3i Infrastructure plc

Half-yearly report 2013

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

Performance highlights

for the six months to 30 September 2013

Stable NAV

Total return of £5.9 million, or 0.6% on shareholders' equity, supported by the continued strong performance of the European portfolio, almost entirely offset by weakness in India. NAV per share remained stable at 122.3p at the period end

0.6%

Portfolio income in line with expectations

Portfolio income in line with prior comparable six-month period

£31m

New investment in Cross London Trains

£64 million invested in the period, including £62 million in Cross London Trains

£62m

Interim dividend meets target distribution

Interim dividend of 3.35p (or £29.5 million in aggregate) represents 2.75% of opening equity

3.35p

The numbers above are presented according to the investment basis of preparation and are not presented in accordance with International Financial Reporting Standards as adopted by the European Union.

Our business

Our strategy

Our strategy is to invest in infrastructure businesses, making equity and junior or mezzanine debt investments. We invest in companies with strong market positions that deliver stable underlying performance: asset-intensive businesses, providing essential services over the long term, often on a regulated basis, or with significant contracted revenues.

Our objective

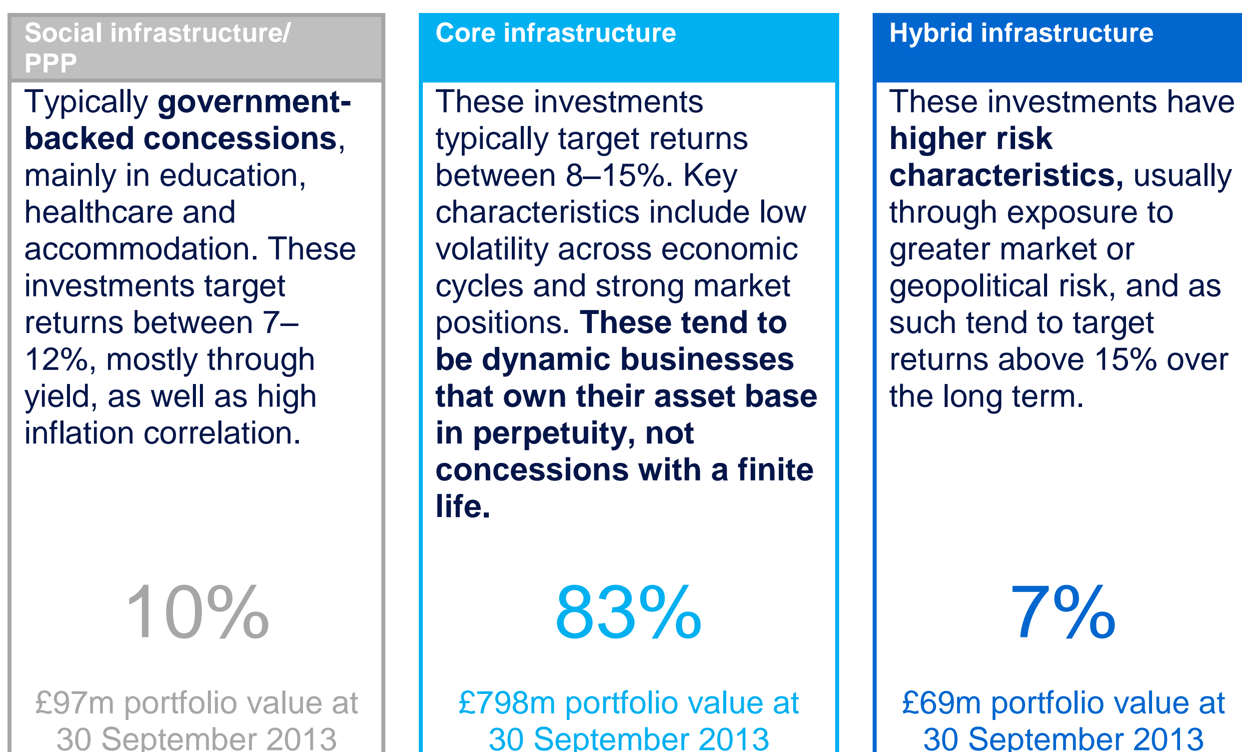
Our objective is to provide shareholders with a total return of 10% per annum, to be achieved by building and managing a balanced portfolio of infrastructure investments. Within this overall objective we target an annual distribution yield of 5.5% of opening net asset value.

Our market focus

Our market focus is on core infrastructure in Europe, principally in the utilities and transportation sectors, investing in operational assets which generate long-term yield and can provide capital growth. We also have investments in social infrastructure, as well as in hybrid infrastructure through our commitment to the 3i India Infrastructure Fund.

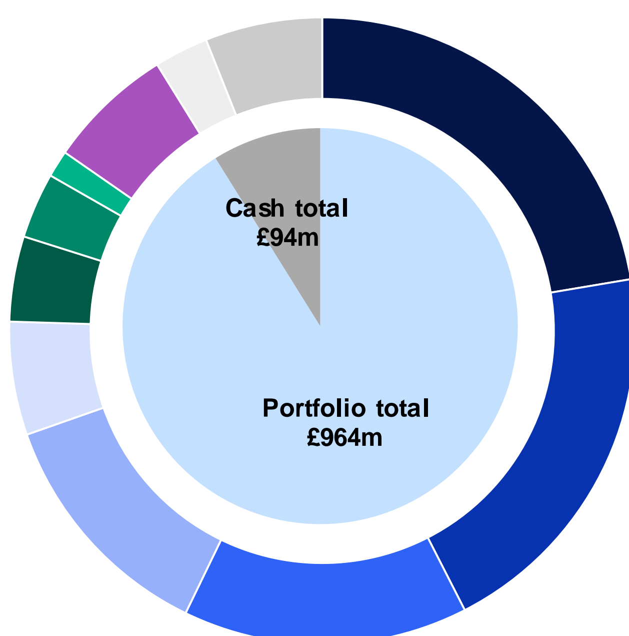
As the 3i India Infrastructure Fund has reached the end of its investment period, we intend to focus future investment activity on core infrastructure and to build our primary PPP portfolio.

The infrastructure asset class offers the opportunity to diversify investments across the risk/return spectrum.



Our portfolio

15	£964m	£94m
Investments	Portfolio value	Cash balances



Investments	(£m)
Core portfolio	**798**
AWG	236
Elenia	213
Eversholt Rail Group	155
Oystercatcher	132
Cross London Trains	62
Social Infrastructure Portfolio	**97**
Elgin	46
Octagon	36
Dalmore	15
3i India Infrastructure Fund	**69**
Total portfolio value	**964**
Cash	
Cash committed to interim dividend	30
Free cash[1]	64
Total cash	**94**

1 Includes £23.2 million committed to the 3i India Infrastructure Fund. The remaining commitment is limited to 15% of the original US$250 million commitment, or US$37.5 million. This amount is unlikely to be drawn in full.

The information on this page is presented according to the investment basis of preparation and not according to International Financial Reporting Standards as adopted by the European Union.

Financial highlights

	Investment basis[1]		Consolidated IFRS basis[2]	
	30 Sep 2013	30 Sep 2012	**30 Sep 2013**	30 Sep 2012
Total return	**£5.9m**	£30.9m	**£5.3m**	£30.5m
Total return on shareholders' equity	**0.6%**	3.0%	**0.5%**	2.9%
Interim dividend per share	**3.35p**	2.97p	**3.35p**	2.97p
Net asset value ("NAV")/share	**122.3p**	121.6p	**123.0p**	121.9p
NAV after deducting interim dividend	**119.0p**	118.6p	**119.7p**	118.9p
Portfolio value	**£964.4m**	£885.8m	**£1,266.6m**	£1,172.8m
Cash balances	**£93.7m**	£169.9m	**£94.7m**	£179.2m

1 The investment basis accounts for majority investments and subsidiaries formed specifically for investment purposes in the same way as minority investments and does not consolidate these entities as required by International Financial Reporting Standards ("IFRS") as adopted by the European Union.

2 For the consolidated IFRS basis, the total return in this measure is the total comprehensive income attributable to equity holders of the parent and does not include non-controlling interests. The gross consolidated total return for the six months to 30 September 2013 was £13.4 million (September 2012: £36.0 million).

Chairman's statement

"Our European portfolio continues to deliver robust returns, but the overall return was affected by the sharp depreciation of the rupee and by challenges in India. Against this backdrop, the Board feels that its decision to focus future investment activity in core infrastructure and primary PPP in Europe was validated. Looking beyond this year, we remain confident that we have a strategy in place to deliver a 10% annual return and a dividend of 5.5% of opening NAV with reduced volatility."

Peter Sedgwick, Chairman, 6 November 2013

While the Company's European portfolio continued to perform well and to generate strong and stable returns, we saw significant declines in the value of our holding in the 3i India Infrastructure Fund ("India Fund"), mainly because of the significant depreciation of the Indian rupee.

As announced in May, we are rebalancing our investment strategy in favour of less volatile investments. 3i Infrastructure will make no new investments in India and will focus its investment activity in core infrastructure and primary PPP in the developed markets, and in particular in the UK and continental Europe. In line with this strategy, we added a core infrastructure investment to the portfolio during the period.

Our core infrastructure portfolio (83% of total portfolio value at the end of September 2013) continues to deliver good performance and generated a return of £33.6 million in the period. Based on the strength of this core portfolio, we feel confident that 3i Infrastructure is well placed to deliver its 10% return objective, as the exposure to India gradually reduces.

The Board remains committed to delivering a stable dividend to 3i Infrastructure's shareholders. We are therefore announcing an interim dividend of 3.35p per share; the Company expects to deliver its objective of a 5.5% distribution for the full year.

Performance

The total comprehensive income attributable to the equity holders of the parent (the "total return") on a consolidated IFRS basis was £5.3 million for the six months to 30 September 2013. On an investment basis, which the Board also uses to monitor performance, the total return was £5.9 million, or 0.6% on shareholders' equity, as the steady returns generated by the European portfolio were substantially offset by losses in the India Fund and foreign exchange losses.

This return nonetheless confirms the robustness of the Company's bedrock European portfolio, as well as of our investment strategy more broadly.

Dividend

The Board proposes to pay an interim dividend of 3.35p per share, or 2.75% on opening shareholders' equity, in line with our objective of paying a dividend of 5.5% on opening shareholders' equity for the full year.

Investment activity

In June, 3i Infrastructure invested £61.8 million in Cross London Trains ("XLT"), which will own a key element of London's commuter rail infrastructure. As part of a wider upgrade of the Thameslink rail network, XLT will invest approximately £1.6 billion in a fleet of 1,140 new Siemens Desiro City commuter rail carriages to be leased to the Thameslink rail franchise operator.

3i Infrastructure, with its consortium partners in XLT, had been appointed preferred bidder for this project in June 2011. In bringing this complex process to completion, the Investment Adviser brought to bear significant financing, structuring and negotiation skills.

This investment has enhanced our core infrastructure portfolio. It was immediately accretive to income generation, delivering income of over £2 million to the Company in the first three months of ownership.

In addition to the investment in XLT, Dalmore drew an additional net £2.2 million from the Company to finance the acquisition of holdings in a number of UK PFI projects.

Investment Adviser

In May, 3i Group announced it had submitted an irrevocable offer to Barclays Bank plc regarding the acquisition of Barclays Infrastructure Funds Management Limited ("BIFM"), its infrastructure investment business. BIFM was a pioneer in the primary PPP market and currently manages two unlisted funds focused on UK and European PPP and energy projects. This acquisition will broaden the Investment Adviser's specialist investment skills and market access in this area. The Board is pleased with this proposed acquisition of BIFM and believes it will, in future, enhance the Company's access to investment opportunities.

Cash balances and liquidity

At 30 September 2013, 3i Infrastructure had cash balances of £93.7 million, of which £29.5 million is committed to the payment of the interim dividend. The interim dividend will be paid in January 2014.

Corporate governance and Board

As anticipated in May, Florence Pierre and Paul Waller resigned from the Board at the Company's AGM in July. Paul Waller was replaced as the 3i nominee by Ben Loomes, who was duly elected at the AGM. All remaining Directors resigned and were re-elected at the AGM.

Outlook

Our European portfolio continues to deliver robust returns, but the overall return was affected by the sharp depreciation of the rupee and challenges in India.

Against this backdrop, the Board feels that its decision to focus future investment activity in core infrastructure and primary PPP in Europe was validated. Looking beyond this year, we remain confident that we have a strategy in place to deliver a 10% annual return and a dividend of 5.5% of opening NAV with reduced volatility.

Investment Adviser's review

"We continue to see attractive investment opportunities in both core and primary PPP infrastructure in our target northern European markets. The Company's recent investment in XLT, while complex to execute, complements the portfolio well and is set to deliver attractive returns and a steady income going forward. While activity in the infrastructure market remains subdued, and despite strong competition for available investments, we are confident that we will be able to originate attractive investments through our enhanced platform following the acquisition of BIFM, which, like the recent investment in XLT, will strengthen the Company's ability to deliver its return objectives."

