

TORTOISE ENERGY INFRASTRUCTURE CORP

Form N-30B-2

April 23, 2012

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## Company at a Glance

*Tortoise Energy Infrastructure Corp. (NYSE: TYG) is a pioneering closed-end investment company investing primarily in equity securities of publicly-traded Master Limited Partnerships (MLPs) and their affiliates in the energy infrastructure sector.*

### Investment Goals: Yield, Growth and Quality

TYG seeks a high level of total return with an emphasis on current distributions paid to stockholders.

In seeking to achieve **yield**, we target distributions to our stockholders that are roughly equal to the underlying yield on a direct investment in MLPs. In order to accomplish this, we maintain our strategy of investing primarily in energy infrastructure MLPs with attractive current yields and growth potential.

We seek to achieve distribution **growth** as revenues of our underlying companies grow with the economy, with the population and through rate increases. This revenue growth generally leads to increased operating profits, and when combined with internal expansion projects and acquisitions, is expected to provide attractive growth in distributions to us. We also seek distribution growth through timely debt and equity offerings.

TYG seeks to achieve **quality** by investing in companies operating energy infrastructure assets that are critical to the U.S. economy. Often these assets would be difficult to replicate. We also back experienced management teams with successful track records. By investing in us, our stockholders have access to a portfolio that is diversified through geographic regions and across product lines, including natural gas, natural gas liquids, crude oil and refined products.

### About Energy Infrastructure Master Limited Partnerships

MLPs are limited partnerships whose units trade on public exchanges such as the New York Stock Exchange (NYSE), the NYSE Alternext US and NASDAQ. Buying MLP units makes an investor a limited partner in the MLP. There are currently more than 70 MLPs in the market, mostly in industries related to energy and natural resources.

We primarily invest in MLPs and their affiliates in the energy infrastructure sector. Energy infrastructure MLPs are engaged in the transportation, storage and processing of crude oil, natural gas and refined products from production points to the end users. Our investments are primarily in mid-stream (mostly pipeline) operations, which typically produce steady cash flows with less exposure to commodity prices than many alternative investments in the broader energy industry. With the growth potential of this sector along with our disciplined investment approach, we endeavor to generate a predictable and increasing distribution stream for our investors.

### A TYG Investment Versus a Direct Investment in MLPs

We provide our stockholders an alternative to investing directly in MLPs and their affiliates. A direct MLP investment potentially offers an attractive distribution with a significant portion treated as return of capital, and a historically low correlation to returns on stocks and bonds. However, the tax characteristics of a direct MLP investment are generally undesirable for tax-exempt investors such as retirement plans. We are structured as a C Corporation accruing federal and state income taxes, based on taxable earnings and profits. Because of this innovative structure, pioneered by Tortoise Capital Advisors, institutions and retirement accounts are able to join individual stockholders as investors in MLPs.

Additional features include:

- ◆ One Form 1099 per stockholder at the end of the year, thus avoiding multiple K-1s and multiple state filings for individual partnership investments;
- ◆ A professional management team, with more than 130 years combined investment experience, to select and manage the portfolio on your behalf;
- ◆ The ability to access investment grade credit markets to enhance stockholder return; and
- ◆ Access to direct placements and other investments not available through the public markets.



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March 25, 2012

Dear Fellow Stockholders,

The energy infrastructure sector achieved attractive returns in our first fiscal quarter ended Feb. 29, 2012, as distribution growth expectations accelerated and the broader markets rallied on an improved outlook.

The fiscal quarter highlighted how midstream MLPs can benefit from the steady and predictable nature of their underlying fundamentals. Natural gas prices dropped to their lowest level in a decade, as a mild winter resulted in a material surplus; however, natural gas pipeline MLPs remained steady as a result of fee-based contracts utilizing reservation charges. Additionally, while oil prices increased due to concerns about oil supply in the Middle East, refined product and crude oil pipeline MLPs benefited from an attractive tariff and relatively stable volumes.

### **Master Limited Partnership Sector Review**

During our first fiscal quarter, the Tortoise MLP Total Return Index<sup>®</sup> (TMLPT) had a total return of 11.9 percent, outperforming the S&P 500 index total return of 10.1 percent during the same period. Pipeline MLPs were among the strongest performers in the fiscal quarter, as evidenced by the Tortoise Long-Haul Pipeline MLP Index's total return of 13.9 percent.

The North American energy landscape continues to increase in size and scope. In addition to natural gas shales, shale oil is an increasingly significant opportunity as well. Notably, the International Strategy & Investment Group predicts that North America will lead non-OPEC countries in oil production increases during the five year period through 2016. We expect significant pipeline infrastructure will be needed to support the build-out associated with both natural gas and oil shale development.

