.

### Power

The investments in the Power sector accounted for 30% of the India Fund's value at 30 September 2015.

**Adani Power** focuses on the development and operation of power plants and the sale of power generated. With operational capacity of 10,440MW, it is currently the largest independent private power producer in India in terms of operating capacity.

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

**Ind-Barath Utkal** has built a 700MW coal-fired power plant in the state of Odisha. This investment was sold by the India Fund in the period.

## Investment rationale

The investment case underpinning the Company's commitment to the India Fund in 2007 can be summarised as follows:

- there was much need for infrastructure investment in India, with the infrastructure deficit in the country providing opportunity for private investment;
- the Indian Government was actively seeking and encouraging private investment in infrastructure development;
- the investment in the India Fund offered 3i Infrastructure exposure to a diversified pool of assets and larger investments than the Company could access on its own account, at no additional cost to the Company; and
- the India Fund was well positioned, with an established presence in its market through its investment manager.

## Achievements in the period of ownership

The India Fund reached the end of its investment period in November 2012 and now has a diversified portfolio of assets in the power, ports and roads sectors, in line with its mandate. 3i Investments, which manages the India Fund, is focused on monitoring the portfolio and on realising value from the portfolio over the next two to three years, as market conditions allow. To date, the Fund has sold approximately 54% of its holding in Adani Power, and in the period sold its entire holding in Ind-Barath Utkal, the proceeds from which will be received in the second half of the year.

The valuation of the India Fund's assets has been affected by a number of market and other external factors over its life, including the depreciation of the Indian rupee against sterling. At 30 September 2015, the India Fund's net asset value was 0.78x its investment cost in rupee terms, and 0.59x in sterling terms. Overall, the Board is satisfied that appropriate action is being taken to manage the performance of the India Fund's assets within the constraints of the macro economic and market challenges.

## Developments in the period

Overall the performance of the investments in the India Fund remained weak in the period. The Modi government, elected in May 2014, has made a number of important policy statements in support of investment in the infrastructure sector. However, these statements have yet to translate into concrete initiatives that can improve the performance of the portfolio materially.

During the period, the Indian rupee depreciated significantly against sterling, resulting in a foreign exchange loss of £4.4 million.

### Transportation

The India Fund's transportation assets were valued in aggregate at £37.4 million at 30 September 2015 (March 2015: £39.9 million).

The road investments continue to be adversely impacted by slow project execution and cash flow constraints for many companies in the construction sector. A number of the construction companies have restructured their debt obligations. These pressures are affecting all three of our road assets. The Investment Adviser continues to work with Soma Enterprise, KMC Roads and Supreme Roads to address their ongoing issues.

Krishnapatnam Port continues to witness strong growth in traffic, led by the increase in coal imports, particularly by power plants located in the immediate vicinity of the port. On 30 September 2013, the India Fund exercised a put option over its holding in the company. The consideration due under the put option has not been paid and the India Fund is seeking to enforce its rights through legal action, including arbitration proceedings. The first hearing of the arbitration panel took place during the period, the outcome of which was satisfactory for the Fund. Further hearings are scheduled to take place in 2016.

## Power

The power sector investments were valued in aggregate at £15.7 million at 30 September 2015 (March 2015: £20.3 million). The factors affecting their performance have remained broadly unchanged, and include:

- the availability of domestic coal: Coal India continues to struggle to match supplies with the contracted demand from power producers and the resulting shortfall is being made up with expensive imports. In addition, in 2014, the Supreme Court cancelled over 200 coal licenses awarded to private sector operators, which has exacerbated the problem in the short term;
- the availability of gas: production from India's main gas fields has declined dramatically in recent years and today little gas is available for power production.

The Indian government has been working to resolve some of these issues, increasing the regulated price of gas to encourage increased exploration and production and developing a mechanism to allow power producers to pass through increased fuel costs through higher tariffs under existing long-term power purchase agreements ("PPAs"). However, the Supreme Court has ruled against these proposed changes to PPA tariffs, and the matter has been referred to the Regulator.

