

Annual results 2014



Presentation of the results for the year to 31 March 2014

9 May 2014

Chairman's introduction

Peter Sedgwick
Chairman



Today's agenda



Introduction

Peter Sedgwick

Financial review

Stephen Halliwell

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Ben Loomes

Q&A

All

Robust performance driven by European portfolio

3i Infrastructure plc



Steady net asset value progression

£71m total return for the year (6.6% of opening net asset value) driven by a strong performance from the European portfolio and the stabilisation of the 3i India Infrastructure Fund in the second half of the year

6.6%

Strong portfolio income generation

Portfolio income¹ of £82m, an increase of £10m over last year

£82m

Renewed investment activity

£84m invested and committed in the year, including £62m in Cross London Trains and £19m in two new primary PPP projects

£84m

Continued delivery of dividend objective

Full year dividend of 6.7p per share, representing 5.5% of opening net asset value, in line with our objective

6.7p

1. Portfolio income comprises aggregate dividends, interest income and fees received during the year from portfolio assets, and is consistent with the measure used in previous years.

Changes to the Investment Advisory Agreement benefit shareholders



- Reduction in the advisory fee rate for investments in future primary PPP and individual renewable energy projects to 1.0% (reduced from existing rate of 1.5% with a step down to 1.25%)
- Introduction of a high water mark requirement to the performance fee, in addition to the existing annual hurdle rate (which remains unchanged)
- Extension of the fixed term of the Investment Advisory Agreement by four years, followed by one year's rolling notice
- Amendment of existing exclusivity arrangements such that they will apply throughout the lengthened term of Investment Advisory Agreement, provided the Company has sufficient funds available to invest

Subject to a majority vote of the independent shareholders

Financial review

Stephen Halliwell
CFO, Infrastructure
3i Investments plc





Return underpinned by the strong performance of the European portfolio, which achieved a gross portfolio return of 13.5%

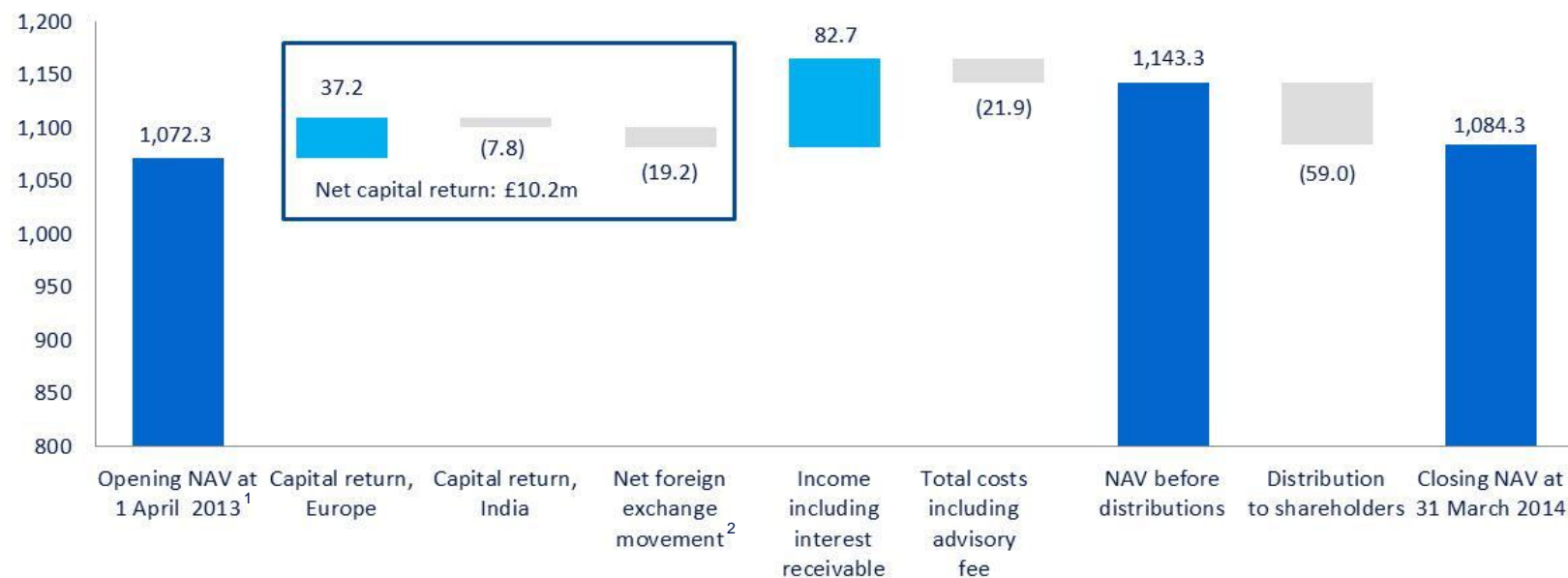
Annual distribution objective achieved for the seventh successive year

	Objective	Outcome for the year to 31 March 2014
Total Return	To provide shareholders with a Total Return of 10% per annum of opening net asset value	Total return of 6.6% on opening net asset value
Annual distribution	To provide shareholders with an annual distribution yield of 5.5% of opening net asset value	Dividend of 6.7p , or 5.5% of opening net asset value
Portfolio balance	At least 75% of portfolio value to be invested in core infrastructure	81% of the portfolio invested in core infrastructure