Capital markets remain supportive as MLPs raised approximately \$6.8 billion in equity and \$8.9 billion in debt in the first fiscal quarter, including the launch of four new MLP initial public offerings. Substantial organic growth projects as well as \$9.2 billion in acquisitions took hold, supporting our estimate of 6 percent to 8 percent distribution growth during fiscal year 2012.

### **Fund Performance Review**

Our total assets increased from \$1.6 billion on Nov. 30, 2011, to \$1.7 billion as of the first fiscal quarter end, resulting primarily from market appreciation of our investments. Our market-based total return was 7.8 percent and our NAV-based total return was 12.3 percent (both including the reinvestment of distributions) for the first fiscal quarter.

Our performance was positively impacted by refined product and crude oil pipeline MLPs that benefited from higher throughput volumes and attractive tariff pricing. Natural gas pipeline MLPs and gathering/processing pipeline MLPs drove performance, especially from those companies involved in the transportation of natural gas liquids. Additionally, we completed two direct placement investments in Energy Transfer Equity, L.P. and Buckeye Partners, L.P., totaling approximately \$24 million during the quarter.

We paid a distribution of \$0.5575 per common share (\$2.23 annualized) to our stockholders on March 1, 2012, an increase of 0.5 percent quarter-over-quarter and of 2.3 percent year-over-year. This distribution represented an annualized yield of 5.3 percent based on our fiscal quarter closing price of \$41.83. Our distribution payout coverage (distributable cash flow divided by distributions) for the fiscal quarter was 105.5 percent. We will provide our expectations for tax characterization of TYG's 2012 distributions later in the year. A final determination of the characterization will be made in January 2013.

We ended the first fiscal quarter with leverage (including bank debt, senior notes and preferred stock) at 18.4 percent of total assets, which had a weighted average maturity of 3.7 years, a weighted average cost of 5.0 percent, and over 75 percent at fixed rates. We continue to believe a primarily fixed-rate strategy with ladder maturities enhances the predictability and sustainability of our distributable cash flow across multiple interest rate environments.

Additional information about our financial performance is available in the Key Financial Data and Management's Discussion of this report.

### **Conclusion**

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Please join us for our annual stockholders meeting on May 24, 2012 at 10 a.m. central time at our offices located at 11550 Ash St., Suite 300, in Leawood, Kan. If you are unable to attend the meeting, you can join us via our web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

Sincerely,

The Managing Directors  
Tortoise Capital Advisors, L.L.C.  
*The adviser to Tortoise Energy Infrastructure Corp.*

H. Kevin Birzer

Zachary A. Hamel

Kenneth P. Malvey

Terry Matlack

David J. Schulte

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**Key Financial Data** *(Supplemental Unaudited Information)**(dollar amounts in thousands unless otherwise indicated)*

The information presented below regarding Distributable Cash Flow and Selected Operating Ratios is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. The Selected Operating Ratios are the functional equivalent of EBITDA for non-investment companies, and we believe they are an important supplemental measure of performance and promote comparisons from period-to-period. Supplemental non-GAAP measures should be read in conjunction with our full financial statements.