During the last financial year, the Investment Adviser sold approximately 54% of its holding in Adani Power, at an average price of 54 rupees per share. Shares in Adani Power declined from 47.3 rupees per share at 31 March 2015 to 24.7 rupees at 30 September 2015. This poor performance has been due principally to the ongoing tariff renegotiation dispute, high fuel costs and the impact of the depreciating rupee. Since the period end, the share price has recovered, closing at 30.1 rupees per share on 5 November 2015.

GVK continues to face gas availability issues, further delays and cost escalations in completion of its construction projects and was one of the companies to have a coal mining licence withdrawn by the Supreme Court. These factors together have increased funding requirements. However, in the period, the Alaknanda hydro power project was fully commissioned and is now operating well.

During the period, the India Fund sold its entire holding in Ind-Barath Utkal. Proceeds to 3i Infrastructure of approximately £7 million are expected in the second half of the year.

# Financials and other information

## Independent review report to the shareholders of 3i Infrastructure plc

**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 2015 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 2015 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: 5 November 2015

# Consolidated statement of comprehensive income

for the six months to 30 September 2015

| | Notes | Six months to 30 September 2015 (unaudited) £m | Six months to 30 September 2014 (unaudited) £m | Year to 31 March 2015 (audited) £m |
|---|---|---|---|---|
| Realised (losses)/gains over fair value on the disposal of investments | | **(0.1)** | 0.8 | 14.5 |
| Net gains on investments at fair value through profit or loss | 4 | **62.0** | 90.5 | 236.5 |
| | | **61.9** | 91.3 | 251.0 |
| Portfolio income | | | | |
| Investment income | | **24.9** | 29.9 | 58.1 |
| Fees payable on investment activities | | **0.1** | (1.8) | (6.1) |
| Fees receivable on investment activities | | **-** | 0.6 | 1.5 |
| Interest receivable | | **0.6** | 0.2 | 0.3 |
| **Investment return** | | **87.5** | 120.2 | 304.8 |
| | | | | |
| Advisory, performance and management fees payable | 2 | **(5.4)** | (12.6) | (56.0) |
| Operating expenses | | **(1.4)** | (1.3) | (2.8) |
| Finance costs | | **(3.1)** | (1.4) | (3.2) |
| Unrealised (losses)/gains on the fair value of derivative financial instruments | | **(4.8)** | 12.0 | 23.3 |
| Net realised gains over fair value on the settlement of derivative financial instruments | | **7.4** | 0.5 | 1.4 |
| Other income | | **0.7** | 0.3 | 1.1 |
| Exchange movements | | **(0.2)** | (0.3) | (1.8) |
| **Profit before tax** | | **80.7** | 117.4 | 266.8 |
| Income taxes | 3 | **-** | - | - |
| **Profit after tax and profit for the period** | | **80.7** | 117.4 | 266.8 |
| **Total comprehensive income for the period** | | **80.7** | 117.4 | 266.8 |
| **Earnings per share** | | | | |
| Basic and diluted (pence) | 6 | **9.6** | 13.3 | 30.3 |

# Consolidated statement of changes in equity

for the six months to 30 September 2015

| For the six months to 30 September 2015 (unaudited) | Stated capital account £m | Retained reserves £m | Total equity £m |
|---|---|---|---|
| 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 | - | (181.7) | (181.7) |
| **Closing balance at 30 September 2015** | 181.6 | 1,038.7 | 1,220.3 |

| For the six months to 30 September 2014 (unaudited) | Stated capital account £m | Retained reserves £m | Total equity £m |
|---|---|---|---|
| Opening balance at 1 April 2014 | 181.6 | 932.2 | 1,113.8 |
| Total comprehensive income for the period | - | 117.4 | 117.4 |
| Dividends paid to shareholders of the Company during the period | - | (29.5) | (29.5) |
| Closing balance at 30 September 2014 | 181.6 | 1,020.1 | 1,201.7 |

| For the year to 31 March 2015 (audited) | Stated capital account £m | Retained reserves £m | Total equity £m |
|---|---|---|---|
| Opening balance at 1 April 2014 | 181.6 | 932.2 | 1,113.8 |
| Total comprehensive income for the year | - | 266.8 | 266.8 |
| Dividends paid to shareholders of the Company during the year | - | (59.3) | (59.3) |
| Closing balance at 31 March 2015 | 181.6 | 1,139.7 | 1,321.3 |

