



31 March 2015

## 3i Infrastructure plc – Pre-close update

3i Infrastructure plc (“3i Infrastructure” or “the Company”) announces its trading update as it enters the close period for the year ending 31 March 2015. This statement provides an update on investment and realisation activity, portfolio performance and cash balances since 31 December 2014, as at 30 March 2015 (the “period”).

- Announcement of a new Core infrastructure investment in the period in two storage terminals alongside Oiltanking, the Company’s partner in its existing investment in Oystercatcher. The Company has signed an agreement to acquire a 45% interest in each of Oiltanking Terneuzen B.V. in the Netherlands and Oiltanking Ghent N.V. in Belgium for an aggregate consideration, including costs, of €111 million (or £81 million).
- The realisation of the Company’s holding in Eversholt Rail Group, announced on 20 January 2015, is expected to generate net proceeds of approximately £366 million. Including the dividend of £15.5 million received by the Company in December 2014, this represents total proceeds to the Company of approximately £381 million, representing an uplift of approximately £139 million to the position at 30 September 2014 in the Company’s Half-yearly results.
- The European portfolio continues to perform well operationally and financially, generating a robust level of portfolio income of £79.5 million from 1 April 2014 to 30 March 2015, compared to £80.9 million in the equivalent period last year.
- The Company has a high quality portfolio of European infrastructure investments which are delivering strong returns and yield to its shareholders. The continued returns compression in the European Core infrastructure market has had a positive impact on the valuation of the Company’s portfolio of investments and we expect this to underpin a very strong total return for the year ending 31 March 2015.
- Against this market backdrop, it has proved challenging to secure new investment in large Core infrastructure assets in line with the Company’s existing total return and yield targets. The Company has assessed a number of new investment opportunities and has maintained a disciplined approach. The Board is continuing to evaluate the Company’s return objectives with a view to setting a sustainable total return target and a revised dividend policy.

Peter Sedgwick, Chairman of 3i Infrastructure, said: "Recent activity levels have been high for the Company. We have announced the divestment of our holding in Eversholt Rail Group, which will underpin a very strong return for the financial year. We have also been active on the investment front, and in the final quarter of the year we secured an investment alongside Oiltanking, a known and trusted partner to us since 2007 and a world leader in independent storage terminals. This new Core infrastructure investment was particularly positive for the Company against the backdrop of a highly competitive market. The portfolio has continued to perform well in the final quarter of the year, generating good levels of income which will support the delivery of the Company's dividend objective this year."

Ben Loomes and Phil White, Managing Partners and Co-heads of Infrastructure, 3i Investments plc, Investment Adviser to the Company, added: "The portfolio continues to perform well both operationally and financially, and we expect the Company will deliver a very strong total return for the year ending 31 March 2015. Throughout the year, we have maintained a disciplined approach towards making new investments and focused selectively on those investments that are value-enhancing to the Company and its shareholders. This includes investing in the Oiltanking companies as well as investing in projects in the primary PPP sector, where the Company has made a number of attractive commitments over the course of the year."

### **Investment activity**

On 20 February 2015, the Company announced it had signed an agreement with Oiltanking GmbH to acquire a 45% interest in each of Oiltanking Terneuzen and Oiltanking Ghent (together the "Oiltanking companies"), for an aggregate consideration, including costs, of €111 million (or £81 million). The Oiltanking companies provide storage and related services for refined oil products, chemicals and biofuels. Both companies provide essential services and benefit from locations, facilities and operational capabilities that give them strong appeal to their customer base, which includes stockholding agencies, oil companies and traders. Completion of the transaction remains conditional upon receiving certain regulatory approvals, including clearance from the European Commission under the EU Merger Regulation. The transaction is expected to close in May 2015. The Company may seek to finance part of this investment through additional debt in its existing portfolio company, Oystercatcher.

In its Half-yearly results, the Company announced it had reached preferred bidder status for the West of Duddon Sands Offshore Transmission Owner (or "OFTO") project in the UK, with an investment commitment of approximately £26 million. This project is now expected to reach financial close in the summer of 2015.

### **Realisation activity**

The realisation of 3i Infrastructure's holding in Eversholt Rail Group ("Eversholt Rail"), announced on 20 January 2015, is expected to generate net proceeds of approximately

£366 million, in addition to the dividend of £15.5 million received by the Company in the quarter ending 31 December 2014. These expected proceeds have increased since the announcement of the transaction in January 2015 due to the subsequent sale by Eversholt Rail of its freight wagon portfolio, from which the Company will benefit under the terms negotiated for the overall transaction. Furthermore, the Company will continue to benefit from the proceeds of the Eversholt Rail transaction being subject to an attractive rate of interest until completion.

Therefore, the total proceeds to the Company from the sale of its holding in Eversholt Rail, including the dividend of £15.5 million paid in December 2014, as well as the settlement of all interest receivable, is expected to be approximately £381 million. These proceeds represent an uplift of approximately £139 million compared to a valuation of the Company's holding in the business of £240.8 million and interest accrual of £1.2 million at 30 September 2014.