	2011				2012
	Q1 <sup>(1)</sup>	Q2 <sup>(1)</sup>	Q3 <sup>(1)</sup>	Q4 <sup>(1)</sup>	Q1 <sup>(1)</sup>
<b>Total Distributions Received from Investments</b>					
Distributions received from master limited partnerships	\$21,484	\$22,258	\$22,728	\$22,698	\$23,075
Dividends paid in stock	2,031	1,885	1,822	1,572	1,607
Other income	150	400			
<b>Total from investments</b>	<b>23,665</b>	<b>24,543</b>	<b>24,550</b>	<b>24,270</b>	<b>24,682</b>
<b>Operating Expenses Before Leverage</b>					
<b>Costs and Current Taxes</b>					
Advisory fees, net of expense reimbursement	3,494	3,691	3,565	3,502	3,899
Other operating expenses	366	392	357	355	333
	<b>3,860</b>	<b>4,083</b>	<b>3,922</b>	<b>3,857</b>	<b>4,232</b>
Distributable cash flow before leverage costs and current taxes	19,805	20,460	20,628	20,413	20,450
Leverage costs <sup>(2)</sup>	3,813	3,877	3,999	3,997	4,058
Current income tax expense	113	72	69	68	
<b>Distributable Cash Flow<sup>(3)</sup></b>	<b>\$15,879</b>	<b>\$16,511</b>	<b>\$16,560</b>	<b>\$16,348</b>	<b>\$16,392</b>
Distributions paid on common stock	\$14,824	\$14,982	\$15,220	\$15,370	\$15,533
Distributions paid on common stock per share	0.5450	0.5475	0.5525	0.5550	0.5575
Payout coverage ratio <sup>(4)</sup>	107.1%	110.2%	108.8%	106.4%	105.5%
Net realized gain, net of income taxes, for the period	7,874	31,343	12,409	56,021	9,050
Total assets, end of period	1,593,046	1,530,521	1,487,368	1,551,913	1,745,083
Average total assets during period <sup>(5)</sup>	1,513,637	1,570,661	1,523,893	1,512,101	1,661,717
Leverage <sup>(6)</sup>	286,375	300,375	296,375	315,875	321,075
Leverage as a percent of total assets	18.0%	19.6%	19.9%	20.4%	18.4%
Unrealized appreciation, net of income taxes, end of period	513,704	446,940	414,583	417,851	527,803
Net assets, end of period	964,621	912,532	878,966	925,419	1,029,274
Average net assets during period <sup>(7)</sup>	922,122	938,332	895,830	893,988	994,375
Net asset value per common share	35.46	33.35	31.91	33.37	36.94
Market value per share	40.00	37.66	37.09	39.35	41.83
Shares outstanding	27,199,433	27,365,561	27,548,375	27,728,820	27,861,084
<b>Selected Operating Ratios<sup>(8)</sup></b>					
<b>As a Percent of Average Total Assets</b>					
Total distributions received from investments	6.34%	6.20%	6.39%	6.44%	5.97%
Operating expenses before leverage costs and current taxes	1.03%	1.03%	1.02%	1.02%	1.02%
Distributable cash flow before leverage costs and current taxes	5.31%	5.17%	5.37%	5.42%	4.95%
<b>As a Percent of Average Net Assets</b>					
Distributable cash flow <sup>(3)</sup>	6.98%	6.98%	7.33%	7.33%	6.63%

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- (1) Q1 is the period from December through February. Q2 is the period from March through May. Q3 is the period from June through August. Q4 is the period from September through November.
- (2) Leverage costs include interest expense, other recurring leverage expenses and distributions to preferred stockholders.
- (3) Net investment income (loss), before income taxes on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by the return of capital on MLP distributions, the value of paid-in-kind distributions, distributions included in direct placement discounts and amortization of debt issuance costs; and decreased by current taxes paid on net investment income.
- (4) Distributable Cash Flow divided by distributions paid.
- (5) Computed by averaging month-end values within each period.
- (6) Leverage consists of long-term debt obligations, preferred stock and short-term borrowings.
- (7) Computed by averaging daily values within each period.
- (8) Annualized for periods less than one full year. Operating ratios contained in our Financial Highlights are based on average net assets.

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## **Management's Discussion** *(Unaudited)*

*The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, or continue or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the Risk Factors section of our public filings with the SEC.*

### **Overview**

Tortoise Energy Infrastructure Corp. (the Company) goal is to provide a stable and growing distribution stream to our investors. We seek to provide our stockholders with an efficient vehicle to invest in the energy infrastructure sector. While we are a registered investment company under the Investment Company Act of 1940, as amended (the 1940 Act), we are not a regulated investment company for federal tax purposes. Our distributions do not generate unrelated business taxable income (UBTI) and our stock may therefore be suitable for holding by pension funds, IRAs and mutual funds, as well as taxable accounts. We invest primarily in MLPs through private and public market purchases. MLPs are publicly traded partnerships whose equity interests are traded in the form of units on public exchanges, such as the NYSE or NASDAQ. Tortoise Capital Advisors, L.L.C. serves as our investment adviser.

### **Company Update**

Total assets increased approximately \$193 million during the 1st quarter primarily as a result of higher market values of our MLP investments. Distribution increases from our MLP investments were in-line with our expectations, asset-based expenses increased while other operating expenses declined from the previous quarter. Total leverage as a percent of total assets decreased and we increased our quarterly distribution to \$0.5575 per share. Additional information on these events and results of our operations are discussed in more detail below.