# Consolidated balance sheet

as at 30 September 2015

| | Notes | 30 September 2015 (unaudited) £m | 30 September 2014 (unaudited) £m | 31 March 2015 (audited) £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investments at fair value through profit or loss | 4 | **1,115.1** | 1,068.5 | 1,231.5 |
| **Investment portfolio** | | **1,115.1** | 1,068.5 | 1,231.5 |
| Derivative financial instruments | 4 | **19.2** | 11.1 | 24.4 |
| **Total non-current assets** | | **1,134.3** | 1,079.6 | 1,255.9 |
| **Current assets** | | | | |
| Derivative financial instruments | 4 | **9.4** | 7.3 | 11.9 |
| Trade and other receivables | | **9.2** | 14.8 | 13.0 |
| Other financial assets | | **34.2** | 17.8 | 33.9 |
| Cash and cash equivalents | | **50.4** | 97.5 | 72.5 |
| **Total current assets** | | **103.2** | 137.4 | 131.3 |
| **Total assets** | | **1,237.5** | 1,217.0 | 1,387.2 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Derivative financial instruments | 4 | **(5.1)** | (2.4) | (6.0) |
| Trade and other payables | | **(1.2)** | - | (0.5) |
| **Total non-current liabilities** | | **(6.3)** | (2.4) | (6.5) |
| **Current liabilities** | | | | |
| Derivative financial instruments | 4 | **(7.9)** | (2.5) | (6.6) |
| Trade and other payables | | **(3.0)** | (10.4) | (52.8) |
| **Total current liabilities** | | **(10.9)** | (12.9) | (59.4) |
| **Total liabilities** | | **(17.2)** | (15.3) | (65.9) |
| **Net assets** | 1 | **1,220.3** | 1,201.7 | 1,321.3 |
| **Equity** | | | | |
| Stated capital account | 5 | **181.6** | 181.6 | 181.6 |
| Retained reserves | | **1,038.7** | 1,020.1 | 1,139.7 |
| **Total equity** | | **1,220.3** | 1,201.7 | 1,321.3 |
| **Net asset value per share** | | | | |
| Basic and diluted (pence) | 6 | **153.8** | 136.3 | 149.9 |

The financial statements and related Notes on pages 48 to 60 were approved and authorised for issue by the Board of Directors on 5 November 2015 and signed on its behalf by:

**Steven Wilderspin**
Director

# Consolidated cash flow statement

for the six months to 30 September 2015

| | Six months to 30 September 2015 (unaudited) £m | Six months to 30 September 2014 (unaudited) £m | Year to 31 March 2015 (audited) £m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Purchase of investments | **(187.2)** | - | (2.6) |
| Investment in other financial assets | **-** | (4.6) | (22.1) |
| Proceeds from partial realisations of investments | **5.7** | 19.4 | 26.8 |
| Proceeds from full realisations of investments | **360.6** | - | - |
| Investment income[1] | **29.8** | 27.5 | 49.5 |
| Fees received on investment activities | **-** | 0.6 | 1.4 |
| Fees paid on investment activities | **(4.2)** | (0.9) | (1.8) |
| Operating expenses paid | **(1.6)** | (1.4) | (2.6) |
| Interest received | **0.6** | 0.2 | 0.3 |
| Advisory and performance fees paid | **(51.2)** | (5.1) | (10.3) |
| Amounts received on the settlement of derivative contracts | **14.3** | 2.2 | 5.1 |
| Amounts paid on the settlement of derivative contracts | **(3.0)** | (0.6) | (0.9) |
| Temporary loan repaid to unconsolidated subsidiaries | **-** | (0.1) | - |
| Other income received | **0.7** | 0.1 | 1.2 |
| **Net cash flow from operations** | **164.5** | 37.3 | 44.0 |
| **Cash flow from financing activities** | | | |
| Fees paid on financing activities | **(4.3)** | (1.0) | (2.9) |
| Dividends paid | **(181.7)** | (29.5) | (59.3) |
| **Net cash flow from financing activities** | **(186.0)** | (30.5) | (62.2) |
| | | | |
| **Change in cash and cash equivalents** | **(21.5)** | 6.8 | (18.2) |
| Cash and cash equivalents at the beginning of the period | **72.5** | 90.7 | 90.7 |
| Effect of exchange rate movement | **(0.6)** | - | - |
| **Cash and cash equivalents at the end of the period** | **50.4** | 97.5 | 72.5 |