Reconciliation of movements in NAV



Strong income and steady capital returns from the European portfolio, partly offset by weakness in India Fund portfolio and foreign exchange losses



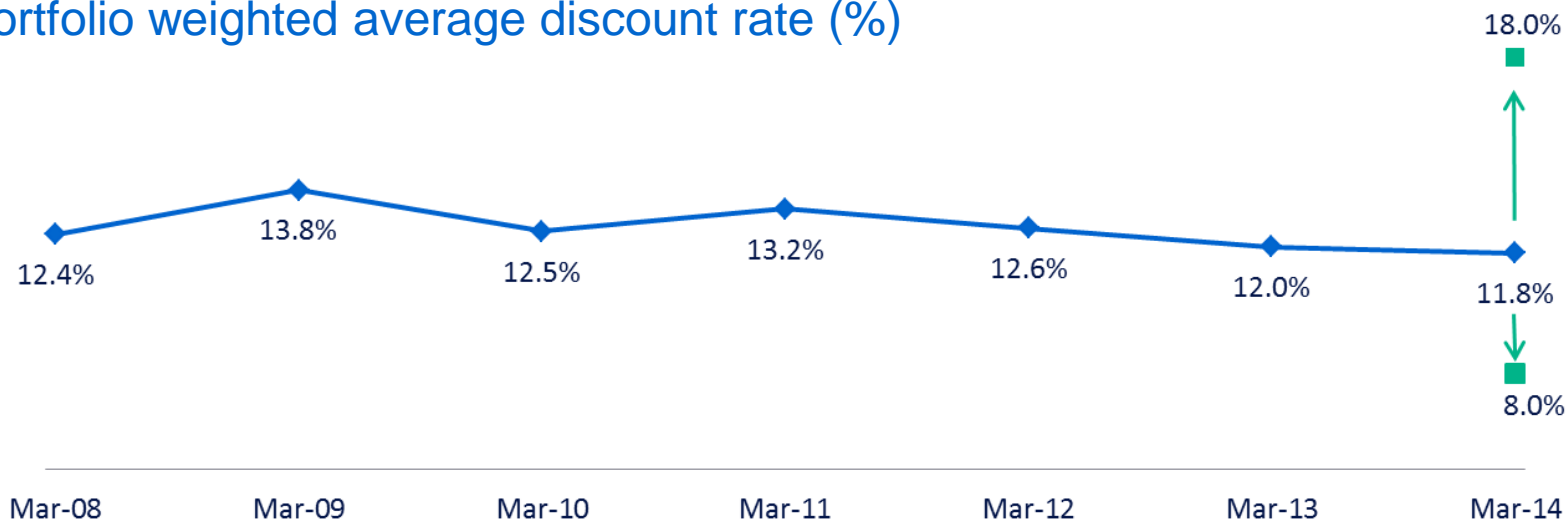
¹ Net of prior year final dividend.

² Foreign exchange movements are addressed in slide 10.

Weighted average discount rate



Portfolio weighted average discount rate (%)



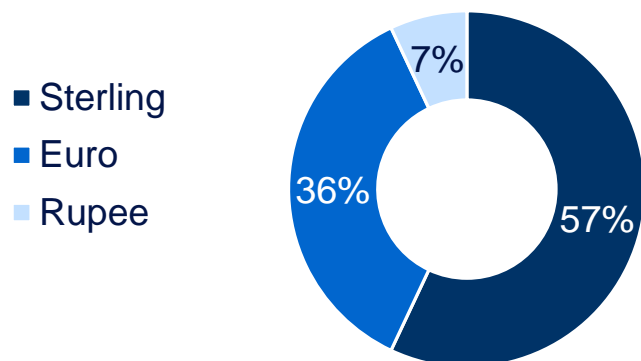
Changes in the weighted average discount rate driven by:

- Addition of XLT to the portfolio
- Reduction in discount rate for Elenia to reflect benefit of successful re-financing and other market factors
- Marginal reduction in discount rate for Elgin and Octagon at half year

Foreign exchange losses stabilised in the second half of the year



Portfolio currency exposure (%)