Cressida Hogg, Managing Partner, Infrastructure, 3i Investments plc, 6 November 2013

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 completion of new investments, on the management of the portfolio and on realisations, as well as on funding requirements.

The investment advisory team is managed as a separate business line within 3i Group and operates from hubs in London and India. All investment professionals have significant experience investing in infrastructure assets. The investment advisory team can also draw on 3i Group's network of investment professionals to originate infrastructure investment opportunities.

3i Group was among the subscribers to 3i Infrastructure's Initial Public Offering and subsequent Placing and Open Offer and owns 34% of the equity in the Company.

In May, 3i Group made an irrevocable offer to Barclays Bank plc to acquire Barclays Infrastructure Funds Management Limited ("BIFM"), its European infrastructure fund management business. BIFM has assets under management of approximately £780 million and an investment team based in London and Paris. BIFM was one of the first movers in the public private partnership ("PPP") infrastructure market, raising its first fund in 1996. To date it has invested a total of £1.7 billion across six funds and it currently manages two unlisted funds that invest in European PPP and energy projects.

Market and opportunities

Conditions for investment

Demand for infrastructure assets from specialist financial investors has been strong during the period, as income returns in other asset classes remain compressed in a low interest rate environment. While existing investors in the asset class remain active, new investors are also developing infrastructure investment capabilities as allocations to infrastructure increase, resulting in growing competition for investments.

In this competitive environment, price points for infrastructure assets have remained high, boosted further by significant liquidity in the debt markets. This has been true in particular in the core infrastructure and secondary PPP markets in stable economies, where the outlook for returns remains subdued.

The broader market environment has stabilised since the Company reported its annual results. Concerns surrounding a tapering of quantitative easing and increasing interest rates have reduced following central bank guidance. The outlook for most European economies has improved, supported by improving macroeconomic indicators and by the easing of headwinds for the euro periphery.

The market opportunity in core infrastructure

The market opportunity in core infrastructure continues to be driven principally by deals sourced from large European corporates and governments. The Company benefited from this trend in the Cross London Trains transaction.

We are also anticipating an increased flow of opportunities from the sale of investments by specialist financial investors, as infrastructure funds raised in the previous decade, now nearing maturity, need to sell their assets to return capital to their investors or prove valuations.

In this environment, we have remained disciplined investors and have focused on fewer, but more interesting opportunities in our key northern European markets where our network, track record and market understanding allow us to compete while continuing to price deals appropriately.

The market opportunity in PPP

We continue to believe that the primary PPP market will offer more attractive opportunities in the medium term compared to the secondary market, at better projected returns. Over time, we expect resource-constrained governments throughout Europe to privatise or open up essential infrastructure through PPP-style transactions. A number of countries, such as France, have already initiated PPP programmes and others, including the Netherlands, Belgium and the Scandinavian countries, are getting their programmes under way. In the UK there are, at present, only few opportunities in primary PPP, but the previous slow-down in activity has now been lifted following the launch of the PF2 initiative and we expect the number of opportunities in this market to increase.

We already have a good track record of investing in primary PPP, through our investments in I^2 and Alpha Schools. 3i Group's acquisition of BIFM will add significantly to our ability to access these opportunities and is likely to result in increased deal flow for the Company.

The secondary PPP market remains very competitive. Investment vehicles focused on this type of investment have raised significant funds in both the listed and unlisted markets over the last three years, as appetite remains high for the low-risk, income-oriented returns offered by mature, operational PPP investments. The outlook for returns from secondary PPP investments has reduced, and this area is unlikely to be an important source of opportunities for us.

India

The 3i India Infrastructure Fund ("India Fund") reached the end of its investment period in November 2012 and will make no new investments. It is likely that the Company's remaining commitment of £23.2 million to the India Fund will remain largely undrawn. The Investment Adviser's team in India is now focusing on preparing the India Fund's investments for sale in a challenging market.

Outlook

We continue to see attractive investment opportunities in both core and primary PPP infrastructure in our target northern European markets. The Company's recent investment in XLT, while complex to execute, complements the portfolio well and is set to deliver attractive returns and a steady income going forward.

While activity in the infrastructure market remains subdued, and despite strong competition for available investments, we are confident that we will be able to originate attractive investments through the combined 3i Group and BIFM platform, which, like the recent investment in XLT, will enhance the Company's ability to deliver its return objectives.

Portfolio

Table 1 below summarises the valuation and movements in the portfolio, as well as the return per investment, for the six months to 30 September 2013 on an investment basis. Charts 1, 2 and 3 below illustrate the distribution of the portfolio by geography, sector and maturity at 30 September 2013. Chart 4 illustrates the distribution of the portfolio in the Infrastructure risk/return framework.

Table 1
Portfolio summary on an investment basis (£m)

Portfolio assets	Directors' valuation 31 March 2013	Investment in the period	Divestment in the period	Value movement	Foreign exchange translation	Directors' valuation 30 September 2013	Profit on disposal	Income in the period	Asset total return in the period
Core infrastructure									
Anglian Water Group	**230.6**	-	-	5.9	-	**236.5**	-	10.9	**16.8**
Elenia	**205.5**	-	-	9.3	(2.1)	**212.7**	-	-	**7.2**
Eversholt Rail Group	**153.6**	-	-	2.0	-	**155.6**	-	8.8	**10.8**
Oystercatcher	**141.4**	-	-	(8.4)	(1.3)	**131.7**	-	6.2	**(3.5)**
Cross London Trains	**-**	61.8	-	-	-	**61.8**	-	2.3	**2.3**
	731.1	**61.8**	**-**	**8.8**	**(3.4)**	**798.3**	**-**	**28.2**	**33.6**
Social infrastructure									
Elgin	**42.9**	-	(0.1)	3.7	-	**46.5**	-	1.5	**5.2**
Octagon	**34.0**	-	-	1.8	-	**35.8**	-	1.0	**2.8**
Dalmore	**11.6**	2.2[2]	-	0.9	-	**14.7**	-	0.3	**1.2**
	88.5	**2.2**	**(0.1)**	**6.4**	**-**	**97.0**	**-**	**2.8**	**9.2**
India									
3i India Infrastructure Fund	**99.1**	-	(0.1)	(25.0)[1]	(4.9)	**69.1**	0.2	-	**(29.7)**
Total	**918.7**	64.0	(0.2)	(9.8)	(8.3)	**964.4**	0.2	31.0	**13.1**

1 Includes a £13.4 million negative impact from US$/rupee exchange movements.
2 Net investment.

Chart 1
Portfolio by geography

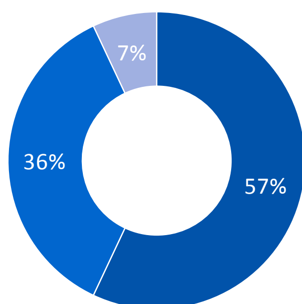


Chart 2
Portfolio by sector

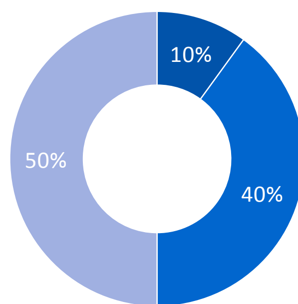


Chart 3
Portfolio by maturity

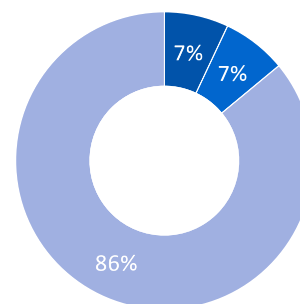


Chart 4
Risk/return spectrum and asset distribution

Social infrastructure/ PPP

- Three investments
  - Elgin: a portfolio of 16 school and community healthcare projects
  - Octagon: concession company to build, operate and maintain the Norfolk and Norwich University Hospital
  - Dalmore Capital Fund, which invests in secondary PFI projects (42 underlying projects)

10%

£97m portfolio value at 30 September 2013

Core infrastructure

- Five investments
  - Anglian Water Group: the fourth largest water supply and wastewater company in England and Wales
  - Elenia: owns the second largest electricity distribution network and a district heating business in Finland
  - Eversholt Rail Group: one of the three leading rail rolling stock companies in the UK
  - Oystercatcher: holding company through which 3i Infrastructure invests in stakes in three oil storage facilities
  - XLT: the company established to finance and purchase new Desiro City trains from Siemens and lease them to the operator of the Thameslink rail franchise (acquired in the period)

83%

£798m portfolio value at 30 September 2013

Hybrid infrastructure

- 3i Infrastructure has a US$250 million commitment to the 3i India Infrastructure Fund, 73% drawn at 30 September 2013
- Seven investments
  - three in the power sector
  - four in the transportation sector
- The India Fund is now closed to new investment and is now focused on asset realisations over time

7%

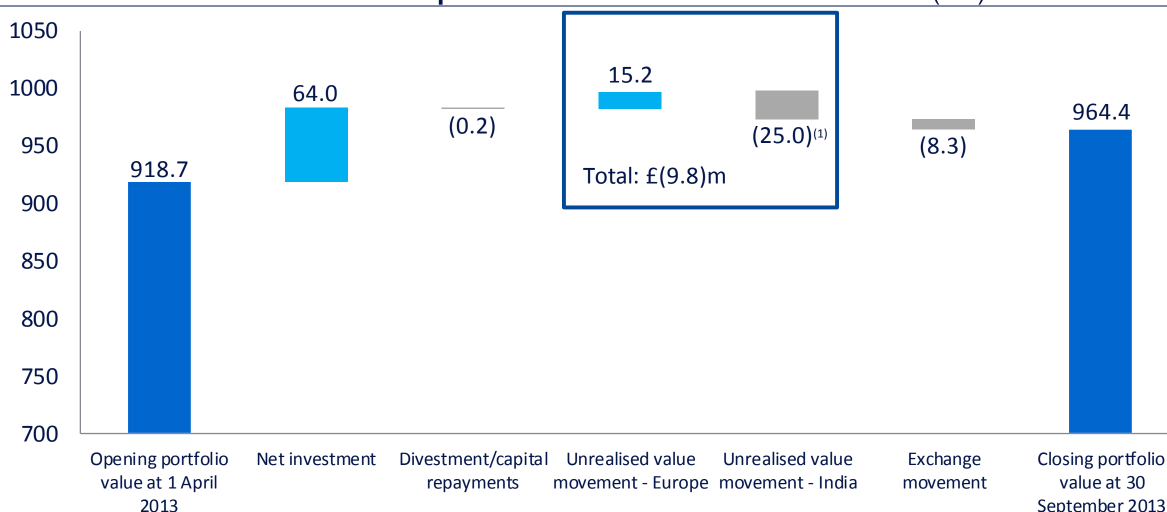
£69m portfolio value at 30 September 2013

Movements in portfolio value

As set out in Chart 5, the portfolio was valued at £964.4 million at 30 September 2013, compared to £918.7 million at the beginning of the financial year. The growth in portfolio value was attributable almost entirely to the new investment in XLT for £61.8 million (completed at the end of June), as the steady growth in value in the European portfolio was substantially offset by value losses in the India Fund.

Foreign exchange losses reduced portfolio value by £8.3 million, as the rupee depreciated strongly against sterling in the period. The weakness of the euro against sterling also resulted in foreign exchange losses, although these were largely mitigated by the impact of the Company's euro hedging programme.

Chart 5
Reconciliation of the movement in portfolio value on an investment basis (£m)



1 Includes a £13.4 million negative impact from US$/rupee exchange movements. The movement excluding exchange losses was £11.6 million. Exchange movements are described in Table 2 on page 18.

Investment

3i Infrastructure made net investment of £64.0 million in the six-month period (September 2012: £4.9 million).

On 27 June 2013, the Company announced it had invested £61.8 million in a 33.3% holding in Cross London Trains ("XLT") alongside Innisfree Limited and Siemens Project Ventures. The investment in XLT was an important new investment for 3i Infrastructure, which further diversified the core portfolio, and will contribute measurably to income generation going forward. Indeed, XLT generated income of £2.36 million for the Company in the first three months of ownership. A full case study of the investment in XLT is available on pages 15 to 16.

In addition, during the period the Dalmore Capital Fund ("Dalmore") drew an additional £5.8 million from the Company to finance the purchase of holdings in various PFI projects. Dalmore also returned £3.6 million to 3i Infrastructure during the period, as a result of new commitments from additional LPs, resulting in a net investment in Dalmore of £2.2 million.

New investment case study – XLT

Introduction

3i Infrastructure invested £61.8 million in a 33.3% holding in Cross London Trains ("XLT"), 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 will invest £1.6 billion in a fleet of 1,140 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. This fleet will be a key element of London's commuter rail infrastructure.