1 Investment income includes dividends of £1.0 million (September 2014: £0.6 million, March 2015: £1.9 million) and interest of £7.0 million (September 2014: £9.1 million, March 2015: £11.5 million) received from portfolio assets held directly by the Company and distributions of £21.8 million (September 2014: £17.8 million, March 2015: £36.1 million) received from unconsolidated subsidiaries.

# Notes to the accounts

## 1 Segmental analysis

The Directors review information on a regular basis that is analysed by geography. In accordance with IFRS 8, the segmental information provided below uses this geographic analysis of results as it is the most closely aligned with IFRS reporting requirements. The Group only operates in one service line, being that of an investment holding company. Therefore, no segmental analysis by service line has been produced. The Group is an investment holding company and does not consider itself to have any customers.

The Group generated 46% (September 2014: 69%, March 2015: 55%) of its investment income in the period from investments held in the UK and Ireland and 54% (September 2014: 31%, March 2015: 45%) of investment income from investments held in continental Europe. During the period, the Group generated income net of management fees, from its investments in Elenia of £8.6 million (September 2014: £9.3 million, March 2015: £18.1 million), Oystercatcher of £4.4 million (September 2014: nil, March 2015: £4.3 million) and AWG of £4.3 million (September 2014: £6.9 million, March 2015: £8.0 million) which represents 35% (September 2014: 31%, March 2015: 31%), 18% (September 2014: nil, March 2015: 7%) and 17% (September 2014: 23%, March 2015: 14%), respectively of the total investment income. There was no other income entitlement from a single investment during the period (or in the comparative period) that represented more than 10% of portfolio income. Given the nature of the Group's operations, the Group is not considered to be exposed to any operational seasonality or cyclicality that would impact the financial results of the Group during the period or the financial position of the Group at 30 September 2015.

| For the six months to 30 September 2015 (unaudited) | UK and Ireland[1] £m | Continental Europe[2] £m | Asia £m | Total £m |
|---|---|---|---|---|
| **Investment return** | | | | |
| Realised losses over fair value on the disposal of investments | - | - | (0.1) | (0.1) |
| Net movement on investments at fair value through profit or loss | 16.2 | 55.9 | (10.1) | 62.0 |
| Investment income | 11.4 | 13.5 | - | 24.9 |
| Net fees payable on investment activities | 0.1 | - | - | 0.1 |
| Interest receivable | 0.6 | - | - | 0.6 |
| **Investment return/(loss)** | 28.3 | 69.4 | (10.2) | 87.5 |
| Finance costs | (3.1) | - | - | (3.1) |
| Other net (expenses)/income | (7.2) | 3.5 | - | (3.7) |
| **Profit/(loss) before tax** | 18.0 | 72.9 | (10.2) | 80.7 |
| | | | | |
| **As at 30 September 2015 (unaudited)** | | | | |
| **Balance sheet** | | | | |
| Investments at fair value through profit or loss | 597.0 | 464.5 | 53.6 | 1,115.1 |
| Cash and cash equivalents | 50.4 | - | - | 50.4 |
| Other financial assets | 17.8 | 16.4 | - | 34.2 |
| Derivative financial instruments | 28.2 | 0.4 | - | 28.6 |
| Other assets | 7.9 | 1.3 | - | 9.2 |
| **Assets** | 701.3 | 482.6 | 53.6 | 1,237.5 |
| Derivative financial instruments | (11.7) | (1.3) | - | (13.0) |
| Other liabilities | (2.9) | (1.3) | - | (4.2) |
| **Liabilities** | (14.6) | (2.6) | - | (17.2) |
| **Net assets** | 686.7 | 480.0 | 53.6 | 1,220.3 |