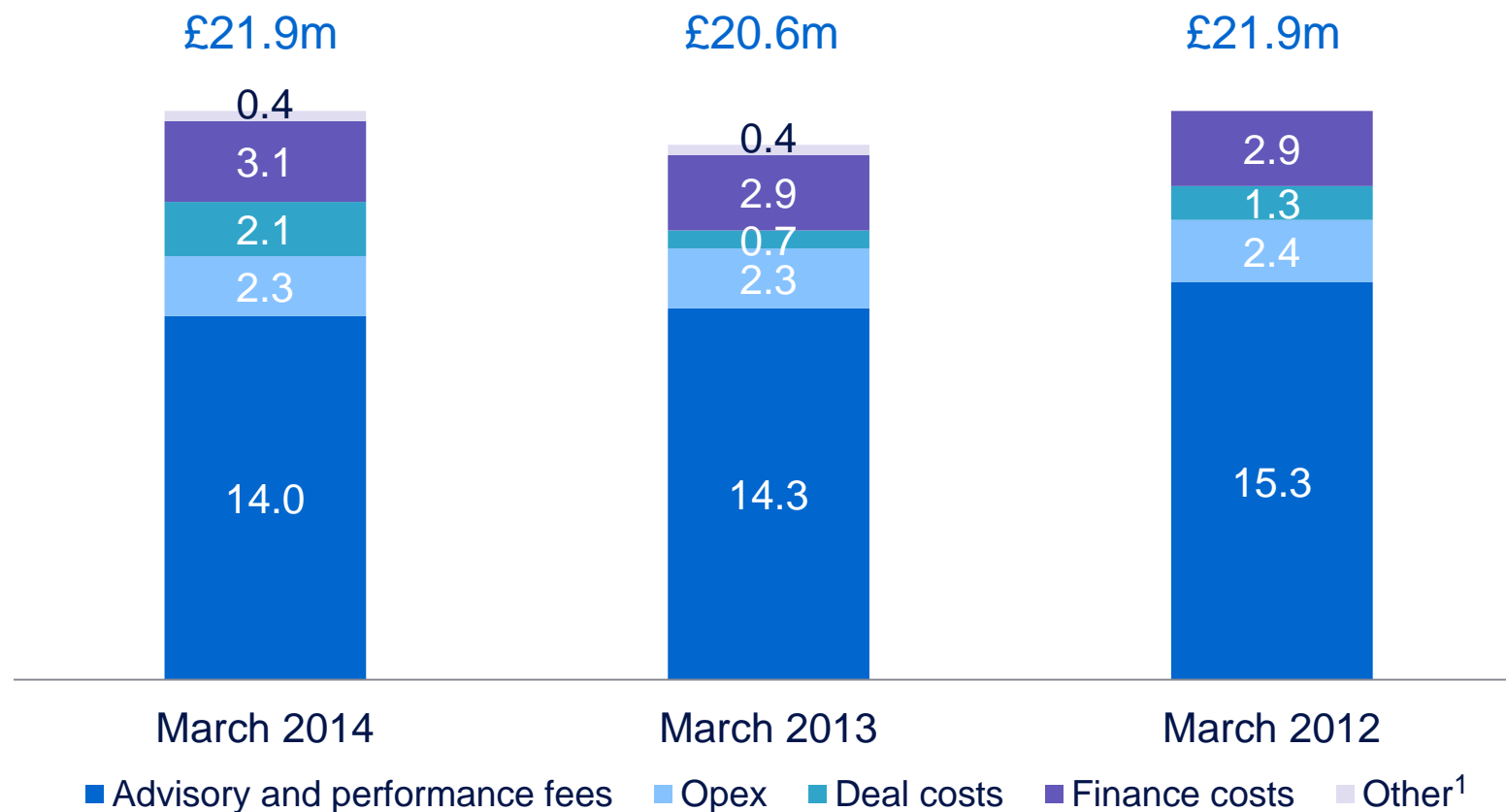
Impact of foreign exchange movements on portfolio value (£m)

	Year to Mar 2014	Six months to Sep 2013
£/rupee	(17.1)	(18.3)
£/€ (net of hedging)	(2.1)	(0.9)
Net foreign exchange impact	(19.2)	(19.2)

Overall costs broadly stable year on year



(£m)



¹ Comprises principally local taxes.

Balance sheet remains strong



(£m)	As at 31 March 2014 (IFRS basis)	As at 31 March 2013 (restated)
Investments at fair value	996.6	928.9
Other net assets/(liabilities)	26.5	(1.4)
Cash and cash equivalents	90.7	175.8
Net assets	1,113.8	1,103.3
NAV per share (p)	126.4	125.2
NAV per share post dividend (p)	123.0	121.7



Business review

Ben Loomes
Managing Partner and
Co-head of Infrastructure
3i Investments plc





Differentiated and attractive investment proposition for shareholders

- Existing European portfolio provides a **strong basis for future returns** and **differentiated access** for shareholders to the infrastructure asset class compared to other UK listed vehicles
- Our target European markets provide **attractive investment opportunities** in core infrastructure as well as primary PPP and renewable energy projects
- With our **specialist investment and asset management skills** and **strong track record**, the Investment Adviser is well placed to deliver the Company's objectives

Clear target markets and portfolio objectives



Focus on the core infrastructure market, while building over time further exposure to primary projects with attractive risk-adjusted returns

Target markets

Core infrastructure

Dynamic businesses that own their asset base in perpetuity, not concessions with a finite life. These have low volatility across economic cycles and tend to offer returns of between 8–15%.

Objective: at least 75% of portfolio value

Primary PPP / low-risk energy projects

Concession-based primary PPP projects, mainly in education, healthcare and public sector accommodation, as well as primary renewable energy projects. These investments typically target returns of between 9–12%.