The Thameslink upgrade programme

The DfT is implementing a significant upgrade to the Thameslink route, London's key North-South rail commuter network franchise, which operates between Bedford and Brighton via central London. The project is being procured in two separate parts:

- An upgrade of the track infrastructure and stations, funded by Network Rail, as well as an expansion of the current Bedford to Brighton franchise to include routes presently operated by other franchises
- The Thameslink Rolling Stock Procurement Programme, which will involve the purchase of a fleet of 1,140 modern electric rail carriages to be leased to the Thameslink rail franchise operator

About XLT

XLT was established to own and lease the new trains being procured for the Thameslink rail franchise, under lease agreements underpinned by the DfT for a period of 20 years. In practical terms, XLT is a hybrid between a rolling stock company (such as Eversholt Rail Group) and a PPP project company. Its shareholders are:

- 3i Infrastructure – 33.3%
- Innisfree Limited – 33.3%
- Siemens Project Ventures GmbH – 33.3%

XLT is protected from refranchising risk under s54 and s30 of the Railways Act, under which the DfT is required to ensure that a TOC leases the trains from XLT for a period of 20 years (the "s54 period").

Siemens will manufacture and deliver the trains over a period of five years, with the first delivery expected after two and a half years. XLT has engaged Eversholt Rail Group ("Eversholt") to oversee the delivery of the trains and to provide technical advice and support throughout the assets' life. The fleet will comprise 1,140 Siemens Desiro City commuter rail carriages, capable of running on both overhead and third rail lines. The Desiro City train is an evolution of Siemens' proven Desiro platform, the most recent example of which is the Class 380 fleet which operates in Scotland and is owned by Eversholt. 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.

New investment case study – XLT (continued)

A compelling investment case

1. **Strategic asset, operating in the capacity-constrained London commuter market**

- The Thameslink franchise will be one of the most important commuter franchises in the UK, expected to carry over 200 million passengers per annum
- XLT's rolling stock will be a central component in delivering a step change in capacity on the route, allowing 24 trains per hour to operate during peak periods, improving materially the quality of service to customers

2. **High quality, low risk cash flows, with lease revenues underpinned for 20 years by the DfT**

- XLT will generate a secure rental income, with payments made regardless of availability or usage (but subject to certain performance criteria)
- The DfT will provide a s54 undertaking, ensuring that the fleet remains leased for a minimum of 20 years

3. **Residual value supported by favourable market dynamics**

- XLT will retain ownership of the fleet beyond the s54 period. The useful life of the trains is likely to extend significantly beyond this period
- The fleet is likely to remain the best value option to serve the franchise beyond that initial period due to its bespoke design and high reliability expectations, or alternatively can be leased to a TOC operating elsewhere in the UK

4. **Partnership with Siemens, a market leader in UK rolling stock manufacture and maintenance**

- XLT's trains are the evolution of an existing, proven design with bespoke adjustments to ensure compatibility with the upgraded Thameslink network
- Siemens has an excellent track record of manufacturing and maintaining rolling stock in the UK and globally, with its fleets consistently ranked amongst the most reliable in the country

5. **Immediately accretive to 3i Infrastructure's returns and income**

- The investment in XLT will deliver income to 3i Infrastructure from investment and throughout the construction phase

Divestment

No investments were sold in the period. The Company received a small £0.1 million scheduled repayment of a shareholder loan from Elgin, and £0.3 million from the India Fund following the planned redemption of preference shares in Supreme Roads.

Unrealised value movement

As shown in Chart 5, overall the portfolio generated an unrealised value loss of £9.8 million in the six months to 30 September 2013 (September 2012: £11.6 million gain).

The European portfolio continued to achieve steady returns in the period, with a total unrealised value gain of £15.2 million. This positive performance, however, was substantially offset by the 3i India Infrastructure Fund's unrealised value loss of £25.0 million.

Core portfolio

In aggregate, the core portfolio generated an unrealised value uplift of £8.8 million in the period, underpinned by the continued strong operational performance of the underlying investments and partly offset in some cases by income receipts.

Anglian Water Group ("AWG") was valued at £236.5 million at the end of September 2013, compared to £230.6 million six months earlier. AWG is making good progress in the implementation of its current regulatory settlement and efficiency programme and has continued to issue debt at attractive terms throughout the period. The company continues its detailed work on shaping its business plan for the next regulatory period, with input from multiple stakeholders, including its Customer Engagement Forum.

Elenia's valuation (£212.7 million at the end of September 2013, compared to £205.5 million six months earlier) is underpinned by the robust operational and financial performance of the two businesses, and benefited as cash is being retained in the business in preparation for the refinancing of its acquisition debt (as described on page 25). Elenia's underlying value growth was offset partly by a £2.1 million foreign exchange loss, as the investment is denominated in euro. The Company's euro exposure is substantially hedged, as set out in Table 2 on page 18.

Eversholt was valued at £155.6 million at the end of September 2013, compared to £153.6 million six months earlier, supported by its resilient operational performance following a period of uncertainty in the refranchising programme (as described in the asset review on page 28), which was balanced by income.

Despite the consistent operational performance of the three terminals, the valuation of Oystercatcher reduced from £141.4 million at the end of March 2013 to £131.7 million at the end of September 2013. While the value of the underlying investments increased in local currency, the depreciation of the Singapore dollar impacted Oystercatcher's valuation of its investment in the Singapore terminal.

Finally, the Company's recent investment in XLT was valued at £61.8 million at the end of September 2013, in line with the investment cost. The underlying value growth from progress in the build of the assets was offset by the upfront arrangement fee of £1.1 million and accrued interest income of £1.2 million in the period.

Social infrastructure portfolio

The social infrastructure portfolio achieved unrealised value growth of £6.4 million in the period, supported by the robust operational performance of the underlying investments, and benefited from levels of inflation above the Company's long-term forecasts. The strong value gain achieved in the period is due mainly to an increase in the valuation of Elgin, following the sale of a holding by a co-investor at a value above 3i Infrastructure's carrying value at that time. Certain identifiable uplifts from that sale process were incorporated into the valuation of Elgin at the period end.

3i India Infrastructure Fund

The valuation of the Company's holding in the 3i India Infrastructure Fund declined from £99.1 million at the end of March 2013 to £69.1 million at the end of September 2013. This movement was driven by a number of factors, including:

- foreign exchange losses of £18.3 million, as the Indian rupee depreciated by 18.6% against sterling in the period;
- continuing issues in the power sector investments, including the availability and cost of fuel, and the inability to pass this on through higher tariffs; and
- the impact on the road sector investments of the slow down in project execution, the delay of payments and constraints on working capital.

These factors are described in the review of the 3i India Infrastructure Fund on page 32.

Foreign exchange impact

As shown in Table 2, the reported foreign exchange loss on investments of £8.3 million increased to a net £19.2 million loss after other foreign exchange related movements, mainly related to the material depreciation of the Indian rupee against the US dollar. 3i Infrastructure's exposure to the euro was substantially hedged in the period.

The Indian rupee depreciated sharply against sterling in the period, resulting in net foreign exchange losses of £18.3 million for the Company's holding in the India Fund. The Board monitors both the rupee exposure and the cost/benefit of hedging that exposure on a regular basis, receiving regular reports from the Investment Adviser during this recent period of strong volatility.

The euro depreciated by 1.0% against sterling during the period, but the resulting foreign exchange losses were largely mitigated by the Company's foreign exchange hedging programme, resulting in net losses of £0.9 million.

Table 2
Impact of foreign exchange movements on portfolio value six months to 30 September 2013 (£m)

	£/rupee	£/€	Net impact
Translation of assets £/US$	(4.9)		(4.9)
Translation of assets £/€		(3.4)	(3.4)
Reported foreign exchange losses on investments			**(8.3)**
Asset valuation US$/rupee[1]	(13.4)		(13.4)
Movement in the fair value of derivative financial instruments (£/€ hedging)		2.5	2.5
Other foreign exchange movements			**(10.9)**
Net foreign exchange losses	**(18.3)**	**(0.9)**	**(19.2)**

1 Contained within Unrealised (losses) / profits on the revaluation of investments in Table 3 on page 35.

Underlying asset performance

The fully operational investments held by the Company delivered a stable performance during the period. Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the European investments increased by 2.8% on a like-for-like basis relative to the prior comparable six-month period.

This figure is calculated on a weighted average basis and the investments included in this analysis are those that have been operational and held by the Company for one year or more: AWG, Elenia, Eversholt, Oystercatcher, Elgin (underlying project companies) and Octagon.

Summary of 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.

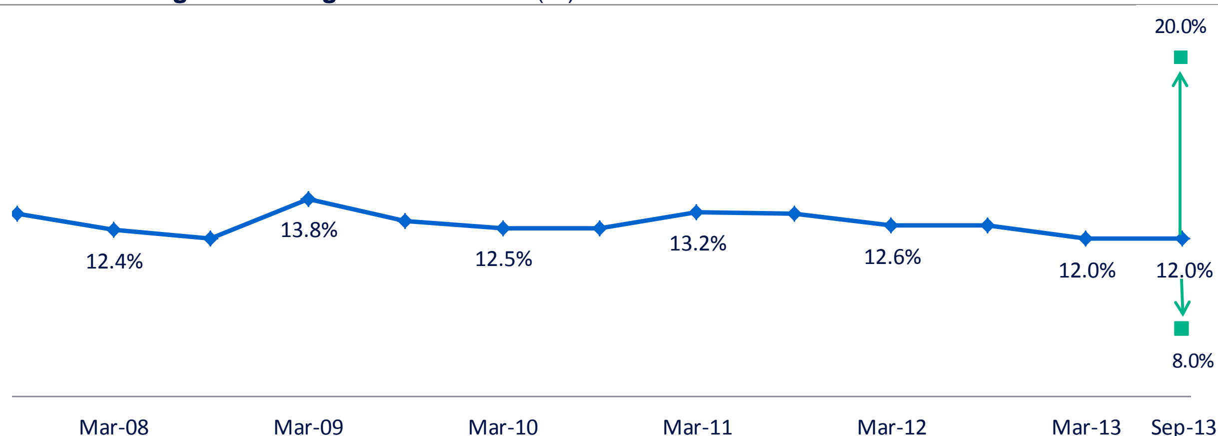
Discounted cash flow and discount rates

As at 30 September 2013, 96.3% of the portfolio was valued on a DCF basis. The weighted average discount rate applied at that date was 12.0% (March 2013: 12.0%; September 2012: 12.6%), deriving from a range of 8.0% (for our operational PFI assets) to 20.0% (for a project within the 3i India Infrastructure Fund). The discount rate applied to each investment is reviewed at each valuation date. The weighted average discount rate remained flat compared to March 2013 following the addition of XLT to the portfolio and changes in the valuation basis within the India Fund.

In addition, the discount rates used to value the Company's investments in Elgin and Octagon were reduced marginally to take into account pricing in the secondary PPP market and the value achieved in the sale of a stake in Elgin by an existing co-shareholder at a price above 3i Infrastructure's carrying value at that time.

Chart 6 shows the movement in the weighted average discount rate applied to the portfolio at the end of each six-month period since the Company's inception.

Chart 6
Portfolio weighted average discount rate (%)



3i India Infrastructure Fund and Dalmore Capital Fund

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

Within the India Fund valuation, Adani Power, which has been a listed company since August 2009, was valued on a mark-to-market basis using closing bid prices and Krishnapatnam Port was valued on the basis of a put option. All other investments were valued on a DCF basis, with the exception of a portion of Soma Enterprise's valuation, which was calculated using earnings multiples.

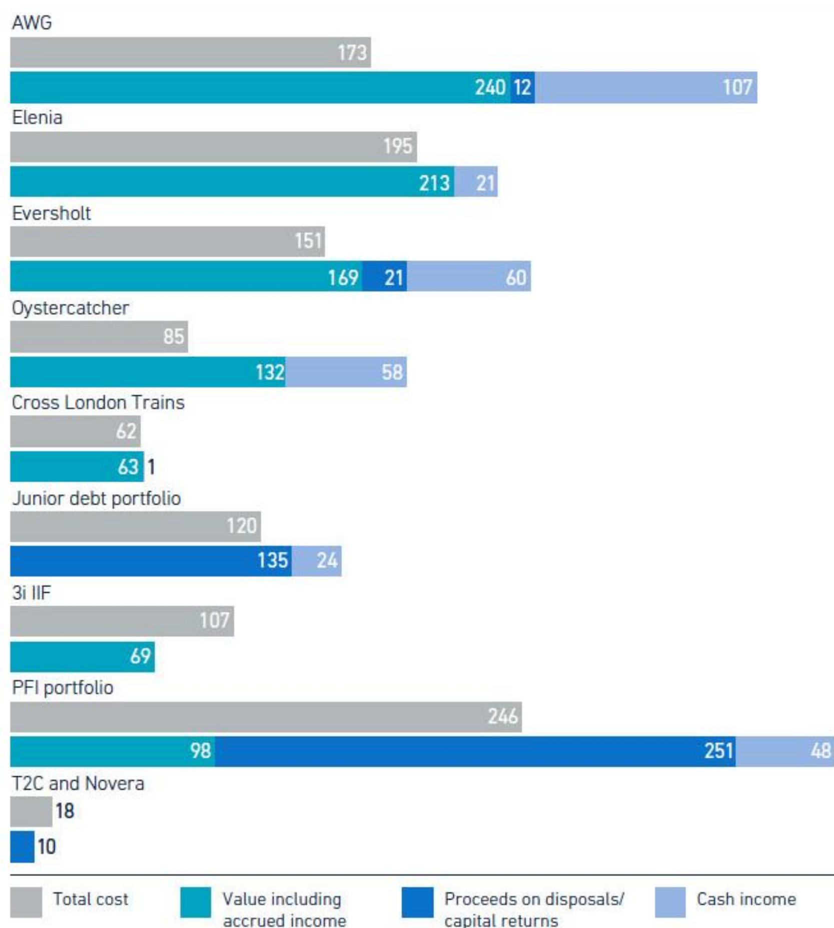
All of Dalmore's underlying investments were valued on a DCF basis.