### **Critical Accounting Policies**

The financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments, tax matters and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

### **Determining Distributions to Stockholders**

Our portfolio generates cash flow from which we pay distributions to stockholders. Our Board of Directors has adopted a policy of declaring what it believes to be sustainable distributions. In determining distributions, our Board of Directors considers a number of current and anticipated factors, including, among others, distributable cash flow, realized and unrealized gains, leverage amounts and rates, current and deferred taxes payable, and potential volatility in returns from our investments and the overall market. Over the long term, we expect to distribute substantially all of our DCF to holders of common stock. Our Board of Directors reviews the distribution rate quarterly, and may adjust the quarterly distribution throughout the year.

### **Determining DCF**

DCF is distributions received from investments, less expenses. The total distributions received from our investments include the amount received by us as cash distributions from MLPs, paid-in-kind distributions, and dividend and interest payments. The total expenses include current or anticipated operating expenses, leverage costs and current income taxes (excluding taxes generated from realized gains). Realized gains, expected tax benefits and deferred taxes are not included in our DCF.

The Key Financial Data table discloses the calculation of DCF and should be read in conjunction with this discussion. The difference between distributions received from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: the Statement of Operations, in conformity with U.S. generally accepted



accounting principles ( GAAP ), recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation reflects distribution income on their pay dates; GAAP recognizes that a significant portion of the cash distributions received from MLPs are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; and distributions received from investments in the DCF calculation include the value of dividends paid-in-kind (additional stock or MLP units), whereas such amounts are not included as income for GAAP purposes, and includes distributions related to direct investments when the purchase price is reduced in lieu of receiving cash distributions. The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the total operating expenses as disclosed in the Statement of Operations, the DCF calculation reflects interest expense, distributions to preferred stockholders, other recurring leverage expenses, as well as current taxes paid on net investment income. A reconciliation of Net Investment Loss, before Income Taxes to DCF is included below.

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## **Management's Discussion** *(Unaudited)*

*(Continued)*

### **Distributions Received from Investments**

Our ability to generate cash is dependent on the ability of our portfolio of investments to generate cash flow from their operations. In order to maintain and grow distributions to our stockholders, we evaluate each holding based upon its contribution to our investment income, our expectation for its growth rate, and its risk relative to other potential investments.

We concentrate on MLPs we believe can expect an increasing demand for services from economic and population growth. We seek well-managed businesses with hard assets and stable recurring revenue streams. Our focus remains primarily on investing in fee-based service providers that operate long-haul, interstate pipelines. We further diversify among issuers, geographies and energy commodities to seek a distribution payment which approximates an investment directly in energy infrastructure MLPs. In addition, many energy infrastructure companies are regulated and currently benefit from a tariff inflation escalation index of PPI + 2.65 percent. Over the long-term, we believe MLPs' distributions will outpace inflation and interest rate increases, and produce positive real returns.

Total distributions received from our investments for the 1st quarter 2012 was approximately \$24.7 million, representing a 4.3 percent increase as compared to 1st quarter 2011 and a 1.7 percent increase as compared to 4th quarter 2011. These changes reflect increases in per share distribution rates on our MLP investments and the distributions received from additional investments funded from equity and leverage proceeds, offset by the impact of trading activity wherein certain investments with higher current yields and lower expected future growth were sold and replaced with investments that had lower current yields and higher expected future growth.

### **Expenses**

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee, and (2) leverage costs. On a percentage basis, operating expenses before leverage costs and current taxes were an annualized 1.02 percent of average total assets for the 1st quarter 2012, a decrease of 0.01 percent as compared to the 1st quarter 2011 and unchanged as compared to 4th quarter 2011. Advisory fees for the 1st quarter 2012 increased 11.3 percent from 4th quarter 2011 as a result of increased average managed assets for the quarter. Yields on our MLP investments are currently below their 5-year historical average of approximately 7 percent. All else being equal, if MLP yields decrease and distributions remain constant or grow, MLP asset values will increase as will our managed assets and advisory fees. Other operating expenses decreased approximately \$22,000 as compared to 4th quarter 2011, primarily due to reduced estimated franchise taxes.

Leverage costs consist of two major components: (1) the direct interest expense on our senior notes and short-term credit facility, and (2) distributions to preferred stockholders. Other leverage expenses include rating agency fees and commitment fees. Total leverage costs for DCF purposes were approximately \$4.1 million for the 1st quarter 2012, a slight increase as compared to 4th quarter 2011 due to higher utilization of our bank credit facility.

The weighted average annual rate of our leverage at February 29, 2012 was 4.97 percent. This rate includes balances on our bank credit facility which accrue interest at a variable rate equal to one-month LIBOR plus 1.25 percent. Our weighted average rate may vary in future periods as a result of changes in LIBOR, the utilization of our credit facility and as our leverage matures or is redeemed. Additional information on our leverage and amended credit facility is disclosed below in Liquidity and Capital Resources and in our Notes to Financial Statements.