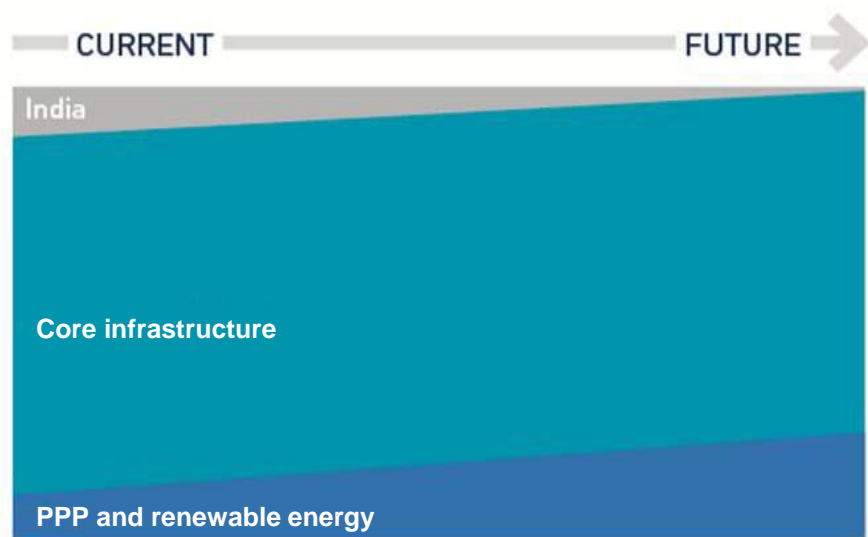
Objective: build further exposure to primary PPP projects over time

India infrastructure

Higher risk characteristics, through exposure to increased market or geopolitical risk.

Objective: realisation of investments over time

Over time, the portfolio will rebalance in favour of **less volatile** core infrastructure and primary PPP project investments in **developed markets**



The portfolio composition will evolve over time:

- At least 75% of portfolio value invested in core infrastructure
- Build further exposure to primary PPP and renewable energy projects over time as the India Fund portfolio is realised

Delivering an attractive **balance of income yield and capital growth**

Investment advisory team providing specialist investment skills and comprehensive coverage of target markets



Ben Loomes
Managing Partner



Phil White
Managing Partner



Neil King
Senior Partner



Stéphane Grandguillaume
Partner



Andy Matthews
Partner



Nigel Middleton
Partner

Team broadened and strengthened with total of 31 investment professionals, based in London, Paris and Mumbai

Increase in new investment activity in the year



Core infrastructure

Cross London Trains £62m

Company established to procure and lease the rolling stock for use on the Thameslink passenger rail franchise

PPP

Mersey Gateway Bridge £13m

Design, build and operation of a 1km tolled bridge across the Mersey river and 9km of approach roads

National Military Museum £5m

Design, build and maintenance of a military museum facility in The Netherlands

Dalmore Capital Fund £3m

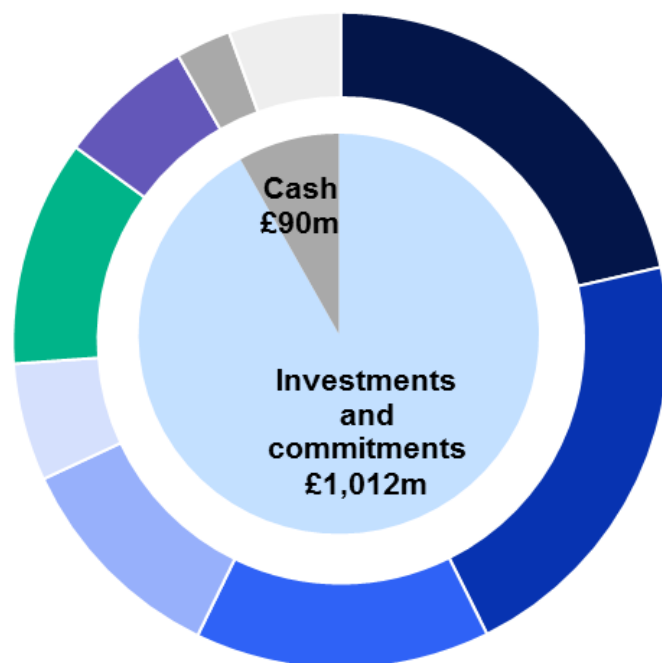
Purchase of holdings in a number of UK PFI projects

£84m invested and committed in the year



Our portfolio offers differentiated access to the infrastructure asset class, delivering income yield and capital growth

17 Investments
£1,012m Portfolio¹
£90m Net cash balances



Invested and committed capital	(£m)	% of total
Core portfolio	814	81%
Elenia	236	
AWG	234	
Eversholt Rail Group	160	
Oystercatcher	120	
Cross London Trains	64	
PPP Portfolio	124	12%
3i India Infrastructure Fund	74	7%
Total investments	1,012	100%
Cash		
Cash committed to final dividend	30	
Cash available for new investment	60	
Total net cash balances²	90	

¹ Includes the portfolio of investments, valued at £996.0m, and undrawn commitments of £15.7m made to the National Military Museum and Mersey Gateway Bridge primary PPP projects.

² Includes cash of £90.7m, "other financial assets" of £13.1m held by the Company and cash balances of £1.6m held within intermediate unconsolidated holding companies and is net of undrawn commitments to primary PPP investments of £15.7m.