Investment track record

As shown in Chart 7, 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
- an element of capital growth underpinning a 15% gross IRR.

Chart 7
Portfolio asset returns throughout the holding period (since inception, £m)



15%

Annualised asset IRR from inception to 30 September 2013

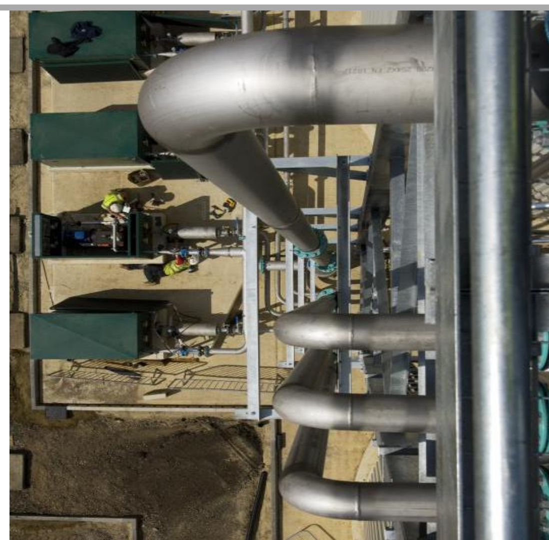
The core and social infrastructure portfolios, in particular, have generated strong returns, in line with, or in many cases ahead of expectations. These returns were underpinned by substantial cash generation in the form of income or capital profits. Indeed, most investments have returned a significant proportion of their cost through income in a relatively short period of time.

The value created through this robust investment performance has been crystallised in a number of instances through well managed realisations. While the Company is structured to hold investments over the long term, it has sold assets on an opportunistic basis, where compelling offers have generated shareholder value, as was the case for 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 19.3%.

The valuation of the India Fund has, however, been volatile, and has continued to be affected in this period by currency and macroeconomic issues, as well as a number of issues related to specific investments.

Review of investments

Anglian Water Group



Cost	£161.9m
Opening value	£230.6m
Closing value	£236.5m

Equity interest	10.3%
Income in the period	£10.9m
Asset total return in the period	£16.8m
Valuation basis	DCF

The value on an IFRS basis is £345.2 million.

Description

Anglian Water Group Limited ("AWG") is the parent company of Anglian Water, the fourth largest water and water recycling company in England and Wales 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 separately by 3i Investments.

Investment rationale

AWG was taken private in 2006 by a group of investors, including Canada Pension Plan, Colonial First State, Industry Funds Management and 3i Group, which "seeded" part of its AWG holding into 3i Infrastructure when it 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 management team;
- a relatively modern 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 adopt a more efficient 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 ("RCV") has grown steadily, underpinned by a comprehensive capital expenditure programme, which has been maintained for the 2010–2015 regulatory period. 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 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 robustly during the period, with operational performance and income levels in line with expectations. The business is implementing its cost efficiency and capital spending programmes, performing well against its targets.

The core water business continues to perform well operationally. Anglian Water ranked joint first with Wessex Water in Ofwat's Service Incentive Mechanism survey (on a combined qualitative and quantitative basis) for the year ending 31 March 2013 and has continued with a second place for the qualitative assessment for the first quarter of FY14.

While demand from small businesses remains affected by the weak economic conditions, this was offset during the period by an increase in residential demand, due to the warmer than average summer.

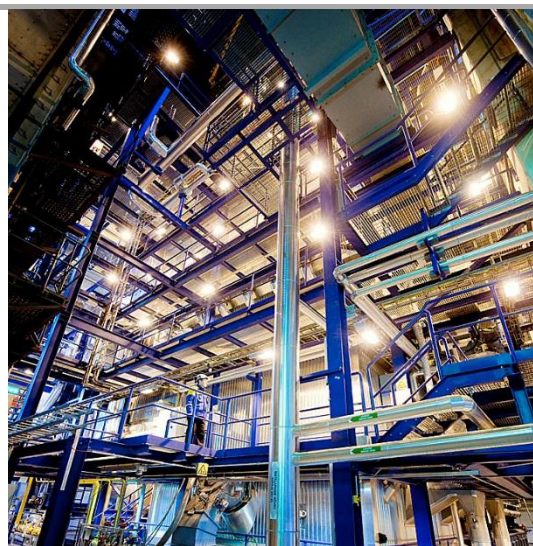
AWG continues to enjoy access to diverse sources of funding, and has raised debt at attractive terms during this six-month period.

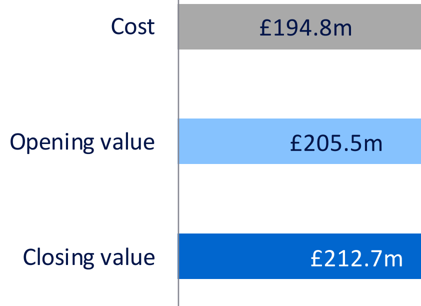
The Government published its draft Water Bill in July 2012, setting out a number of changes to the structure of the industry, including the extension of competition for business customers, changes to the abstraction regime to encourage more efficient use of water resources and measures to help the industry manage bad debts. After pre-legislative scrutiny by the Environment, Food and Rural Affairs Committee, the Bill is now expected to pass through Parliament in the Spring of 2014.

Ofwat published its final methodology for the price review 2014 ("PR14") at the end of July. The methodology has a strong emphasis on customer engagement, on maintaining a stable, transparent and predictable regulatory framework, prioritising resource sustainability and driving a reduced regulatory burden. As anticipated, it introduces some key differences from previous regulatory periods, including for instance separate retail and wholesale price controls and the adoption of total expenditure cost assessments, rather than separate assessments for operating and capital expenditure.

AWG is working closely with stakeholders to develop its PR14 business plan for the next regulatory period, which is due to be submitted to Ofwat in December. More detail, including on the large-scale customer consultation undertaken as part of the business plan preparation, can be found on AWG's website (www.awg.com).

Elenia





Equity interest	39.3%
Asset total return in the period [1]	£7.2m
Valuation basis	DCF

1 Includes an unrealised foreign exchange loss of £2.1 million.

Description

Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 410,000 customers and has a 12% market share. 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 85% 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 15% of Elenia's overall value.

The investment is held through 3i Networks Finland LP, an intermediary limited partnership which is managed separately by 3i Investments.

Investment rationale

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

Elenia has strong infrastructure characteristics:

- 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 new “Elenia” name successfully launched in May 2012, reinforcing to domestic audiences the separation from Vattenfall.

The business successfully completed the post-acquisition corporate reorganisation in early January 2013. The completion of this process allowed Elenia to begin distributing dividends to shareholders.

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.

The consortium has engaged with the management team of Elenia to update and enhance its capital expenditure plans to improve network reliability. A number of acquisitions were also examined, with the first bolt-on acquisition of an adjacent network completed in August 2012.

Developments in the period

Both businesses are performing well operationally and financially.

3i Infrastructure has not received nor accrued any income from Elenia in the period, as cash is being retained in the business in preparation for the refinancing of its acquisition debt.

The Finnish Government has introduced legislation aimed at improving the reliability of electricity supply in response to outages caused by severe weather conditions in 2011 and 2012. This is a positive development, consistent with Elenia’s strategy of investing in the resilience of the network by burying cables, which is incentivised by the regulatory model. In response to the legislation, the regulator is currently consulting on changes to regulatory incentives to take effect from January 2014.

Elenia, supported by the consortium, continues to monitor potential acquisition opportunities in the fragmented electricity distribution market.

Eversholt Rail Group

Cost	£129.8m
Opening value	£153.6m
Closing value	£155.6m

Equity interest	33.3%
Income in the period	£8.8m
Asset total return in the period	£10.8m
Valuation basis	DCF

Description

Eversholt Rail Group ("Eversholt") is one of the three leading rail rolling stock companies in the UK and owns approximately 28% of the current UK passenger train fleet. Its 19 fleets, predominantly weighted towards electric trains, are leased to 11 Train Operating Companies ("TOCs").

Although its primary revenue stream consists of lease payments from TOCs, Eversholt also owns a freight fleet, which accounts for less than 10% of its total value.

The rolling stock companies are not directly regulated, and have instead entered into codes of practice, monitored by the Office of Rail Regulation, under which they agree to work fairly and reasonably with their customers.

Investment rationale

3i Infrastructure, in consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners, acquired 100% of Eversholt in December 2010.

Eversholt is a well established infrastructure business and fits well with 3i Infrastructure's investment mandate:

- it has strong market fundamentals, with its fully utilised fleets likely to retain value in the long term, due to strong passenger demand and the high cost of new trains;
- it has high quality cash flows contracted for the medium term through lease agreements with the TOCs; and
- it has a defensive fleet portfolio, weighted towards electric trains, with a good operational history, leased to a diversified customer base.

What has been achieved in the period of ownership

The consortium has strengthened Eversholt's governance through the appointment of several highly experienced non-executive Directors to the Irish and UK boards and the establishment of audit and remuneration committees with investor representation. Further executive appointments were made to the Irish and UK businesses to bolster Eversholt's technical, legal and financial resources, positioning it well to manage the significant increase in workload as the pace of rail franchise re-tendering accelerates.

Eversholt's capital structure was de-risked through the issuance of three long-dated public bonds for a total of £1.1 billion, priced on attractive terms and attracting strong demand from public market investors, significantly reducing the ongoing debt servicing costs and refinancing risks.

The consortium has engaged closely with the management team to assess a range of capital investment opportunities, both to add further trains to the overall fleet and to invest in upgrading existing assets to provide better passenger experience and improved reliability, at good value for money for operators.

The drivers underpinning the investment case have so far been broadly proven: passenger demand, particular in the south east of England where Eversholt has a strong market share, has grown over the past three years; and the electrification of the network is proceeding, creating more cascade opportunities for Eversholt's predominantly electric-powered fleets.

Developments in the period

Eversholt has continued to perform strongly in the period.

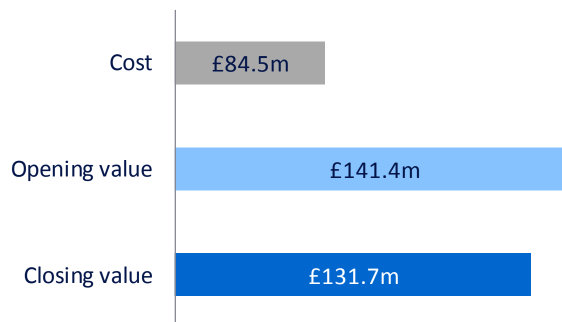
Following the publication of the Brown and Laidlaw reviews (prompted by the Intercity West Coast refranchising failings) the Department for Transport published a new refranchising timetable in March 2013, which staggers the programme over a longer period. To facilitate the revised timetable, a number of existing franchises will be extended by between seven months and four years. Eversholt continues to work proactively with current franchise holders and prospective bidders, as appropriate, to provide the best rolling stock solutions for the travelling customer.

The Thameslink Rolling Stock Procurement Programme reached financial close in June 2013. Eversholt entered into a long-term contract to provide advisory and asset management services to Cross London Trains, in which 3i Infrastructure also holds a 33.3% stake.

In addition to the recruitment of a new CFO, the executive team was strengthened during the period through the appointment of a COO.

Since the period end, Eversholt has announced the successful completion of its new £600 million senior debt financing, which will provide additional funding capacity for investment in rolling stock and allows the pre-payment of existing bank facilities.

Oystercatcher



Equity interest	45.0%
Income in the period	£6.2m
Asset total return in the period[1]	£(3.5)m
Valuation basis	DCF

1 Includes an unrealised foreign exchange loss of £1.3 million.
The value on an IFRS basis is £294.2 million.

Description

Oystercatcher Luxco 2 S.à r.l. ("Oystercatcher") is the holding company through which 3i Infrastructure invested in 45% stakes in three subsidiaries of Oiltanking GmbH ("Oiltanking"), located in the Netherlands, Malta and Singapore.

These businesses provide over 3.6 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 75 terminals in 23 countries with a total storage capacity of 22.8 million cubic metres.