### **Distributable Cash Flow**

For 1st quarter 2012, our DCF was approximately \$16.4 million, an increase of 3.2 percent as compared to 1st quarter 2011 and a slight increase as compared to 4th quarter 2011. The changes are the net result of changes in distributions and expenses as outlined above. We declared a distribution of \$15.5 million, or \$0.5575 per share, during the quarter. This represents an increase of \$0.0125 per share as compared to 1st quarter 2011 and an increase of \$0.0025 per share as compared to 4th quarter 2011.

Beginning with this 1st quarter 2012 report, we now disclose our earned DCF as a payout coverage ratio of distributions declared (DCF divided by distributions paid on common stock). This presentation is the inverse of our previous metric of DCF payout percentage (distributions paid divided by DCF). Our payout coverage ratio was 105.5 percent for 1st quarter 2012. Our goal is to

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pay what we believe to be sustainable distributions with any increases safely covered by earned DCF. A payout coverage ratio of greater than 100 percent provides flexibility for on-going management of the portfolio, changes in leverage costs and other expenses. An on-going payout coverage ratio of less than 100 percent will, over time, erode the earning power of a portfolio and may lead to lower distributions or portfolio managers taking on more risk than they otherwise would.

Net investment loss before income taxes on the Statement of Operations is adjusted as follows to reconcile to DCF for 1st quarter 2012 (in thousands):

	<b>1st Qtr 2012</b>
Net Investment Loss, before Income Taxes	\$ (6,815)
Adjustments to reconcile to DCF:	
Dividends paid in stock	1,607
Distributions characterized as return of capital	21,527
Amortization of debt issuance costs	73
DCF	\$ 16,392

### Liquidity and Capital Resources

We had total assets of \$1.745 billion at quarter-end. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and other receivables, if any, and any expenses that may have been prepaid. During 1st quarter 2012, total assets increased

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## **Management's Discussion** *(Unaudited)*

*(Continued)*

\$193 million. This change was primarily the result of a \$167 million increase in the value of our investments as reflected by the change in realized and unrealized gains on investments (excluding return of capital on distributions) and net purchases of approximately \$26 million.

We issued 132,264 shares of our common stock during the quarter under our at-the-market equity program for a net total of approximately \$5.2 million. We are waiving our advisory fees on the net proceeds from shares issued under our at-the-market equity program for six months.

Total leverage outstanding at February 29, 2012 was \$321.1 million, an increase of \$5.2 million as compared to November 30, 2011. On an adjusted basis to reflect payment of our 1st quarter 2012 distribution, the increase is approximately \$19.5 million. These additional leverage proceeds, along with the proceeds of \$5.2 million from the issuance of common stock, were used to fund two direct placements totaling \$24.1 million during the quarter. Outstanding leverage is comprised of approximately \$195 million in senior notes, \$73 million in preferred shares and \$53.1 million outstanding under the credit facility, with 78.8 percent of leverage with fixed rates and a weighted average maturity of 3.7 years. Total leverage represented 18.4 percent of total assets at February 29, 2012, as compared to 20.4 percent as of November 30, 2011 and 18.0 percent as of February 28, 2011. Our leverage as a percent of total assets remains below our long-term target level of 25 percent, allowing the opportunity to add leverage when compelling investment opportunities arise. Temporary increases to up to 30 percent of our total assets may be permitted, provided that such leverage is consistent with the limits set forth in the 1940 Act, and that such leverage is expected to be reduced over time in an orderly fashion to reach our long-term target. Our leverage ratio is impacted by increases or decreases in MLP values, issuance of equity and/or the sale of securities where proceeds are used to reduce leverage.

Our longer-term leverage (excluding our bank credit facility) of approximately \$268 million is comprised of 73 percent private placement debt and 27 percent publicly traded preferred equity with a weighted average rate of 5.64 percent and remaining weighted average laddered maturity of approximately 4.4 years.

Our Mandatory Redeemable Preferred stock has an optional redemption feature allowing us to redeem all or a portion of the stock after December 31, 2012 and on or prior to December 31, 2013 at \$10.10 per share. Any optional redemption after December 31, 2013 and on or prior to December 31, 2014 will be at \$10.05 per share. Any redemption after December 31, 2014 will be at the liquidation preference amount of \$10.00 per share.