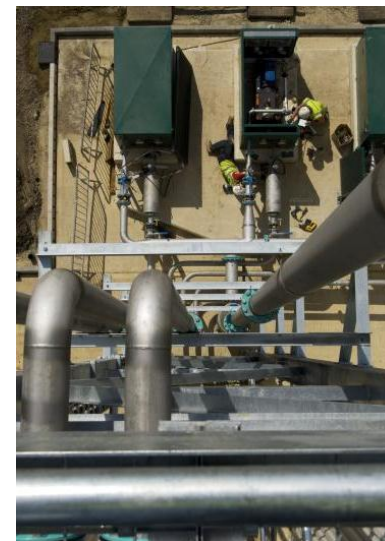
- Value creation through refinancing activity in the portfolio:
 - Elenia – refinancing of acquisition debt through whole business securitisation
 - Eversholt – £600m refinancing of residual acquisition debt

- Positive regulatory developments:
 - Elenia – new security of supply incentives
 - Eversholt – refranchising timetable resumed



Portfolio management: key focus areas in the year ahead

- Regulatory risks
 - AWG – regulatory review for AMP6 underway; Final Determination expected in December 2014
 - Oystercatcher – new health & safety regulations driving further capex in Amsterdam
- Market and macroeconomic risks
 - India Fund – portfolio continues to be affected by a number of market, macroeconomic and political risks
 - Potential depreciation of Indian rupee and/or Singapore dollar

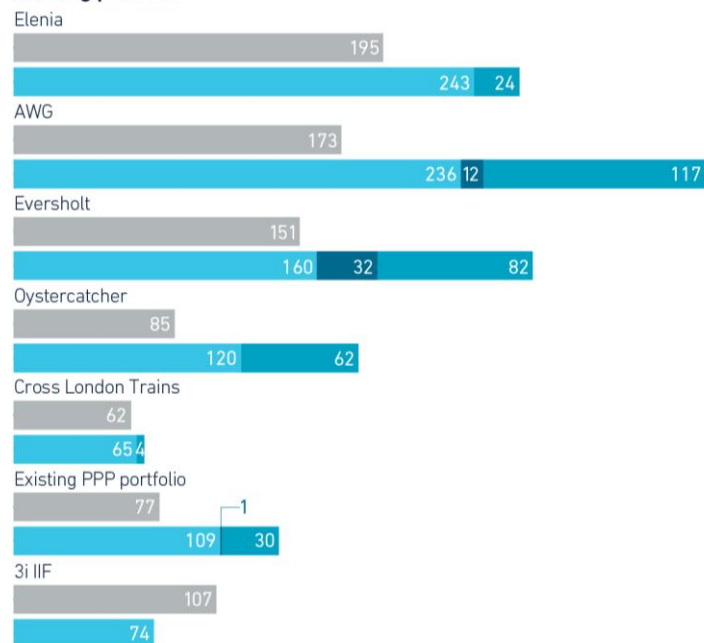


Strong long-term performance

Portfolio asset return throughout holding period (£m)



Existing portfolio



Realised assets




■ Total cost
■ Value including accrued income
■ Proceeds on disposals/capital returns
■ Cash income

15%

Annualised asset IRR
from inception to
31 March 2014

Good market opportunity and growing pipeline



- Increased competition for infrastructure investments, supported by increased debt availability
 - We have taken advantage of refinancing opportunities in the portfolio to create value
 - Seeing attractive investment opportunities in the core infrastructure market
 - Opportunity in primary PPP market to generate attractive risk-adjusted returns
- 
- **Good pipeline** of core infrastructure and primary PPP investment opportunities
 - **Well placed to bid** for a number of opportunities expected to come to market in this next year

3i Infrastructure plc



Q&A





- Both electricity distribution and district heating businesses performing well despite impact of storms in the winter of 2013
- Original acquisition debt refinanced in December 2013 through a WBS (the first for a non-UK utility), with positive implications for value
- New security of supply incentive introduced by the regulator following new legislation will have a positive impact on returns
- Monitoring potential consolidation opportunities

Cost	£194.8m
Opening value	£205.5m
Closing value	£235.7m
Equity interest	39.3%
Income in the year	£25.2m
Asset total return in the year	£39.8m



- Operational performance and income levels in line with expectations
- Ranked second for the SIM qualitative assessment for first three quarters of FY14
- Regulatory review underway, with Final Determination expected in December
- Wholesale WACC of 3.7% proposed by Ofwat is below industry submissions, but balanced by performance incentives

Cost	£161.9m
Opening value	£230.6m
Closing value	£234.5m
Equity interest	10.3%
Income in the year	£18.0m
Asset total return in the year	£21.9m



- Business continues to perform well
- Eversholt working with franchise holders and prospective bidders in accordance with new refranchising timetable
- New contract to provide advisory and asset management services agreed with XLT
- Recruitment of a new COO
- Completion of new £600m senior debt financing announced in November

Cost	Closing cost: £118.9m	Opening cost: £129.8m
Opening value	£153.6m	
Closing value	£160.3m	
Equity interest	33.3%	
Capital return in the year	£10.9m	
Income in the year	£17.9m	
Asset total return in the year	£35.5m	

Oystercatcher

Operational highlights for the year



- Terminals performed in line with expectations
- Market conditions for trading customers remain difficult, resulting in lower throughput
- Capacity remains fully let and contract renewals have been agreed on good terms
- Valuation impacted by depreciation of the Singapore dollar and by the implementation of a major upgrade programme in Amsterdam, driven by new health & safety regulations

Cost	£84.5m
Opening value	£141.4m
Closing value	£119.8m
Equity interest	45.0%
Income in the year	£9.6m
Asset total return in the year ¹	£(12.0)m
¹ Includes an unrealised foreign exchange loss of £2.6m	



- Siemens making good progress manufacturing the trains
- All material actions in the post-acquisition 100-day plan completed
- New senior management team installed
- Current Thameslink franchise expires in September 2014; announcement of new franchise operator expected in May 2014 at the earliest