Investment rationale

The investment was completed in August 2007. The key elements of the investment case were:

- strong projected demand for oil and oil-related products;
- storage capacity is scarce and a key component of the oil and oil product supply chain, resulting in low customer turnover;
- the three terminals are defensively located in key trading hubs in Amsterdam, Malta and Singapore and have a strong market position;
- contracts are let on a use-or-pay basis with fixed terms of up to 10 years, often with tariffs linked to local inflation rates, resulting in reliable cash flows; and
- the transaction allowed 3i Infrastructure to partner with a leading player in the oil storage market, with a strong operational reputation.

What has been achieved in the period of ownership

The 2007 investment case has largely been confirmed, with the investment performing well. All storage capacity has been fully let throughout the period of investment, and throughput levels have been high. All three terminals have been largely unaffected by the global economic slowdown, even though the "flattening" of the forward curve in recent years has squeezed oil trading margins and increased customers' focus on storage costs during contract renewal negotiations. However, global trade in petroleum products continues to increase, leading to further growth in demand for oil storage.

The Investment Adviser has been 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 the three terminals has increased by 23%.

In March 2013, 3i Infrastructure signed the refinancing of the Oystercatcher acquisition debt facility, significantly de-risking its financing structure.

Developments in the period

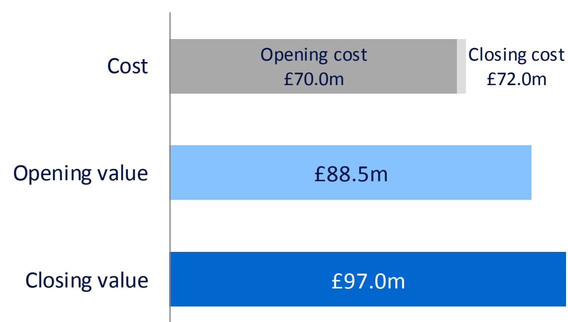
All three terminals have performed in line with expectations in the period.

Market conditions for trading customers have remained less favourable than in previous years, as trading margins are squeezed by a shallower forward curve. This has resulted in lower throughput than last year. However, the strong market position of the terminals has continued to ensure that contracts expiring in the period have been renewed on good terms.

The Amsterdam terminal currently has an ongoing enhancement programme to further improve its safety and environmental standards.

The valuation of 3i Infrastructure's holding in Oystercatcher declined due to the 6% depreciation of the Singapore dollar against the euro in the period. While the value of the underlying investments increased in local currency, the closing value reflected movements in the Singapore dollar/euro forward curve, incorporated in Oystercatcher's valuation of its investment in the Singapore terminal.

Social infrastructure portfolio



Equity interest	
Elgin	49.9%
Octagon	36.8%
Dalmore	6% LP share
Income in the period	£2.8m
Asset total return in the period	£9.2m
Valuation basis	DCF and LP share of funds for Dalmore

Description

Elgin

Elgin Infrastructure Limited ("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

Octagon Healthcare Limited ("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

Dalmore Capital Fund ("Dalmore") is a 25-year LP fund managed by Dalmore Capital Limited and investing in equity and subordinated debt in secondary PFI transactions which are both 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. At 30 September 2013, Dalmore had total commitments of £249 million, 92% of which were drawn.

Investment rationale

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

What has been achieved in the period of ownership

All assets in the PFI portfolio have performed well through their period of ownership, in line with or ahead of expectations, providing a good return to the Company since inception. This has been due to engaged portfolio management on the part of the Investment Adviser and other shareholders, as well as to more general factors, including higher than expected inflation.

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

Developments in the period

All assets in the social infrastructure portfolio performed well operationally during the period, delivering good levels of income.

All 16 projects in Elgin are performing in line with expectations. All service providers are performing well, with no significant new operational issues arising at any of the projects during the period. In September, a stake in Elgin was sold by a co-investor at a value above 3i Infrastructure's carrying value at that time.

Octagon continues to perform well financially and operationally and has maintained its strong working relationship with the NHS Trust and with Serco, who continues to provide a good service to the Trust. In June, an inspection of eight wards and of the A&E and Acute Medical Units of the hospital by the Care Quality Commission found that patients received safe and appropriate care during a time of high demand. In September, five weeks ahead of schedule and on budget, Octagon completed the construction of two additional high-density concrete bunkers to house two Linear Accelerators, used to deliver radiation therapy in the specialist treatment of certain types of tumours.

The underlying assets in the Dalmore portfolio are performing well and income generation has been in line with projections. The fund drew an additional £5.8 million from the Company during the period, to finance the purchase of holdings in various PFI projects. Dalmore also returned £3.6 million to 3i Infrastructure during the period, as a result of new commitments from additional LPs, resulting in net investment in the fund of £2.2 million.

In May, 3i Group made an irrevocable offer to Barclays Bank plc to acquire Barclays Infrastructure Funds Management Limited ("BIFM"), its European infrastructure fund management business. BIFM has assets under management of approximately £780 million and an investment team based in London and Paris. The team currently manages two funds that invest in European PPP and energy projects.

With its extensive relationships with leading project development partners, the team will broaden the Investment Adviser's access to opportunities, which is likely to result in increased deal flow for the Company.

3i India Infrastructure Fund

Cost	£106.8m[1]
Opening value	£99.1m
Closing value	£69.1m

Partnership interest	20.9%
Asset total return in the period[2]	£(29.7)m
Valuation basis	LP share of funds

1 Opening cost was £106.9 million.
2 Includes a net foreign exchange loss of £18.3 million (sterling / US$ loss of £4.9 million, and US$ / rupee loss of £13.4 million).

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, airport, 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 2013, the Fund was 73% invested in a portfolio of seven assets in the power and transportation sectors.

Transportation

The investments in the Transportation sector accounted for 59% of the India Fund's value at 30 September 2013.

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

KMC Roads is developing a c. 1,000km portfolio of 10 "build-operate-transfer" ("BOT") road projects, one of the largest portfolios of its kind in India.

Supreme Roads, a subsidiary of Supreme Infrastructure India Limited, is building a portfolio of BOT road projects.

Soma Enterprises 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 41% of the India Fund's value at 30 September 2013.

Adani Power focuses on the development and operation of power plants and the sale of power generated. With operational capacity of 7,260MW and a further 1,980MW under construction, 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. In addition, GVK Energy is developing two mining projects to supply coal to its own thermal power plants.

Ind-Barath Utkal is building a 700MW coal-fired power plant in the state of Orissa.

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 current 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.

What has been achieved 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 the realisation of investments over the next two to three years, if market conditions allow.

The valuation of the India Fund's assets has been affected by a number of market and other external factors, including the depreciation of the Indian rupee. At 30 September 2013, the India Fund's NAV was 0.86x its investment cost in rupee terms, and 0.64x 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 macroeconomic and market challenges.

Developments in the period

Overall, the investments in the India Fund have continued to face significant challenges in the period, related in particular to the sharp depreciation of the Indian rupee against the US dollar (down 13% in the period), as well as other currencies.

Transportation

The India Fund's transportation assets were valued in aggregate at £40.6 million at 30 September 2013 (March 2013: £61.7 million).

In addition to the valuation impact of the rupee depreciation, the road investments are facing funding constraints, as project execution has slowed down across the infrastructure sector and raw material costs have increased, resulting in working capital constraints. As a result of these difficulties, the valuations of Soma Enterprises and KMC Roads were reduced. Supreme Roads has been less affected by these difficulties and has continued to make progress in the construction of its projects.

The India Fund's port asset, Krishnapatnam Port, has continued to be affected by an iron ore mining ban, which, although now lifted in some areas, will subdue exports for some time as production resumes and pent-up domestic demand is satisfied. While iron ore export cargoes remain lower than initially projected, the company has continued to focus on broadening its cargo mix and performed well in the period, supported by increases in its coal

import and general cargo volumes. On 30 September 2013, the India Fund exercised a put option over its holding in the business.

Power

The power sector investments were valued in aggregate at £28.5 million at the end of September (March 2013: £37.4 million). The factors affecting their performance have remained broadly unchanged, and include:

- the availability of domestic coal and gas. Coal India continues to struggle to match supplies with the contracted demand from power producers, and is making up the shortfall with expensive imports. There are also shortages of gas;
- the rapid and sharp depreciation of the Indian rupee in the period has further exacerbated issues regarding the pricing of fuel;
- the strain on the financial position of State Electricity Boards ("SEBs"). While the central government has approved debt restructuring packages for the SEBs, not all SEBs have accepted the terms and negotiations are still ongoing; and
- to date, no mechanism has been agreed with the relevant authorities to allow power producers to pass through increased fuel costs through higher tariffs under existing long-term power purchase agreements ("PPAs").

Partly as a result of these difficulties, the share price in Adani Power declined by a further 21% in the period. Despite the difficult backdrop, the management and promoters of Adani Power have taken a strategic decision not to slow down the planned build-out of capacity and have infused further equity in the business.

GVK faces similar issues due to the lack of gas supply to its principal plant, which has continued to affect its valuation. Ind-Barath Utkal was able to make good construction progress in the period and secured a new long-term PPA in August 2013.

Returns and risk

Key performance indicators

Total return		Dividend	
Objective	To provide shareholders with a total return of 10% per annum.	**Objective**	To target an annual distribution yield of 5.5% of the opening NAV[1].
Measurement	Total return for the period expressed as a percentage of opening shareholders' equity[1].	**Measurement**	Dividend for the financial year, expressed as a percentage of opening shareholders' equity[1].
Status	0.6% total return for the six months to 30 September 2013.	**Status**	Interim dividend of 3.35p equates to a 2.75% distribution on opening shareholders' equity for the half year.

1 Opening NAV and opening shareholders' equity are net of the final dividend paid in the prior year and adjusted to take into account any further equity issued in the period.

Table 3
Summary of total return on an investment basis (£m)

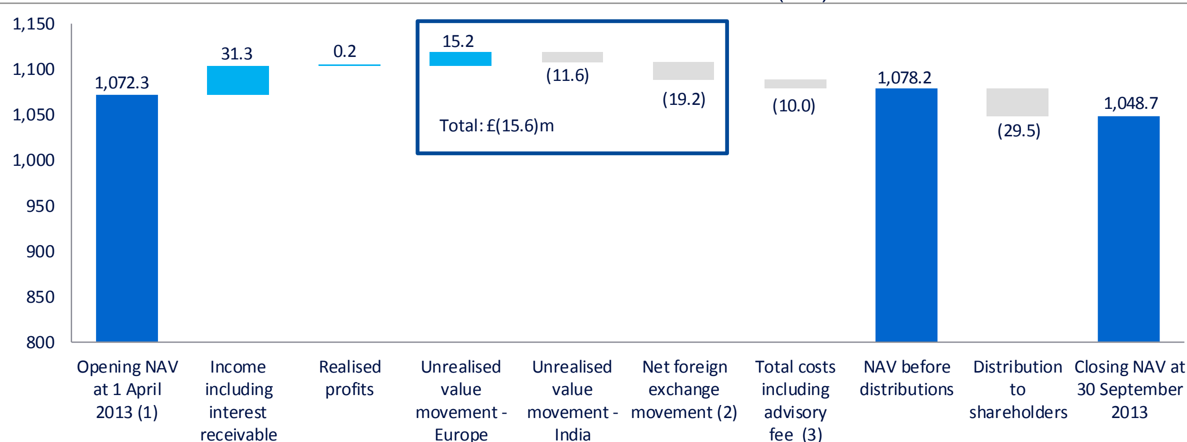
	Six months to 30 Sep 2013	Six months to 30 Sep 2012	Consolidated IFRS basis Six months to 30 Sep 2013
Realised profits over fair value on the disposal of investments	0.2	-	0.2
Unrealised (losses)/profits on the revaluation of investments	(9.8)	11.6	(9.6)
Foreign exchange (losses)/gains on investments	(8.3)	(14.7)	-
Capital loss	**(17.9)**	**(3.1)**	**(9.4)**
Portfolio income			
Dividends	15.8	17.2	24.8
Income from loans and receivables	14.1	13.6	15.2
Fees receivable on investment activities	1.1	-	1.1
Fees payable on investment activities	(0.1)	(0.8)	(0.1)
Interest receivable	0.3	0.6	0.3
Investment return	**13.3**	**27.5**	**31.9**
Advisory, performance and management fees payable	(6.8)	(6.3)	(7.5)
Operating expenses	(1.1)	(1.0)	(1.1)
Finance costs	(1.8)	(1.4)	(9.4)
Movements in the fair value of derivative financial instruments	2.5	12.6	8.6
Other net expense	(0.2)	(0.5)	(0.2)
Profit for the period	**5.9**	**30.9**	**22.3**
Exchange difference on translation of foreign operations	-	-	(8.9)
Profit attributable to non-controlling interests for the period	-	-	(8.1)
Total comprehensive income ("Total Return")	**5.9**	**30.9**	**5.3**

Returns

The commentary in this section analyses the key drivers of the Company's returns according to the investment basis of preparation, as shown in Table 3. The basis of preparation for the investment basis is shown on page 41, along with an analysis of the key differences in accounting treatment to information prepared in accordance with IFRS as adopted by the European Union and a summary of expected developments to this reporting on adoption of IFRS 10: Consolidated Financial Statements.