We have used leverage to acquire MLPs consistent with our investment philosophy. The terms of our leverage are governed by regulatory and contractual asset coverage requirements that arise from the use of leverage. Additional information on our leverage and asset coverage requirements is discussed in Note 9 and Note 10 in the Notes to Financial Statements. Our coverage ratios are updated each week on our Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

## **Taxation of our Distributions and Income Taxes**

We invest in partnerships that generally have cash distributions in excess of their income for accounting and tax purposes. Accordingly, the distributions include a return of capital component for accounting and tax purposes. Distributions declared and paid by us in a year generally differ from taxable income for that year, as such distributions may include the distribution of current year taxable income or return of capital.

The taxability of the distribution you receive depends on whether we have annual earnings and profits ( E&P ). E&P is primarily comprised of the taxable income from MLPs with certain specified adjustments as reported on annual K-1s, fund operating expenses and net realized gains. If we have E&P, it is first allocated to the preferred shares and then to the common shares.

In the event we have E&P allocated to our common shares, all or a portion of our distribution will be taxable at the 15 percent Qualified Dividend Income ( QDI ) rate, assuming various holding requirements are met by the stockholder. The 15 percent QDI rate is currently effective through 2012. The portion of our distribution that is taxable may vary for either of two reasons: first, the characterization of the distributions we receive from MLPs could change annually based upon the K-1 allocations and result in less return of capital and more in the form of income. Second, we could sell an MLP investment and realize a gain or loss at any time. It is for these reasons that we inform you of the tax treatment after the close of each year as the ultimate characterization of our distributions is undeterminable until the year is over.

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For tax purposes, distributions to common stockholders for the fiscal year ended 2011 were 100 percent qualified dividend income. This information is reported to stockholders on Form 1099-DIV and is available on our Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com). For book purposes, the source of distributions to common stockholders for the fiscal year ended 2011 was 100 percent return of capital.

The unrealized gain or loss we have in the portfolio is reflected in the Statement of Assets and Liabilities. At February 29, 2012, our investments are valued at \$1.741 billion, with an adjusted cost of \$906 million. The \$835 million difference reflects unrealized gain that would be realized for financial statement purposes if those investments were sold at those values. The Statement of Assets and Liabilities also reflects either a net deferred tax liability or net deferred tax asset depending upon unrealized gains (losses) on investments, realized gains (losses) on investments, capital loss carryforwards and net operating losses. At February 29, 2012, the balance sheet reflects a net deferred tax liability of approximately \$373 million or \$13.39 per share. Accordingly, our net asset value per share represents the amount which would be available for distribution to stockholders after payment of taxes. Details of our taxes are disclosed in Note 5 in our Notes to Financial Statements.

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**Schedule of Investments**

February 29, 2012

(Unaudited)

	Shares	Fair Value
<b>Master Limited Partnerships and Related Companies 169.2%</b>		
<b>Crude/Refined Products Pipelines 68.8%</b>		
<b>United States 68.8%</b>		
Buckeye Partners, L.P.	1,615,819	\$ 96,625,976
Enbridge Energy Partners, L.P.	2,311,900	75,252,345
Holly Energy Partners, L.P.	616,000	37,717,680
Kinder Morgan Management, LLC <sup>(2)</sup>	1,129,778	90,574,327
Magellan Midstream Partners, L.P.	1,680,967	122,996,355
NuStar Energy L.P.	854,300	51,941,440
Oiltanking Partners, L.P.	418,500	13,559,400
Plains All American Pipeline, L.P.	1,173,658	97,061,517
Sunoco Logistics Partners L.P.	2,739,063	106,960,410
Tesoro Logistics LP	410,423	14,980,440
		707,669,890
<b>Natural Gas/Natural Gas Liquids Pipelines 74.8%</b>		
<b>United States 74.8%</b>		
Boardwalk Pipeline Partners, LP.	2,911,825	79,114,285
El Paso Pipeline Partners, L.P.	2,513,790	92,180,679
Energy Transfer Equity, L.P.	825,017	35,879,989
Energy Transfer Partners, L.P.	1,759,295	83,390,583
Enterprise Products Partners L.P.	2,443,400	126,763,592
Inergy Midstream, L.P.	412,100	8,732,399
ONEOK Partners, L.P.	1,665,930	96,957,126
PAA Natural Gas Storage, L.P.	175,682	3,373,094
Regency Energy Partners LP.	2,681,427	71,057,816
Spectra Energy Partners, LP.	907,627	29,942,615
TC PipeLines, LP.	938,185	43,569,311
Williams Partners L.P.	1,590,955	98,973,311
		769,934,800
<b>Natural Gas Gathering/Processing 24.3%</b>		
<b>United States 24.3%</b>		
Chesapeake Midstream Partners, L.P.	1,128,000	32,215,680
Copano Energy, L.L.C.	885,900	32,937,762
Crestwood Midstream Partners LP <sup>(2)</sup>	654,413	18,873,271
DCP Midstream Partners, LP.	704,448	34,306,618
MarkWest Energy Partners, L.P.	618,609	36,999,004
Targa Resources Partners LP.	1,110,119	47,235,564
Western Gas Partners LP.	1,043,962	47,803,020
		250,370,919
<b>Propane Distribution 1.3%</b>		
<b>United States 1.3%</b>		
Inergy, L.P.	746,518	13,034,204
Total Master Limited Partnerships and Related Companies (Cost \$905,541,998)		1,741,009,813
<b>Short-Term Investment 0.0%</b>		
<b>United States Investment Company 0.0%</b>		
Fidelity Institutional Money Market Portfolio Class I, 0.21% <sup>(3)</sup> (Cost \$135,640)	135,640	135,640
<b>Total Investments 169.2%</b> <b>(Cost \$905,677,638)</b>		1,741,145,453
<b>Other Assets and Liabilities (43.1%)</b>		(443,896,404)