Cost	£61.8m
Closing value	£64.0m
Equity interest	33.3%
Income in the year	£4.7m
Asset total return in the year	£6.9m

PPP portfolio

Operational highlights for the year



- Two new primary PPP investments in the period, in Mersey Gateway Bridge and Dutch National Military Museum
- All assets performed well operationally, delivering good levels of income
- Significant value uplifts for two of the investments:
 - Octagon – driven by the adoption of a new lifecycle programme
 - Elgin – driven by valuation achieved in sale of Robertson's stake to Dalmore Capital Fund

Cost	Opening cost £70.0m	Closing cost £75.8m
Opening value	£88.5m	
Closing value	£107.8m	
Income in the year	£6.9m	
Asset total return in the year	£20.4m	

3i India Infrastructure Fund

Operational highlights for the year



Transportation

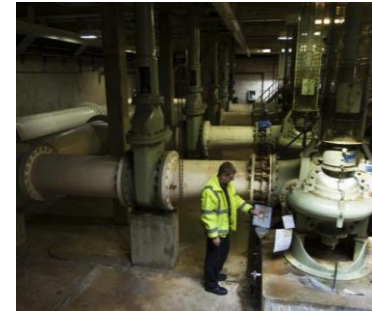
- Road investments affected by
 - funding constraints
 - slow-down in project execution
 - increase in raw material costs
- K-Port still affected by long-term impact of iron ore export ban, but performance has improved as a result of broadening of cargo mix

Power

- Performance affected by
 - availability and pricing of fuel, exacerbated by the sharp depreciation of the rupee
 - strain on State Electricity Boards' financial position
 - no mechanism agreed to pass increased fuel costs through higher tariffs

Cost	£106.8m ¹
Opening value	£99.1m
Closing value	£73.9m
Partnership interest	20.9%
Asset total return in the year ²	£(24.9)m
1 Opening cost was £106.9m	
2 Includes a net foreign exchange loss of £17.1m	

Appendix





- 3i Infrastructure plc meets the definition of an investment entity and is required to fair value its subsidiaries through profit or loss unless they provide investment-related services or activities
- Fair value accounting of subsidiaries excludes minority interest, bringing the accounts more in line with the previous investment basis of accounting
- Presentation of accounts is different as cash and other assets/liabilities in intermediate holding company subsidiaries held as “Investments at fair value through profit or loss” rather than consolidated on a line-by-line basis
- Income recognition is dependent on nature of income distribution from intermediate holding company subsidiary rather than from underlying portfolio assets. We have provided additional information to maintain disclosure at portfolio company level

IFRS 10 – total return adjustments

Year to 31 March 2014



Summary total return (£m)	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial Statements
Capital return	5.3	4.5 ¹	9.8
Movement in the fair value of derivatives	4.9	—	4.9
Income	82.7	(9.7) ¹	73.0
	92.9	(5.2)²	87.7
Costs	(21.9)	5.2 ²	(16.7)
Total return	71.0	—	71.0

1. Income generated from underlying portfolio assets which has, subsequently, not been distributed from an intermediate unconsolidated holding company as an income distribution and is therefore reflected as a capital profit. The adjustment reclassifies £4.5 million capital return, of which £1.8 million was a realised return and £2.7 million was an unrealised value movement, as income to reflect the nature of the original source of the return as monitored by the Board.
2. £5.2 million of costs incurred within unconsolidated subsidiaries, comprising fees paid directly to 3i Group (£4.4 million), operating expenses (£0.1 million), transaction fees (£0.1 million) and other costs (£0.6 million). These are reflected in capital returns or income as they have reduced either the carrying value, or the income distributed from these subsidiaries.

IFRS 10 – balance sheet adjustments

As at 31 March 2014



Summary balance sheet (£m)	Underlying aggregate portfolio amounts and other balances	Adjustments for transactions in unconsolidated subsidiaries ¹	Financial Statements
Portfolio assets	996.0	0.6	996.6 ²
Cash balances	92.3	(1.6)	90.7
Other financial assets	13.1	—	13.1
Derivative financial instruments	2.6	—	2.6
Other net assets	9.8	1.0	10.8
Net asset value	1,113.8	—	1,113.8

1. "Investments at fair value through profit and loss" includes £1.6 million of unrestricted cash balances and £(1.0) million of net liabilities within intermediate unconsolidated holding companies. These adjustments reclassify these balances to show the underlying value of the portfolio assets, the total cash holdings and the net assets/(liabilities) position, as monitored by the Board.
2. Described as "Investments at fair value through profit and loss" in the Financial statements.