3i Infrastructure generated a total return for the six months to 30 September 2013 of £5.9 million, representing a 0.6% return on opening shareholders' equity (September 2012: £30.9 million, 3.0%). The return was driven principally by total portfolio income of £31.3 million (including bank interest income receivable of £0.3 million) and by the steady performance of the European assets, but was impacted negatively by the losses from the 3i India Infrastructure Fund ("India Fund"), including foreign exchange losses.

Chart 8
Reconciliation of movements in NAV on an investment basis (£m)



1 Net of prior year final dividend.
2 Foreign exchange movements are described in detail in Table 2 on page 18.
3 Includes fees payable on investment activity.

Capital return

Realised capital return

3i Infrastructure generated a small realised capital gain of £0.2 million (September 2012: nil), from the India Fund's redemption of some preference shares in Supreme Roads.

Unrealised capital return, including foreign exchange movements

The combined unrealised value loss across the portfolio, including the foreign exchange impact, as shown in Chart 8, was £15.6 million in the period (September 2012: £9.5 million gain).

The European portfolio increased in value by £15.2 million in the period. These steady gains from the European portfolio were more than offset by losses of £11.6 million for the India Fund and by net foreign exchange losses of £19.2 million, attributable mainly to the sharp depreciation of the Indian rupee against the US dollar. The total impact of movements in foreign currency is shown in Table 2 on page 18.

Investment return

Portfolio income

The portfolio generated income of £31.0 million in the period (September 2012: £30.8 million), of which £15.8 million was through dividends (September 2012: £17.2 million) and £14.1 million through interest on shareholder loans (September 2012: £13.6 million). This figure also includes a £1.1 million upfront arrangement fee from XLT.

AWG paid a dividend of £8.5 million and accrued interest of £2.4 million (September 2012: £5.1 million, £2.4 million). The dividend received in the first six months of last year was lower than this year's dividend mainly as a result of increased spending on measures to mitigate the effect of extreme weather conditions in early 2012.

Eversholt continues to perform well and to generate good income. The Company accrued interest payments of £8.8 million from Eversholt (September 2012: £9.0 million). The level of accrued interest was slightly lower than last year, as Eversholt repaid £6.6 million of its shareholder loan in the year to 31 March 2013.

Oystercatcher paid dividends of £6.2 million, which were lower than the £11.2 million received in the six months to September 2012. The dividend for the comparable period last year had benefited from retained cash being distributed from the vehicle due to progress achieved in the refinancing of its debt.

The Company did not receive nor accrue any income from Elenia in the period, as cash is being retained in the business while it prepares for the refinancing of its acquisition debt.

XLT, a new investment in the period, paid an upfront arrangement fee of £1.13 million. The Company also accrued interest income of £1.23 million from XLT in the period.

The social infrastructure investments generated income of £2.8 million (September 2012: £3.1 million), of which £1.1 million was through dividends (September 2012: £0.9 million) and £1.7 million was through interest (September 2012: £2.2 million). The reduction compared to last year is due mainly to changes in the composition of the social infrastructure portfolio following the sale of Alpha Schools and the new investment in Dalmore.

Fees payable for costs in relation to transactions that did not reach, or have yet to reach completion, totalled £0.1 million (September 2012: £0.8 million).

Interest receivable

Interest income from cash and cash equivalents totalled £0.3 million (September 2012: £0.6 million), following the reduction in the average cash balances held during the period. The Company's cash balances generated interest at an average rate of 0.4% in the period (September 2012: 0.6%).

Total income

Total income, including interest from cash balances, was £31.3 million in the period (September 2012: £31.4 million). This covers the proposed interim dividend of £29.5 million.

Advisory fees, performance fees and other operating and finance costs

During the six months to 30 September 2013, the Company incurred advisory fees of £6.8 million (September 2012: £6.3 million). The increase was due to the growth in portfolio value and the new investments in XLT and Dalmore. 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 made during the period. The advisory fee reduces to 1.25% for any proportion of an asset held for more than five years. As several of the Company's investments have now been held for more than five years, the advisory fee

rate chargeable has reduced for those investments (eg AWG, Oystercatcher, Octagon, Adani Power, Soma Enterprise and Krishnapatnam Port). No performance fees were accrued relating to this period. For a more detailed explanation of how fees are calculated, please refer to Note 9 on pages 52 and 53.

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £1.1 million (September 2012: £1.0 million).

Finance costs of £1.8 million (September 2012: £1.4 million) comprise the arrangement and commitment fees for the Company's £200 million revolving credit facility. The increase compared to last year reflects the release of capitalised costs relating to the previous facility. This facility was replaced by a new facility, agreed in May 2013 at improved terms, which will result in lower finance costs going forward.

Movements in the fair value of derivatives of £2.5 million (September 2012: £12.6 million) represent the fair value movements of the euro hedging programme, and included a £0.3 million loss on the settlement of derivatives at their maturity (September 2012: £1.5 million gain).

Balance sheet and cash flows

At 30 September 2013, the Company's net assets totalled £1,078.2 million, or £1,048.7 million after the deduction of the interim dividend (September 2012: £1,071.3 million, £1,045.1 million), comprising the asset portfolio, valued at £964.4 million (September 2012: £885.8 million), cash and cash equivalents of £93.7 million (September 2012: £169.9 million), net derivative financial instruments assets of £0.5 million (September 2012: £12.6 million asset) and other current assets of £21.2 million (September 2012: £6.4 million), primarily relating to accrued income from portfolio investments and prepayments, offset by accrued operating and financing costs of £1.6 million (September 2012: £3.4 million). A summary balance sheet is included in Table 4.

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

There were no external borrowings on a recourse basis to the Company.

Revolving credit facility

At 30 September 2013, the £200 million revolving credit facility held by the Company had not been drawn and remains undrawn at the time of reporting.

Net asset value per share

The total NAV per share at 30 September 2013 was 122.3p (September 2012: 121.6p). This reduces to 119.0p (September 2012: 118.6p) after the payment of the interim dividend of 3.35p. There are no dilutive securities in issue.

Table 4
Summary balance sheet on an investment basis (£m)

	As at 30 September 2013	As at 30 September 2012	Consolidated IFRS basis As at 30 September 2013
Assets			
Non-current assets			
Investment portfolio	964.4	885.8	1,266.6
Derivative financial instruments	2.1	9.7	3.8
Total non-current assets	**966.5**	**895.5**	**1,270.4**
Current assets			
Other current assets	21.2	6.4	27.9
Derivative financial instruments	0.9	3.7	1.5
Cash and cash equivalents	93.7	169.9	94.7
Total current assets	**115.8**	**180.0**	**124.1**
Total assets	**1,082.3**	**1,075.5**	**1,394.5**
Borrowings	-	-	(157.6)
Derivative financial instruments	(2.5)	(0.6)	(2.6)
Total non-current liabilities	**(2.5)**	**(0.6)**	**(160.2)**
Current liabilities			
Trade and other payables	(1.6)	(3.4)	(2.1)
Borrowings	-	-	(1.0)
Derivative financial instruments	-	(0.2)	(6.0)
Total current liabilities	**(1.6)**	**(3.6)**	**(9.1)**
Total liabilities	**(4.1)**	**(4.2)**	**(169.3)**
Net assets	**1,078.2**	**1,071.3**	**1,225.2**
Equity			
Stated capital account	181.6	181.6	181.6
Retained reserves	896.6	889.7	865.7
Translation reserve	-	-	37.0
Total shareholders' equity	**1,078.2**	**1,071.3**	**1,084.3**
Non-controlling interests	-	-	140.9
Total equity	**1,078.2**	**1,071.3**	**1,225.2**

Risks and uncertainties

The main elements of 3i Infrastructure's risk management framework, together with a detailed description of the principal risks and uncertainties faced by the Company, as well as its approach to risk mitigation, are set out in the Returns and Risk section of the 3i Infrastructure annual report. There has been no material change to the principal risks and uncertainties faced by the Company, or to the Company's risk management framework, since the publication of that report.

The following provides a description of the main inherent risks and uncertainties that are likely to impact the Company in the second half of the financial year:

External risks – arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Company's operations.

Investment risks – in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across the portfolio.

Strategic risks – arising from the analysis, design and implementation of the Company's business model and key decisions on investment growth rates and financing, as well as the impact of the changes to the competitive environment in which the Company operates.

Financial risks – in relation to changes in market prices and rates, currency exchange rate volatility, access to capital markets for the refinancing of individual investments, and the appropriate capital structure for investments.

Operational risks – arising from inadequate or failed processes, people and systems, or from external factors affecting these.

The Company reviews the effectiveness of its risk management framework and activities on an ongoing basis, and monitors the management of risks within its portfolio companies. The Company also maintains a risk log. This Half-yearly report makes reference to the evolution and management of key risks, and related results and outcomes, which should be viewed in the context of the risk management framework and principal inherent risk factors.

Basis of preparation

Throughout the Investment Adviser's review, the Review of investments and the Returns and risks sections, the Investment Adviser has presented the Company's net asset value and financial results to show the return on a pro forma investment basis. This information is in addition to the consolidated financial statements as shown on pages 42 to 45, as required under International Financial Reporting Standards as adopted by the EU ("IFRS"). The pro forma investment basis presentation provides an alternative representation of the Company's net asset value, shows the Company's cash utilisation for investment and differentiates between non-recourse borrowings held within asset specific acquisition companies and borrowings which may be made at the Company level. The investment basis does not consolidate majority investments and subsidiaries formed specifically for investment purposes in the same way as required under IFRS.

Adoption of IFRS 10: Consolidated Financial Statements

In October 2012, the International Accounting Standards Board (IASB) issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The amendments apply to businesses that qualify as investment companies and it is expected the Company will qualify for the exemption. The Investment Entities amendments provide an exception to the consolidation requirements in the new standard IFRS 10: Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them, in a similar manner to the Company's current investment basis of preparation. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The Company anticipates that, following official adoption by the EU, it will adopt IFRS 10 and the Investment Entities exception in respect of the year ending March 2014.

Investment basis adjustments

Several adjustments to the consolidated financial statements prepared under IFRS have been made, in order to show returns on an investment basis. The main adjustments are set out below.

3i Infrastructure holds 68.5% of 3i Osprey LP and 87.3% of 3i Networks Finland LP, the vehicles through which it holds its investments in AWG and Elenia respectively. The remaining portions of these entities are held by other third parties. 3i Infrastructure is required under IFRS to consolidate 100% of the results and balance sheet of these limited partnerships into its financial statements on a line-by-line basis. In the investment basis presentation, 3i Infrastructure has recognised only its share of the income and balance sheet of 3i Osprey LP and 3i Networks Finland LP. This adjustment has the effect of eliminating the non-controlling interest entitlement shown in the statement of comprehensive income and the balance sheet prepared on an IFRS basis.

One subsidiary of the Company, 3i Primary Infrastructure 2005–06 LP, which held the investment in Alpha Schools prior to its disposal, has investing partners who were entitled to a 8.75% share of profits, once certain cash hurdle criteria were met. Amounts due to this limited partnership were treated as a non-controlling interest on an IFRS basis in the six months to 30 September 2012 comparative period and were accrued as an expense in the investment basis. These amounts were paid in full in the period to 30 September 2013.

3i Infrastructure holds two wholly-owned subsidiaries, Oystercatcher Luxco 1 S.à r.l. and Oystercatcher Luxco 2 S.à r.l., ("Oystercatcher Luxco 1" and "Oystercatcher") to fund the minority investment into three subsidiaries of Oiltanking GmbH. External borrowings were obtained by Oystercatcher to partly fund the investments. These borrowings are non-recourse to 3i Infrastructure. Under IFRS, the results and balance sheet of the Oystercatcher Luxco 1 and Oystercatcher subsidiaries are required to be consolidated into 3i Infrastructure's financial statements on a line-by-line basis. In the investment basis presentation Oystercatcher is not consolidated but is accounted for as a portfolio asset held for investment purposes and is held as an investment at fair value accordingly.