Completion of the transaction remains conditional upon receiving clearance from the European Commission under the EU Merger Regulation and it is anticipated that the transaction will close in April 2015. The valuation of the Company's holding in Eversholt Rail at 31 March 2015 will be based on the sale proceeds expected to be received in April 2015.

No realised proceeds were received during the period.

### **Portfolio and returns**

The Company's European investment portfolio continues to perform well and generated a robust level of income for the Company in the period. Portfolio income (dividends, interest receivable and any fees received from portfolio assets) totalled £18.6 million in the period, bringing total income received from 1 April 2014 to 30 March 2015 to £79.5 million, compared to £80.9 million in the equivalent period last year.

As flagged in the Company's trading update in January 2015, AWG did not pay a further dividend to its shareholders in the second half of the financial year ending 31 March 2015, pending the final determination from Ofwat. We expect that AWG will resume dividend payments to its shareholders in respect of the financial year ending 31 March 2016. The Company received a lower dividend from Elenia in the period compared to that received in the prior year, which had benefited from the distribution of reserves that had been retained by the business pending a refinancing completed in November 2013. These reduced dividends were offset by a dividend of £15.5 million received from Eversholt Rail in December 2014, which was not paid in the equivalent period last year.

In December 2014, AWG received its final determination from Ofwat for the regulatory period beginning on 1 April 2015. The final determination was accepted by AWG in February 2015. The Investment Adviser continues to work closely with the portfolio company to finalise its assessment of the impact of the final determination on AWG's business plan. The results of

this review will be reflected in the Company's valuation of its holding in AWG at 31 March 2015.

In February 2015, the Finnish electricity regulator issued, for consultation, draft guidelines for the next regulatory period beginning on 1 January 2016 for Finnish electricity distribution companies, including Elenia. The Investment Adviser is working with Elenia's management team to assess these proposals, which are expected to be positive for the business if implemented in their present form.

As usual, an important element of the determination of the Company's results for the year ending 31 March 2015 will be the valuation exercise carried out on the investment portfolio as at that date. The return generated through the realisation of 3i Infrastructure's holding in Eversholt Rail, combined with the performance of the European portfolio, is likely to underpin a very strong total return for the year ending 31 March 2015. In light of this performance, the Company expects to pay a substantial performance fee to the Investment Adviser, in line with the revised Investment Advisory Agreement approved by shareholders (other than 3i Group) last year.

3i Infrastructure expects to announce the results of this valuation exercise, together with its annual results, in May 2015.

### **Market conditions**

Recent transactions, including notably the sale of the Company's investment in Eversholt Rail, have further evidenced the continued returns compression in the European Core infrastructure market. This continues to be driven by the strong demand of a growing pool of investors that are looking to invest in a limited supply of Core infrastructure assets delivering long duration and stable cash flows to investors in a low interest rate environment.

As we have noted previously, these demand/supply conditions, combined with the availability of debt finance for infrastructure investment on attractive terms, continue to drive the prices of large Core infrastructure assets higher and projected returns lower. These conditions are expected to continue to have a positive impact on the valuation of the Company's portfolio of Core investments, which were acquired in a more favourable prospective returns environment.

At the same time, these conditions have made it challenging for the Company to secure new investments in large Core infrastructure businesses at total returns and yields consistent with the Company's existing targets. This has been evidenced over recent months, where the Company has participated in several competitive processes for large Core infrastructure assets and where the pricing and resulting risk-adjusted returns have been at levels that would not have been consistent with the Company's existing targets.

Throughout the year, we have maintained a disciplined approach towards making new investments and focused selectively on those investments that are value-enhancing to the Company and its shareholders. This includes investing in the Oiltanking companies as well

as investing in projects in the Primary PPP sector, where the Company has made a number of attractive investments over the course of the year.

The Board is continuing to evaluate the Company's return objectives with a view to setting a sustainable total return target and a revised dividend policy, taking into account market conditions including recent transactions in the European Core infrastructure market.

### **Balance sheet**

At 30 March 2015, the Company had cash balances of £76 million. This is before the investment in the Oiltanking companies, which is expected to complete in May 2015. The estimated proceeds from the sale of the Company's holding in Eversholt Rail are expected to be received in April 2015. To enable the Company to bid for new investments while awaiting the receipt of proceeds from the sale of the investment in Eversholt Rail, during the period, the Company secured additional short-term borrowing facilities on attractive terms.

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

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

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**selling security holder and will contain detailed information about 3i Group plc, 3i Infrastructure plc, 3i India Infrastructure Fund and management, as applicable, as well as financial statements. No public offering in the United States is currently contemplated.**

**This statement aims to give an indication of material events and transactions that have taken place in the period from 31 December 2014 to 30 March 2015. These indications reflect the Board's current view. They are subject to a number of risks and uncertainties and could change. Factors which could cause or contribute to such differences include, but are not limited to, general economic and market conditions and specific factors affecting the financial prospects or performance of individual investments within the portfolio of 3i Infrastructure plc.**