Portfolio summary

31 March 2014 (£m)



	Directors' valuation 31 March 2013	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	Directors' valuation 31 March 2014	Realised profit	Underlying portfolio income in the year	Asset total return in the year
Portfolio assets									
Core infrastructure									
Elenia	205.5	15.6 ¹	–	19.0	(4.4)	235.7	–	25.2	39.8
Anglian Water Group	230.6	–	–	3.9	–	234.5	–	18.0	21.9
Eversholt Rail Group	153.6	–	(10.9)	17.6	–	160.3	–	17.9	35.5
Oystercatcher	141.4	–	–	(19.0)	(2.6)	119.8	–	9.6	(12.0)
Cross London Trains	–	61.8	–	2.2	–	64.0	–	4.7	6.9
	731.1	77.4	(10.9)	23.7	(7.0)	814.3		75.4	92.1
PPP									
Elgin	42.9	–	(0.2)	4.1	–	46.8	–	2.8	6.9
Octagon	34.0	–	–	8.6	–	42.6	–	2.8	11.4
Dalmore Capital Fund	11.6	3.2 ²	–	0.8	–	15.6	–	1.2	2.0
NMM	–	2.8	–	–	–	2.8	–	0.1	0.1
Mersey Gateway Bridge	–	–	–	–	–	–	–	–	–
	88.5	6.0	(0.2)	13.5	–	107.8	–	6.9	20.4
India									
3i India Infrastructure Fund	99.1	–	(0.1)	(8.0)	(17.1)	73.9	0.2	–	(24.9)
Total portfolio	918.7	83.4	(11.2)	29.2	(24.1)	996.0	0.2	82.3	87.6
Cash and other net assets held in unconsolidated subsidiaries	10.2	–	(12.3)	2.7 ³	–	0.6			
Income statement adjustments relating to unconsolidated subsidiaries ³							1.8	(9.7)	(5.2)
Reported in the Consolidated financial statements	928.9	83.4	(23.5)	7.8		996.6	2.0	72.6	82.4

1. Capitalised income

2. Net investment

3. Income statement adjustments explained in Slide 35

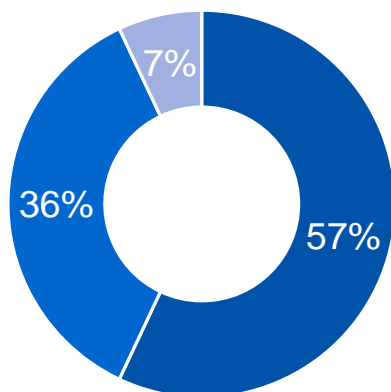
Portfolio diversification

31 March 2014

3i Infrastructure plc

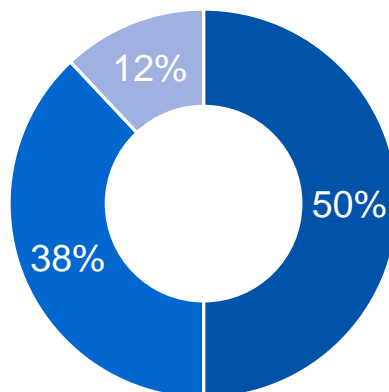


By geography



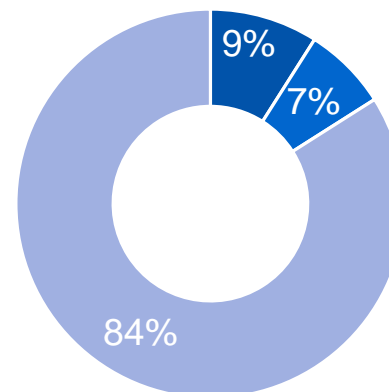
- UK and Ireland
- Cont. Europe and Singapore
- India

By sector



- Utilities
- Transportation
- PPP

By maturity



- Early stage
- Operational growth
- Mature

Consolidated statement of comprehensive income



(£m)	Year to 31 Mar 2014	Year to 31 Mar 2013 (restated)
Realised gains/(losses) over fair value on disposal of investments	2.0	2.5
Net gains on investments at fair value through profit or loss	7.8	43.1
	9.8	45.6
Portfolio income	72.6	62.2
Transaction fees payable	(2.0)	(0.7)
Interest receivable	0.4	0.7
Investment return	80.8	107.8
Advisory, performance and management fees payable	(9.6)	(10.6)
Operating expenses and finance costs	(5.3)	(5.0)
Unrealised gains/(losses) on the fair value of derivative financial instruments	4.9	(3.9)
Net realised gains over fair value on the settlement of derivative financial instruments	-	0.6
Other income	0.2	0.2
Profit before tax	71.0	89.1
Income taxes	-	-
Total comprehensive income for the year ("Total return")	71.0	89.1
Total return as a % of opening net asset value	6.6%	8.6%

Foreign exchange impact

Year to 31 March 2014

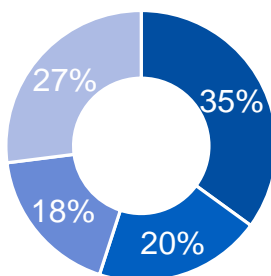


Impact of foreign exchange movements on portfolio value (£m)	£/rupee	£/€	Net impact
Translation of assets (£/rupee)	(17.1)		(17.1)
Translation of assets (£/€)		(7.0)	(7.0)
Reported foreign exchange losses on investments	(17.1)	(7.0)	(24.1)
Movement in the fair value of derivative financial instruments (£/€ hedging)		4.9	4.9
Net foreign exchange losses	(17.1)	(2.1)	(19.2)

Inflation linkage

Assets with revenues:

- Directly linked to UK inflation
- Directly linked to Finnish inflation
- Partly linked to inflation
- Not linked to inflation



Sensitivity (for European assets only)