1 Including Channel Islands.
2 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 Segmental analysis continued

| For the six months to 30 September 2014 (unaudited) | UK and Ireland[1] £m | Continental Europe[2] £m | Asia £m | Total £m |
|---|---|---|---|---|
| **Investment return** | | | | |
| Realised gains/(losses) over fair value on the disposal of investments | - | (0.1) | 0.9 | 0.8 |
| Net movement on investments at fair value through profit or loss | 117.0 | (20.9) | (5.6) | 90.5 |
| Investment income | 20.5 | 9.4 | - | 29.9 |
| Net fees payable on investment activities | (1.2) | - | - | (1.2) |
| Interest receivable | 0.2 | - | - | 0.2 |
| **Investment return/(loss)** | 136.5 | (11.6) | (4.7) | 120.2 |
| Finance costs | (1.4) | - | - | (1.4) |
| Other net expenses | (1.4) | - | - | (1.4) |
| **Profit/(loss) before tax** | 133.7 | (11.6) | (4.7) | 117.4 |

| As at 30 September 2014 (unaudited) | UK and Ireland[1] £m | Continental Europe[2] £m | Asia £m | Total £m |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Investments at fair value through profit or loss | 676.8 | 329.3 | 62.4 | 1,068.5 |
| Cash and cash equivalents | 97.5 | - | - | 97.5 |
| Other financial assets | 17.8 | - | - | 17.8 |
| Derivative financial instruments | 18.4 | - | - | 18.4 |
| Other assets | 8.5 | 6.3 | - | 14.8 |
| **Assets** | 819.0 | 335.6 | 62.4 | 1,217.0 |
| Derivative financial instruments | (4.9) | - | - | (4.9) |
| Other liabilities | (10.4) | - | - | (10.4) |
| **Liabilities** | (15.3) | - | - | (15.3) |
| **Net assets** | 803.7 | 335.6 | 62.4 | 1,201.7 |

1 Including Channel Islands.
2 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 Segmental analysis continued

| For the year to 31 March 2015 (audited) | UK and Ireland[1] £m | Continental Europe[2] £m | Asia £m | Total £m |
|---|---|---|---|---|
| **Investment return** | | | | |
| Realised gains/(losses) over fair value on the disposal of investments | 13.7 | (0.1) | 0.9 | 14.5 |
| Net movement on investments at fair value through profit or loss | 242.8 | (4.8) | (1.5) | 236.5 |
| Investment income | 32.1 | 26.0 | - | 58.1 |
| Net fees payable on investment activities | (4.6) | - | - | (4.6) |
| Interest receivable | 0.3 | - | - | 0.3 |
| **Investment return/(loss)** | 284.3 | 21.1 | (0.6) | 304.8 |
| Finance costs | (3.2) | - | - | (3.2) |
| Other net expenses | (27.9) | (6.9) | - | (34.8) |
| **Profit/(loss) before tax** | 253.2 | 14.2 | (0.6) | 266.8 |

| As at 31 March 2015 (audited) | | | | |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Investments at fair value through profit or loss | 806.1 | 358.8 | 66.6 | 1,231.5 |
| Cash and cash equivalents | 72.5 | - | - | 72.5 |
| Other financial assets | 17.7 | 16.2 | - | 33.9 |
| Derivative financial instruments | 36.3 | - | - | 36.3 |
| Other assets | 8.8 | 4.2 | - | 13.0 |
| **Assets** | 941.4 | 379.2 | 66.6 | 1,387.2 |
| Derivative financial instruments | (8.1) | (4.5) | - | (12.6) |
| Other liabilities | (52.6) | (0.7) | - | (53.3) |
| **Liabilities** | (60.7) | (5.2) | - | (65.9) |
| **Net assets** | 880.7 | 374.0 | 66.6 | 1,321.3 |