<b>Long-Term Debt Obligations</b> (19.0%)	(194,975,000)
<b>Mandatory Redeemable Preferred Stock</b> <b>at Liquidation Value</b> (7.1%)	(73,000,000)
<b>Total Net Assets Applicable to</b> <b>Common Stockholders</b> 100.0%	\$ 1,029,274,049

(1) Calculated as a percentage of net assets applicable to common stockholders.

(2) Security distributions are paid-in-kind.

(3) Rate indicated is the current yield as of February 29, 2012.

See accompanying Notes to Financial Statements.

**Statement of Assets & Liabilities**

February 29, 2012

*(Unaudited)*

<b>Assets</b>		
Investments at fair value (cost \$905,677,638)	\$	1,741,145,453
Receivable for Adviser expense reimbursement		16,911
Receivable for investments sold		698,735
Current tax asset		1,087,633
Prepaid expenses and other assets		2,134,226
<b>Total assets</b>		<b>1,745,082,958</b>
<b>Liabilities</b>		
Payable to Adviser		2,640,119
Payable for investments purchased		971,747
Distribution payable to common stockholders		15,532,581
Accrued expenses and other liabilities		2,466,088
Deferred tax liability		373,123,374
Short-term borrowings		53,100,000
Long-term debt obligations		194,975,000
Mandatory redeemable preferred stock (\$10.00 liquidation value per share; 7,300,000 shares outstanding)		73,000,000
<b>Total liabilities</b>		<b>715,808,909</b>
Net assets applicable to common stockholders	\$	1,029,274,049
<b>Net Assets Applicable to Common Stockholders Consist of:</b>		
Capital stock, \$0.001 par value; 27,861,084 shares issued and outstanding (100,000,000 shares authorized)	\$	27,861
Additional paid-in capital		380,871,055
Accumulated net investment loss, net of income taxes		(81,230,215)
Undistributed realized gain, net of income taxes		201,802,640
Net unrealized appreciation of investments, net of income taxes		527,802,708
<b>Net assets applicable to common stockholders</b>	<b>\$</b>	<b>1,029,274,049</b>
Net Asset Value per common share outstanding (net assets applicable to common stock, divided by common shares outstanding)	\$	36.94

**Statement of Operations**

Period from December 1, 2011 through February 29, 2012

*(Unaudited)*

<b>Investment Income</b>		
Distributions from master limited partnerships	\$	23,074,958
Less return of capital on distributions		(21,526,845)
Net distributions from master limited partnerships		1,548,113
Dividends from money market mutual funds		74
<b>Total Investment Income</b>		<b>1,548,187</b>
<b>Operating Expenses</b>		
Advisory fees		3,923,804
Administrator fees		114,145
Professional fees		55,805
Stockholder communication expenses		39,051
Directors fees		34,874
Fund accounting fees		19,973
Custodian fees and expenses		18,045
Registration fees		10,671
Franchise fees		8,180
Stock transfer agent fees		4,327
Other operating expenses		27,956