Financials and other information

Consolidated statement of comprehensive income

for the six months to 30 September 2013

	Notes	Six months to 30 September 2013 (unaudited) £m	Six months to 30 September 2012 (unaudited) £m	Year to 31 March 2013 (audited) £m
Realised gains over fair value on the disposal of investments		**0.2**	-	2.7
Unrealised (losses)/gains on the revaluation of investments		**(9.6)**	15.0	34.4
		(9.4)	15.0	37.1
Portfolio income				
Dividends receivable		**24.8**	24.8	69.4
Income from loans and receivables		**15.2**	14.7	29.0
Fees receivable on investment activities		**1.1**	-	-
Fees payable on investment activities		**(0.1)**	(0.8)	(0.7)
Interest receivable		**0.3**	0.6	0.7
Investment return	1	**31.9**	54.3	135.5
Advisory, performance and management fees payable	2	**(7.5)**	(6.9)	(15.5)
Operating expenses		**(1.1)**	(1.0)	(2.3)
Finance costs		**(9.4)**	(6.4)	(17.8)
Unrealised gains in the fair value of derivative financial instruments		**8.6**	11.9	0.1
Net realised gains/(losses) over fair value on the settlement of derivative financial instruments		**-**	1.0	(0.4)
Other income		**0.1**	0.1	0.2
Other expenses		**-**	(0.5)	(0.5)
Profit before tax		**22.6**	52.5	99.3
Income taxes	3	**(0.3)**	-	(0.1)
Profit after tax and profit for the period		**22.3**	52.5	99.2
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Exchange (losses)/gains on translation of foreign operations		**(8.9)**	(16.5)	12.6
Total comprehensive income for the period		**13.4**	36.0	111.8
Profit after tax and profit for the period attributable to:				
Equity holders of the parent		**13.9**	45.8	80.2
Non-controlling interests		**8.4**	6.7	19.0
Total comprehensive income for the period attributable to:				
Equity holders of the parent		**5.3**	30.5	92.3
Non-controlling interests		**8.1**	5.5	19.5
Earnings per share				
Basic earnings per share attributable to equity holders of the parent (pence)	6	**1.6**	5.2	9.1
Diluted earnings per share attributable to equity holders of the parent (pence)	6	**1.6**	5.2	9.1

Consolidated statement of changes in equity

for the six months to 30 September 2013

for the six months to 30 September 2013 (unaudited)	**Stated capital account £m**	**Retained reserves £m**	**Translation reserve £m**	**Total shareholders' equity £m**	**Non-controlling interest £m**	**Total equity £m**
Opening balance	**181.6**	**882.8**	**45.6**	**1,110.0**	**137.7**	**1,247.7**
Total comprehensive income for the period	**-**	**13.9**	**(8.6)**	**5.3**	**8.1**	**13.4**
Distributions payable to non-controlling interests	**-**	**-**	**-**	**-**	**(4.9)**	**(4.9)**
Dividends paid to shareholders of the Company during the period	**-**	**(31.0)**	**-**	**(31.0)**	**-**	**(31.0)**
Closing balance	**181.6**	**865.7**	**37.0**	**1,084.3**	**140.9**	**1,225.2**

for the six months to 30 September 2012 (unaudited)	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non-Controlling Interest £m	Total Equity £m
Opening balance	181.6	855.0	33.5	1,070.1	127.2	1,197.3
Total comprehensive income for the period	-	45.8	(15.3)	30.5	5.5	36.0
Distributions payable to non-controlling interests	-	-	-	-	(1.9)	(1.9)
Dividends paid to shareholders of the Company during the period	-	(26.2)	-	(26.2)	-	(26.2)
Closing balance	181.6	874.6	18.2	1,074.4	130.8	1,205.2

for the year to 31 March 2013 (audited)	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non-controlling interest £m	Total Equity £m
Opening balance	181.6	855.0	33.5	1,070.1	127.2	1,197.3
Total comprehensive income for the year	-	80.2	12.1	92.3	19.5	111.8
Distributions payable to non-controlling interests	-	-	-	-	(9.0)	(9.0)
Dividends paid to shareholders of the Company during the year	-	(52.4)	-	(52.4)	-	(52.4)
Closing balance	181.6	882.8	45.6	1,110.0	137.7	1,247.7

Consolidated balance sheet

as at 30 September 2013

	Notes	As at 30 September 2013 (unaudited) £m	As at 30 September 2012 (unaudited) £m	As at 31 March 2013 (audited) £m
Assets				
Non-current assets				
Investments				
Unquoted investments	4	**986.3**	946.5	1,004.0
Loans and receivables	4	**280.3**	226.3	218.6
Investment portfolio		**1,266.6**	1,172.8	1,222.6
Derivative financial instruments	4	**3.8**	9.7	1.4
Total non-current assets		**1,270.4**	1,182.5	1,224.0
Current assets				
Trade and other receivables		**27.9**	9.8	18.9
Derivative financial instruments	4	**1.5**	3.6	0.3
Cash and cash equivalents		**94.7**	179.2	185.3
Total current assets		**124.1**	192.6	204.5
Total assets		**1,394.5**	1,375.1	1,428.5
Liabilities				
Non-current liabilities				
Loans and borrowings		**(157.6)**	(151.7)	(160.0)
Derivative financial instruments	4	**(2.6)**	(13.7)	(13.3)
Total non-current liabilities		**(160.2)**	(165.4)	(173.3)
Current liabilities				
Trade and other payables		**(2.1)**	(2.6)	(6.4)
Loans and borrowings		**(1.0)**	-	(0.6)
Derivative financial instruments	4	**(6.0)**	(1.9)	(0.5)
Total current liabilities		**(9.1)**	(4.5)	(7.5)
Total liabilities		**(169.3)**	(169.9)	(180.8)
Net assets	1	**1,225.2**	1,205.2	1,247.7
Equity				
Stated capital account		**181.6**	181.6	181.6
Retained reserves		**865.7**	874.6	882.8
Translation reserve		**37.0**	18.2	45.6
Total equity attributable to equity holders of the parent		**1,084.3**	1,074.4	1,110.0
Non-controlling interests		**140.9**	130.8	137.7
Total equity		**1,225.2**	1,205.2	1,247.7

Directors

6 November 2013

Consolidated statement of cash flows

for the six months to 30 September 2013

	Six months to 30 September 2013 (unaudited) £m	Six months to 30 September 2012 (unaudited) £m	Year to 31 March 2013 (audited) £m
Cash flow from operating activities			
Net purchase of investments	**(64.0)**	(4.9)	(16.5)
Proceeds from realisations of investments	**0.4**	6.8	28.1
Income received from loans and receivables	**6.5**	10.8	19.9
Dividends received	**24.9**	24.8	69.1
Fees received on investment activities	**1.1**	-	-
Fees paid on investment activities	**(0.1)**	(0.7)	(1.3)
Operating expenses paid	**(1.3)**	(1.3)	(2.3)
Interest received	**0.3**	0.5	0.8
Advisory, performance and management fees paid	**(8.5)**	(6.6)	(14.1)
Income taxes paid	**(0.1)**	-	-
Other income received	**0.3**	0.2	0.3
Net cash flow from operations	**(40.5)**	29.6	84.0
Cash flow from financing activities			
Proceeds from new long-term borrowings	**-**	-	160.6
Repayment of existing long-term borrowings	**(0.4)**	-	(160.6)
Interest paid	**(7.1)**	(4.6)	(9.4)
Amounts received on the settlement of derivative contracts	**0.3**	1.4	2.0
Amounts paid on the settlement of derivative contracts	**(0.6)**	(1.1)	(5.1)
Fees paid on financing activities	**(6.2)**	(1.1)	(8.3)
Dividends paid	**(31.0)**	(26.2)	(52.4)
Distributions paid to non-controlling interests	**(4.9)**	(1.9)	(9.0)
Net cash flow from financing activities	**(49.9)**	(33.5)	(82.2)
Change in cash and cash equivalents	**(90.4)**	(3.9)	1.8
Cash and cash equivalents at the beginning of the period	**185.3**	183.6	183.6
Effect of exchange rate movement	**(0.2)**	(0.5)	(0.1)
Cash and cash equivalents at the end of the period	**94.7**	179.2	185.3

Notes to the accounts

1 Segmental analysis

The Directors of the Company review the financial performance of the Group on the "investment basis", as defined in the Returns and risks section. However, the Directors also review information on a regular basis that is analysed by geography and is prepared on a basis that is consistent with the consolidated accounting basis. 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 72% (September 2012: 58%, March 2013: 49%) of its portfolio income in the period from investments held in the UK and Ireland and 28% (September 2012: 42%, March 2013: 51%) of portfolio income from investments held in continental Europe. During the period, the Group generated income from its investments in AWG of £15.9 million (September 2012: £10.9 million, March 2013: £22.6 million), Oiltanking of £11.3 million (September 2012: £16.4 million, March 2013: £26.6 million), Eversholt of £8.8 million (September 2012: £9.0 million, March 2013: £17.8 million) and Elenia of £nil (September 2012: nil, March 2013: £23.6 million), which represents 39% (September 2012: 28%, March 2013: 23%), 28% (September 2012: 42%, March 2013: 27%), 21% (September 2012: 23%, March 2013: 18%) and nil (September 2012: nil, March 2013: 24%), respectively of the total portfolio income. There was no other income entitlement 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 2013.

for the six months to 30 September 2013 (unaudited)	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains over fair value on the disposal of investments	-	-	0.2	0.2
Unrealised gains/(losses) on the revaluation of investments	17.0	(1.6)	(25.0)	(9.6)
Portfolio income	29.7	11.3	-	41.0
Interest receivable	0.3	-	-	0.3
Investment return/(loss)	47.0	9.7	(24.8)	31.9
Finance costs	(1.8)	(7.6)	-	(9.4)
Other net (expenses)/income	(4.8)	4.9	-	0.1
Profit/(loss) before tax	40.4	7.0	(24.8)	22.6
as at 30 September 2013 (unaudited)				
Balance sheet				
Fair value of investment portfolio	659.6	537.9	69.1	1,266.6
Cash and cash equivalents	87.5	6.6	0.6	94.7
Derivative financial instruments	3.0	2.3	-	5.3
Other assets	22.7	5.1	0.1	27.9
Assets	772.8	551.9	69.8	1,394.5
Loans and borrowings	-	(158.6)	-	(158.6)
Derivative financial instruments	(2.5)	(6.1)	-	(8.6)
Other liabilities	(0.9)	(1.2)	-	(2.1)
Liabilities	(3.4)	(165.9)	-	(169.3)
Net assets	769.4	386.0	69.8	1,225.2

(1) Including Channel Islands.
(2) Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investment in Oiltanking, including those derived from its underlying business in Singapore.

1 Segmental analysis continued

for the six months to 30 September 2012 (unaudited)	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains over fair value on the disposal of investments	-	-	-	-
Unrealised gains/(losses) on the revaluation of investments	13.7	9.6	(8.3)	15.0
Portfolio income	22.6	16.1	-	38.7
Interest receivable	0.6	-	-	0.6
Investment return/(loss)	36.9	25.7	(8.3)	54.3
Finance costs	-	(4.6)	-	(4.6)
Other net income/(expenses)	2.9	(0.1)	-	2.8
Profit/(loss) before tax	39.8	21.0	(8.3)	52.5
as at 30 September 2012 (unaudited)				
Balance sheet				
Fair value of investment portfolio	560.6	502.1	110.1	1,172.8
Cash and cash equivalents	168.2	11.0	-	179.2
Derivative financial instruments	13.3	-	-	13.3
Other assets	8.0	1.7	0.1	9.8
Assets	750.1	514.8	110.2	1,375.1
Loans and borrowings	-	(151.7)	-	(151.7)
Derivative financial instruments	(0.8)	(14.8)	-	(15.6)
Other liabilities	(2.2)	(0.4)	-	(2.6)
Liabilities	(3.0)	(166.9)	-	(169.9)
Net assets	747.1	347.9	110.2	1,205.2

(1) Including Channel Islands.
(2) Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investment in Oiltanking, including those derived from its underlying business in Singapore.

1 Segmental analysis continued

for the year to 31 March 2013 (audited)	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains over fair value on the disposal of investments	2.7	-	-	2.7
Unrealised gains/(losses) on the revaluation of investments	38.9	21.8	(26.3)	34.4
Portfolio income	47.5	50.2	-	97.7
Interest receivable	0.7	-	-	0.7
Investment return/(loss)	89.8	72.0	(26.3)	135.5
Finance costs	(2.9)	(14.9)	-	(17.8)
Other net (expenses)/income	(19.6)	1.2	-	(18.4)
Profit/(loss) before tax	67.3	58.3	(26.3)	99.3
as at 31 March 2013 (audited)				
Balance sheet				
Fair value of investment portfolio	578.7	544.8	99.1	1,222.6
Cash and cash equivalents	177.0	8.0	0.3	185.3
Derivative financial instruments	1.7	-	-	1.7
Other assets	12.8	6.0	0.1	18.9
Assets	770.2	558.8	99.5	1,428.5
Loans and borrowings	-	(160.6)	-	(160.6)
Derivative financial instruments	(4.2)	(9.6)	-	(13.8)
Other liabilities	(3.2)	(3.2)	-	(6.4)
Liabilities	(7.4)	(173.4)	-	(180.8)
Net assets	762.8	385.4	99.5	1,247.7

(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.

2 Advisory, performance and management fees payable

	Six months to 30 September 2013 (unaudited) £m	Six months to 30 September 2012 (unaudited) £m	Year to 31 March 2013 (audited) £m
Advisory fee	**6.8**	6.3	12.9
Performance fee	**-**	-	1.4
Management fees	**0.7**	0.6	1.2
	7.5	6.9	15.5

Note 9 provides further details on the calculation of the advisory fee, management fees and the performance fee.