1 Including Channel Islands.
2 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.

## 2 Advisory, performance and management fees payable

| | **Six months to 30 September 2015 (unaudited) £m** | Six months to 30 September 2014 (unaudited) £m | Year to 31 March 2015 (audited) £m |
|---|---|---|---|
| Advisory fee paid directly from the Company | **5.4** | 5.0 | 11.0 |
| Performance fee | **-** | 7.6 | 45.0 |
| | **5.4** | 12.6 | 56.0 |

Total advisory, performance and management fees payable by the Group for the period to 30 September 2015 were £7.5 million (September 2014: £14.7 million, March 2015: £60.2 million) which includes, in addition to the fees described above, management fees of £2.1 million (September 2014: £2.1 million, March 2015: £4.2 million) which were paid to 3i Group 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 rate in Jersey of 0% (September 2014: 0%, March 2015: 0%). Unconsolidated 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 (ie as prices) or indirectly (ie 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 Company 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.

At 30 September 2015, 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 2015, there were no transfers of financial instruments between levels of the fair value hierarchy (September 2014: none, March 2015: none). There were no non-recurring fair value measurements.

**Financial instruments classification**

| | | | | As at 30 September 2015 (unaudited) |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Financial assets** | | | | |
| Investments at fair value through profit or loss | - | - | 1,115.1 | 1,115.1 |
| Derivative financial instruments | - | 28.6 | - | 28.6 |
| | - | 28.6 | 1,115.1 | 1,143.7 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | (13.0) | - | (13.0) |

| | | | | As at 30 September 2014 (unaudited) |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Financial assets** | | | | |
| Investments at fair value through profit or loss | - | - | 1,068.5 | 1,068.5 |
| Derivative financial instruments | - | 18.4 | - | 18.4 |
| | - | 18.4 | 1,068.5 | 1,086.9 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | (4.9) | - | (4.9) |

| | | | | As at 31 March 2015 (audited) |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Financial assets** | | | | |
| Investments at fair value through profit or loss | - | - | 1,231.5 | 1,231.5 |
| Derivative financial instruments | - | 36.3 | - | 36.3 |
| | - | 36.3 | 1,231.5 | 1,267.8 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | - | (12.6) | - | (12.6) |

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

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

| Level 3 fair value reconciliation | As at 30 September 2015 (unaudited) £m |
|---|---|
| **Opening fair value** | **1,231.5** |
| Additions | **187.2** |
| Disposal proceeds and repayment | **(365.6)** |
| Fair value movement (including exchange movements) | **62.0** |
| **Closing fair value** | **1,115.1** |

| Level 3 fair value reconciliation | As at 30 September 2014 (unaudited) £m |
|---|---|
| **Opening fair value** | 996.6 |
| Additions | - |
| Disposal proceeds and repayment | (18.6) |
| Fair value movement (including exchange movements) | 90.5 |
| **Closing fair value** | 1,068.5 |

| Level 3 fair value reconciliation | As at 31 March 2015 (audited) £m |
|---|---|
| **Opening fair value** | 996.6 |
| Additions | 18.8 |
| Disposal proceeds and repayment | (20.4) |
| Fair value movement (including exchange movements) | 236.5 |
| **Closing fair value** | 1,231.5 |

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.

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.

**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 24.

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 2015, the fair value of unquoted investments was £1,094.7 million (September 2014: £1,050.7 million, March 2015: £1,205.7 million). Individual portfolio asset valuations are shown within the Portfolio summary on page 18.

The majority of the assets held within Level 3 are valued on a discounted cash flow basis. During the year to 31 March 2015 the primary methodology for valuing Eversholt Rail was changed from a discounted cash flow to a sales basis. This followed the announcement on 20 January 2015 that the Company had agreed to sell Eversholt Rail. The sale completed on 16 April 2015. For those assets that are valued on a discounted cash flow basis, 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 24. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £105.9 million (September 2014: £95.8 million, March 2015: £84.2 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £128.4 million (September 2014: £113.8 million, March 2015: £101.6 million).