Change in inflation over underlying assumption for next 2 years

**+1%
point**

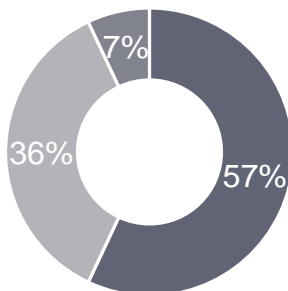
**-1%
point**

£17.9m

£(19.1)m

Foreign exchange

- Sterling
- Euro
- Rupee



Sensitivity

Change in foreign exchange rate

+5%

-5%

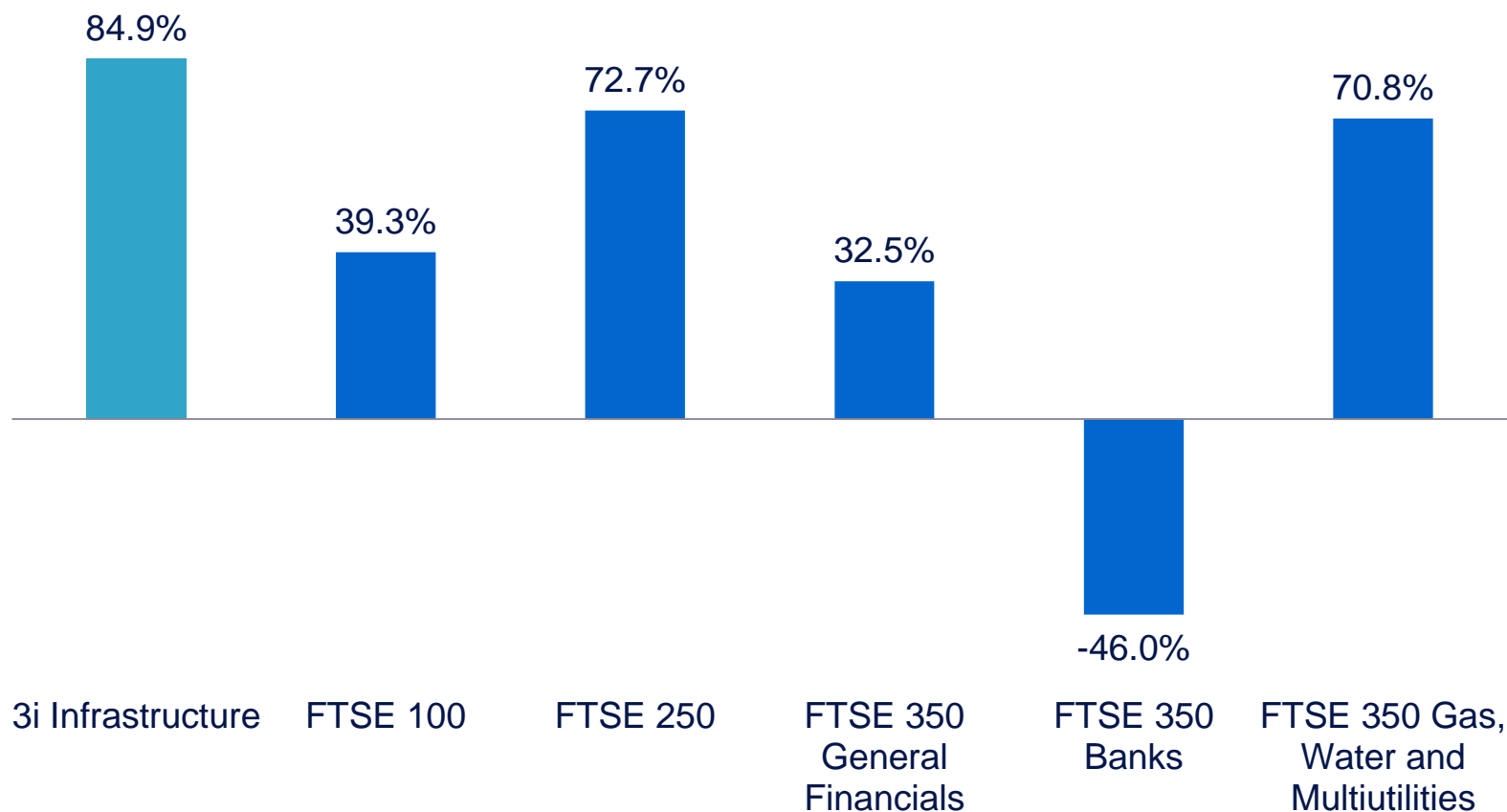
£9.3m

£(9.5)m

Total shareholder return

31 March 2007 – 31 March 2014

3i Infrastructure plc





Board of Directors	<ul style="list-style-type: none"> ▪ Independent Chairman, four independent non-executive directors and one 3i Group appointed non-executive director ▪ Committed to observe requirements of the UK Corporate Governance Code ▪ Responsibilities <ul style="list-style-type: none"> - acts as Investment Committee / approves investment opportunities - responsible for determination and supervision of investment policy - supervises monitoring of investments
Investment Adviser	<ul style="list-style-type: none"> ▪ Advises the Board on <ul style="list-style-type: none"> - origination and completion of investments - realisation of investments - funding requirements - management of the portfolio
Fees	<ul style="list-style-type: none"> ▪ Advisory fee of 1.5% of Gross Investment Value, reducing to 1.25% for any portion of an asset held for more than five years ▪ Advisory fee of 1% for new primary PPP and renewable energy project investments* ▪ Performance fee of 20% of the growth in Net Asset Value, above a hurdle of 8%, with a high water mark requirement*

* 1% fee rate and high water mark requirement are subject to shareholder and Jersey Financial Services Commission approval.