3 Income taxes

Profits arising from the operations of the Company are subject to tax at the standard rate in Jersey of 0% (September 2012: 0%, March 2013: 0%). Subsidiaries of the Company have provided for taxation at the appropriate rates that are applicable in the countries in which each subsidiary operates. The returns of these subsidiaries are largely not subject to tax, in each of these relevant countries.

4 Investment portfolio and financial instruments

	As at 30 September 2013 (unaudited)		
	Unquoted investments £m	Loans and receivables £m	Total £m
Opening fair value	**1,004.0**	**218.6**	**1,222.6**
Additions	**2.2**	**61.8**	**64.0**
Disposals and repayments	**(0.1)**	**(0.1)**	**(0.2)**
Unrealised losses on the revaluation of investments	**(9.6)**	**-**	**(9.6)**
Unrealised foreign exchange losses	**(10.2)**	**-**	**(10.2)**
Closing fair value	**986.3**	**280.3**	**1,266.6**

	As at 30 September 2012 (unaudited)		
	Unquoted investments £m	Loans and receivables £m	Total £m
Opening fair value	949.1	233.1	1,182.2
Additions	4.9	-	4.9
Disposals and repayments	-	(6.8)	(6.8)
Unrealised gains on the revaluation of investments	15.0	-	15.0
Unrealised foreign exchange losses	(22.5)	-	(22.5)
Closing fair value	946.5	226.3	1,172.8

	As at 31 March 2013 (audited)		
	Unquoted £m	Loans and receivables £m	Total £m
Opening fair value	949.1	233.1	1,182.2
Additions	16.5	-	16.5
Disposals and repayments	(10.9)	(14.5)	(25.4)
Unrealised gains on the revaluation of investments	34.4	-	34.4
Unrealised foreign exchange gains	14.9	-	14.9
Closing fair value	1,004.0	218.6	1,222.6

All unrealised movements on investments and foreign exchange movements are recognised in the consolidated statement of comprehensive income during the period. The foreign exchange loss of £10.2 million (September 2012: loss of £22.5 million, March 2013: gain of £14.9 million) in the table above relates to assets that are held by intermediary holding companies of the Group, for which sterling is not the functional currency. As a result, this exchange loss of £10.2 million (September 2012: loss of £22.5 million, March 2013: gain of £14.9 million) is recognised within other comprehensive income as part of the overall loss of £8.9 million (September 2012: loss of £16.5 million, March 2013: gain of £12.6 million) arising on re-translation of foreign currency subsidiaries.
All other movements are recognised within the total Investment return of £31.9 million (September 2012: £54.3 million, March 2013: £135.5 million).

4 Investment portfolio and financial instruments continued

The holding period of the investments in the portfolio is expected to be greater than one year. For this reason, the Directors have classified the portfolio as non-current. It is not possible to identify with certainty where any investments may be sold within one year.

The fair value of loans and receivables approximates to the carrying value, which is considered to be Level 3 in the fair value hierarchy.

Financial instruments fair value disclosures

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 instruments
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 held at fair value
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments

Unquoted equity instruments 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 equity instruments can be found in the section called Portfolio valuation methodology.

At 30 September 2013, the Group held the following classes of financial instruments that are either measured at fair value or whose carrying value approximates to fair value. During the six-month period ended 30 September, there were no transfers of financial instruments between levels of the fair value hierarchy (September 2012: none, March 2013: none). There were no non-recurring fair value measurements.

Financial instruments classification

	As at 30 September 2013 (unaudited)			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unquoted investments	-	-	986.3	986.3
Loans and receivables	-	-	280.3	280.3
Derivative financial instruments	-	(3.3)	-	(3.3)
	-	(3.3)	1,266.6	1,263.3

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

	As at 30 September 2013 (unaudited)		
	Unquoted investments £m	Loans and receivables £m	Total £m
Opening fair value	1,004.0	218.6	1,222.6
Additions	2.2	61.8	64.0
Disposals and repayments	(0.1)	(0.1)	(0.2)
Unrealised losses on the revaluation of investments	(9.6)	-	(9.6)
Unrealised foreign exchange losses	(10.2)	-	(10.2)
Closing fair value	986.3	280.3	1,266.6

There were no reclassifications for assets that have been transferred in or out of Level 3 during the period.

The majority of the assets held within Level 3 are valued on a discounted cash flow basis, hence, the valuations above are sensitive to the discount rate assumed in the valuation of each asset. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £97.3 million. Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £116.9 million.

5 Issued capital

The Company is authorised to issue an unlimited number of shares with no fixed par value.

	As at 30 September 2013 (unaudited)		As at 30 September 2012 (unaudited)		As at 31 March 2013 (audited)	
	Number	£m	Number	£m	Number	£m
Issued and fully paid						
Opening balance	881,351,570	887.8	881,349,570	887.8	881,349,570	887.8
Conversion of warrants	-	-	2,000[1]	-	2,000[1]	-
Closing balance	881,351,570	887.8	881,351,570	887.8	881,351,570	887.8

(1) Submitted for exercise but not issued at 31 March 2012.

The warrants entitled the holder to subscribe for one ordinary share at £1.00 at any time from 13 September 2007 to 13 March 2012. At 13 March 2012, 2,000 warrants were submitted for exercise but the associated shares were not issued until 30 April 2012. The remaining 281,491 warrants that had not been exercised at 13 March 2012 were cancelled following the expiry of the warrant conversion period. At 30 September 2013, there were no warrants in issue (September 2012: nil, March 2013: nil).

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 2013, the residual value on the stated capital account was £181.6 million.

6 Per share information

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

	Six months to 30 September 2013 (unaudited)	Six months to 30 September 2012 (unaudited)	Year to 31 March 2013 (audited)
Earnings per share (pence)			
Basic	1.6	5.2	9.1
Diluted	1.6	5.2	9.1
Earnings (£ million)			
Profit after tax for the period attributable to equity holders of the parent	13.9	45.8	80.2
Number of shares (million)			
Weighted average number of shares in issue	881.4	881.4	881.4
Effect of dilutive potential ordinary shares – warrants	-	-	-
Diluted shares	881.4	881.4	881.4

6 Per share information continued

	As at 30 September 2013 (unaudited)	As at 30 September 2012 (unaudited)	As at 31 March 2013 (audited)
Net assets per share (pence)			
Basic	123.0	121.9	125.9
Diluted	123.0	121.9	125.9
Net assets (£ million)			
Net assets attributable to equity holders of the parent	1,084.3	1,074.4	1,110.0

7 Dividends

	As at 30 September 2013 (unaudited)		As at 30 September 2012 (unaudited)		As at 31 March 2013 (audited)	
Declared and paid during the period	Pence per share	£m	Pence per share	£m	Pence per share	£m
Interim dividend paid on ordinary shares	-	-	-	-	2.97	26.2
Prior year final dividend paid on ordinary shares	3.52	31.0	2.97	26.2	2.97	26.2
	3.52	31.0	2.97	26.2	5.94	52.4

The Group proposes paying an interim dividend of 3.35p per share which will be payable to those shareholders that are on the register on 29 November 2013. On the basis of the number of shares issued at 30 September 2013, this would equate to an interim dividend of £29.5 million.

8 Contingent liabilities

At 30 September 2013, there was no material litigation or contingent liabilities outstanding against the Company or any of its subsidiary undertakings (September 2012: nil, March 2013: nil).

9 Related parties

Transactions between 3i Infrastructure and 3i Group
3i Group plc ("3i Group") holds 34.1% (September 2012: 34.1%, March 2013: 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 Group has committed US$250 million to the 3i India Infrastructure Fund ("the India Fund") to invest in the Indian infrastructure market. 3i Group has also committed US$250 million of investment capital to the India Fund. Commitments of nil (September 2012: US$8.1 million or £5.3 million, March 2013: US$8.1 million or £5.3 million) 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 £113.7 million re-translated (September 2012: US$183.7 million or £113.8 million, March 2013: US$183.7 million or £121.1 million) had been drawn down at 30 September 2013 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 2013, the outstanding commitment was US$37.5 million, or £23.2 million re-translated (September 2012: US$66.3 million or £41.0 million, March 2013: US$37.5 million or £24.7 million).

3i Networks Finland GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Networks Finland LP, a subsidiary of the Company. During the period, £1.1 million (September 2012: £0.5 million, March 2013: £1.7 million) was payable to 3i Group, of which £1.0 million was offset against the advisory fee (September 2012: £0.4 million, March 2013: £1.5 million). The net amount of £0.1 million (September 2012: £0.1 million, March 2013: £0.2 million) is shown as part of the management fee of £0.7 million (September 2012: £0.6 million, March 2013: £1.2 million) in Note 2. As at 30 September 2013, £0.1 million remained outstanding (September 2012: £0.1 million, March 2013: nil).

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, a subsidiary of the Company. During the period, £1.7 million (September 2012: £1.5 million, March 2013: £3.2 million) was payable to 3i Group of which £1.1 million was offset against the advisory fee (September 2012: £1.0 million, March 2013: £2.2 million). The net amount of £0.6 million (September 2012: £0.5 million, March 2013: £1.0 million) is shown as part of the management fee of £0.7 million (September 2012: £0.6 million, March 2013: £1.2 million) in Note 2. As at 30 September 2013, £0.3 million remained outstanding (September 2012: £0.3 million, March 2013: £0.2 million).

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company. It also acts as the manager for the 3i India Infrastructure Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company.

Under the Investment Advisory Agreement, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of 3i Infrastructure 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. 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 2013, £6.8 million (September 2012: £6.3 million, March 2013: £12.9 million) was payable and £0.8 million (September 2012: £0.7 million, March 2013: £0.6 million) remains due to 3i plc.

The Investment Advisory Agreement 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 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 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. The performance hurdle has not been exceeded for the six months to 30 September 2013, hence no performance fee is payable (September 2012: nil, March 2013: £1.4 million) and no amounts remained due to 3i plc.

Under the Investment Advisory Agreement, 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 (expiring on or after 13 March 2015, unless 3i Investments plc has previously ceased to be a member of 3i Group), or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Pursuant to the UK Support Services Agreement, the Company also pays 3i plc an annual fee for the provision of support services. Such remuneration is payable quarterly in arrears. The cost incurred for the period to 30 September 2013 was £0.4 million (September 2012: £0.4 million, March 2013: £0.8 million). The outstanding balance payable as at 30 September 2013 was £0.2 million (September 2012: £0.2 million, March 2013: £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, a company incorporated and registered in Jersey, and its subsidiaries (together referred to as the "Group") for the six-month period ended 30 September 2013.

The Half-yearly Financial Statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") and should be read in conjunction with the consolidated financial statements for the year to 31 March 2013 ("Report and accounts 2013"), as they provide an update of previously reported information. The Company has sufficient financial resources to continue in operational existence for the foreseeable future. Accordingly, these Half-yearly Financial Statements have been prepared on the going concern basis.

The Half-yearly Financial Statements were authorised for issue by the Directors on 6 November 2013.

The Half-yearly Financial Statements have been prepared in accordance with the accounting policies set out in the Report and accounts 2013, except for the adoption of IFRS 13 'Fair value measurement' and amendments to IAS1 'Presentation of Items of Other Comprehensive Income'.

The amendments to IAS1 require items of other comprehensive income to be grouped according to those that will be reclassified subsequently to the income statement and those that will never be reclassified. IFRS 13 has introduced new disclosures in respect of investment risk management, as set out in Note 4. The adoption of IFRS 13 does not have an impact on the fair value of the Group's assets or liabilities. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Half-yearly Financial Statements do not constitute statutory accounts. The statutory accounts for the year to 31 March 2013, prepared under IFRS, 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 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 on-going 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, with the exception of the new standards adopted as noted above, and related estimates used in the preparation of the Half-yearly Financial Statements are consistent with those stated in the Report and accounts 2013.

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 and gives a true and fair view of the assets, liabilities, financial position and profit of the Group for the period ended 30 September 2013; 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
6 November 2013

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

Sir John Collins
Non-executive Director

Ben Loomes
Non-executive Director, appointed on 9 July 2013

Paul Masterton
Non-executive Director

Steven Wilderspin
Non-executive Director and chairman of the Audit Committee

Note: Florence Pierre and Paul Waller resigned from the Board at the Company's AGM held on 9 July 2013.

Independent review report to the shareholders of 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 financial report for the six months ended 30 September 2013 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows, the notes 1 to 9 to the accounts and the accounting policies section. We have read the other information contained in the Half-yearly financial 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 financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial 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 this half-yearly financial 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 financial 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 financial report for the six months ended 30 September 2013 is 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
6 November 2013

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 20% 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 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. Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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.

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.

Sales basis

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

Cost less fair value adjustment

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

Information for shareholders

Note

The interim dividend is expected to be paid on 9 January 2014 to holders of ordinary shares on the register on 29 November 2013. The ex-dividend date will be 27 November 2013.

Registrars

For shareholder services, including notifying changes of address, the registrar details of the Company 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 632 310 or the
Shareholder helpline: +44 (0)871 664 0300

Website

For full up-to-date investor relations information including the latest share price, recent reports, results presentations and financial news, please visit our 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

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Registered in Jersey No. 95682

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