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

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) to 2.0% (Finland and Denmark) but with the majority at 2.5% (UK). 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 £20.7 million (September 2014: £16.0 million, March 2015: £17.0 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 £19.8 million (September 2014: £17.2 million, March 2015: £16.4 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 £63.4 million (September 2014: £65.0 million, March 2015: £56.2 million). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £63.0 million (September 2014: £59.3 million, March 2015: £52.7 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 funds**

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 2015, the fair value of unlisted funds was £17.9 million (September 2014: £17.2 million, March 2015: £17.4 million). There are no adjustments currently made to the NAV of the fund (September 2014: none, March 2015: none). A 10% adjustment in the NAV of the fund would result in a £1.8 million (September 2014: £1.7 million, March 2015: £1.7 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 2015, the fair value of the other assets and liabilities within these intermediate holding companies was £2.5 million (September 2014: £0.6 million, March 2015: £8.4 million).

**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 Directors of the Company. The valuation of unquoted investments, debt, 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 (September 2014: same, March 2015: same).

| | As at 30 September 2015 (unaudited) | | As at 30 September 2014 (unaudited) | | As at 31 March 2015 (audited) | |
|---|---|---|---|---|---|---|
| | **Number** | **£m** | Number | £m | Number | £m |
| Issued and fully paid | | | | | | |
| Opening | **881,351,570** | **887.8** | 881,351,570 | 887.8 | 881,351,570 | 887.8 |
| Share consolidation | **(88,135,157)** | **-** | - | - | - | - |
| Closing balance | **793,216,413** | **887.8** | 881,351,570 | 887.8 | 881,351,570 | 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. Therefore as at 30 September 2015, the residual value on the stated capital account was £181.6 million.

On 31 July 2015 the Company paid a special dividend of £149.8m to shareholders. In order to maintain comparability of the Company's share price before and after the special dividend, a share consolidation took place. On 7 July 2015 an EGM was held to approve the share consolidation, 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, being the share price on the date of posting the EGM circular and the special dividend was therefore 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 2015 (unaudited) | Six months to 30 September 2014 (unaudited) | Year to 31 March 2015 (audited) |
|---|---|---|---|
| **Earnings per share (pence)** | | | |
| Basic | **9.6** | 13.3 | 30.3 |
| Diluted | **9.6** | 13.3 | 30.3 |
| **Earnings (£m)** | | | |
| Profit after tax for the period | **80.7** | 117.4 | 266.8 |
| **Number of shares (million)** | | | |
| Weighted average number of shares in issue | **840.4** | 881.4 | 881.4 |

| | As at 30 September 2015 | As at 30 September 2014 | As at 31 March 2015 |
|---|---|---|---|
| **Net assets per share (pence)** | | | |
| Basic | **153.8** | 136.3 | 149.9 |
| Diluted | **153.8** | 136.3 | 149.9 |
| **Net assets (£m)** | | | |
| Net assets | **1,220.3** | 1,201.7 | 1,321.3 |

## 7 Dividends

| | As at 30 September 2015 (unaudited) | | As at 30 September 2014 (unaudited) | | As at 31 March 2015 (audited) | |
|---|---|---|---|---|---|---|
| **Declared and paid during the period** | **pence per share** | **£m** | pence per share | £m | pence per share | £m |
| Special dividend paid on ordinary shares | **17.0** | **149.8** | - | - | - | - |
| Interim dividend paid on ordinary shares | **-** | **-** | - | - | 3.38 | 29.8 |
| Prior year final dividend paid on ordinary shares | **3.62** | **31.9** | 3.35 | 29.5 | 3.35 | 29.5 |
| | **20.62** | **181.7** | 3.35 | 29.5 | 6.73 | 59.3 |

The Company proposes paying an interim dividend of 3.625p per share which will be payable to those shareholders that are on the register on 27 November 2015. On the basis of the shares in issue at 30 September 2015, this would equate to an interim dividend of £28.8 million.

## 8 Contingent liabilities

At 30 September 2015 the Company had issued €21.8 million in the form of Letters of Credit, drawn against the Revolving Credit Facility, for the investments into the A12, RIVM and La Santé PPP projects (September 2014: €10.4 million, March 2015: €21.8 million).

## 9 Related parties

**Transactions between 3i Infrastructure and 3i Group**

3i Group plc ("3i Group") holds 34.1% (September 2014: 34.1%, March 2015: 34.1%) 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 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 (September 2014: nil, March 2015: nil) were drawn down by the India Fund from the Company during the period for investment and deal fees. In total, commitments of US$183.7 million or £121.2 million re-translated had been drawn down at 30 September 2015 (September 2014: US$183.7 million or £113.2 million, March 2015: US$183.7 million or £124.2 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 US$250 million commitment. At 30 September 2015, the outstanding commitment was US$37.5 million, or £24.7 million re-translated (September 2014: US$37.5 million or £23.1 million, March 2015: US$37.5 million or £25.3 million).

3i Networks Finland GP 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 2014: £1.1 million, March 2015: £2.1 million) was payable directly to 3i Group, of which the Company's share was £0.9 million (September 2014: £1.0 million, March 2015: £1.8 million) and which was therefore offset against the total advisory fee payable by the Company. As at 30 September 2015, nil remained outstanding (September 2014: nil, March 2015: 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, £1.8 million (September 2014: £1.7 million, March 2015: £3.5 million) was payable directly to 3i Group, of which the Company's share was £1.2 million (September 2014: £1.2 million, March 2015: £2.4 million) and which was therefore offset against the total advisory fee payable by the Company. As at 30 September 2015, £0.4 million remained outstanding (September 2014: £0.4 million, March 2015: £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. On 8 May 2014 the Company entered into an agreement with the Investment Adviser to amend the IAA (the "Amendment Agreement"), which was subsequently approved by the Company's shareholders at an extraordinary general meeting on 8 July 2014 and by the Jersey Financial Services Commission ("JFSC"). The Amendment Agreement included a new, lower fee of 1% per annum for any future investments in primary PPP and individual renewable energy 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 2015, £7.5 million (September 2014: £7.1 million, March 2015: £15.2 million) was payable and £0.1 million (September 2014: £0.8 million, March 2015: £1.5 million) remained due to 3i plc at 30 September 2015. This amount includes fees of £2.1 million (September 2014: £2.1 million, March 2015: £4.2 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 return of capital 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, as part of the Amendment Agreement, from the year commencing 1 April 2014, 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 was not exceeded for the period to 30 September 2015 and therefore no performance fee was recognised (September 2014: £7.6 million, March 2015: £45.0 million). The outstanding balance payable as at 30 September 2015 was nil (September 2014: £7.6 million, March 2015: £45.0 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, 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. As part of the Amended Agreement, the IAA was extended for a period of four years and can therefore 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.

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 2015 was £0.4 million (September 2014: £0.4 million, March 2015: £0.8 million). The outstanding balance payable as at 30 September 2015 was £0.2 million (September 2014: £0.2 million, March 2015: £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"), a company incorporated and registered in Jersey, and its subsidiaries (together referred to as the "Group") for the six-month period ended 30 September 2015.

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 2015. They should be read in conjunction with the consolidated financial statements for the year to 31 March 2015, 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 5 November 2015.

The Half-yearly Financial Statements do not constitute statutory accounts. The statutory accounts for the year to 31 March 2015, 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 2015.

# 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

**Peter Sedgwick**
Chairman
5 November 2015

# Board of Directors and their functions

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

**Philip Austin**
Non-executive Director,
Senior Independent Director and chairman of the Remuneration Committee

**Doug Bannister**
Non-executive Director

**Wendy Dorman**
Non-executive Director

**Ian Lobley**
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 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 7 January 2016 to holders of ordinary shares on the register on 27 November 2015. The ex-dividend date will be 26 November 2015.

**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

Telephone: +44 (0)1534 847 000
Shareholder helpline: +44 (0)20 8639 3399

**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

If you would prefer to receive shareholder communications electronically, including your annual reports and notices of meetings, please go to www.3i-infrastructure.com/e-comms for details of how to register.

Frequently used registrars' forms may be found on our website at www.3i-infrastructure.com/e-comms

## 3i Infrastructure plc

Registered office:
12 Castle Street
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Jersey JE2 3RT
Channel Islands

Tel: +44 (0)1534 847 410

Registered in Jersey No. 95682

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