<b>Total Operating Expenses</b>	4,256,831
<b>Leverage Expenses</b>	
Interest expense	2,867,277
Distributions to mandatory redeemable preferred stockholders	1,140,639
Amortization of debt issuance costs	73,379
Other leverage expenses	50,285
<b>Total Leverage Expenses</b>	4,131,580
<b>Total Expenses</b>	8,388,411
Less expense reimbursement by Adviser	(25,055)
<b>Net Expenses</b>	8,363,356
<b>Net Investment Loss, before Income Taxes</b>	(6,815,169)
Deferred tax benefit	2,072,187
<b>Net Investment Loss</b>	(4,742,982)
<b>Realized and Unrealized Gain on Investments</b>	
Net realized gain on investments, before income taxes	14,333,123
Deferred tax expense	(5,283,189)
Net realized gain on investments	9,049,934
Net unrealized appreciation of investments, before income taxes	174,138,778
Deferred tax expense	(64,187,553)
Net unrealized appreciation of investments	109,951,225
<b>Net Realized and Unrealized Gain on Investments</b>	119,001,159
<b>Net Increase in Net Assets Applicable to Common Stockholders</b>	
Resulting from Operations	\$ 114,258,177

*See accompanying Notes to Financial Statements.*

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**Statement of Changes in Net Assets**

	Period from December 1, 2011 through February 29, 2012 <i>(Unaudited)</i>	Year Ended November 30, 2011
<b>Operations</b>		
Net investment loss	\$ (4,742,982)	\$ (21,107,610)
Net realized gain on investments	9,049,934	107,646,941
Net unrealized appreciation (depreciation) of investments	109,951,225	(16,230,572)
Net increase in net assets applicable to common stockholders resulting from operations	114,258,177	70,308,759
<b>Distributions to Common Stockholders</b>		
Net investment income		
Return of capital	(15,532,554)	(60,396,313)
Total distributions to common stockholders	(15,532,554)	(60,396,313)
<b>Capital Stock Transactions</b>		
Proceeds from shelf offerings of 132,264 and 514,846 common shares, respectively	5,235,397	19,760,170
Underwriting discounts and offering expenses associated with the issuance of common stock	(105,481)	(436,923)
Issuance of 145,397 common shares from reinvestment of distributions to stockholders		5,303,605
Net increase in net assets applicable to common stockholders from capital stock transactions	5,129,916	24,626,852
Total increase in net assets applicable to common stockholders	103,855,539	34,539,298
<b>Net Assets</b>		
Beginning of period	925,418,510	890,879,212
End of period	\$ 1,029,274,049	\$ 925,418,510
Accumulated net investment loss, net of income taxes, end of period	\$ (81,230,215)	\$ (76,487,233)

*See accompanying Notes to Financial Statements.*

**Statement of Cash Flows**

Period from December 1, 2011 through February 29, 2012  
(Unaudited)

<b>Cash Flows From Operating Activities</b>	
Distributions received from master limited partnerships	\$ 23,074,958
Dividend income received	81
Purchases of long-term investments	(80,799,373)
Proceeds from sales of long-term investments	55,460,399
Proceeds from sales of short-term investments, net	46,730
Interest expense paid	(2,854,757)
Distributions to mandatory redeemable preferred stockholders	(1,140,640)
Income taxes paid	(120,096)
Operating expenses paid	(3,996,981)
Net cash used in operating activities	(10,329,679)
<b>Cash Flows From Financing Activities</b>	
Advances from revolving line of credit	34,200,000
Repayments on revolving line of credit	(29,000,000)
Issuance of common stock	5,235,397
Common stock issuance costs	(105,718)
Net cash provided by financing activities	10,329,679
Net change in cash	
Cash beginning of period	
Cash end of period	\$
<b>Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities</b>	
Net increase in net assets applicable to common stockholders resulting from operations	\$ 114,258,177
Adjustments to reconcile net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities:	
Purchases of long-term investments	(81,771,120)
Proceeds from sales of long-term investments	55,429,623
Proceeds from sales of short-term investments, net	46,730
Return of capital on distributions received	21,526,845
Deferred tax expense	67,398,555
Net unrealized appreciation of investments	(174,138,778)
Net realized gain on investments	(14,333,123)
Amortization of debt issuance costs	73,379
Changes in operating assets and liabilities:	
Increase in current tax asset	(75,418)
Decrease in receivable for investments sold	30,776
Decrease in prepaid expenses and other assets	42,244
Increase in payable for investments purchased	971,747
Increase in payable to Adviser, net of expense reimbursement	242,426
Decrease in accrued expenses and other liabilities	(31,742)
Total adjustments	(124,587,856)
Net cash used in operating activities	\$ (10,329,679)

See accompanying Notes to Financial Statements.



## Financial Highlights

	Period from December 1, 2011 through February 29, 2012 <i>(Unaudited)</i>	Year Ended November 30, 2011	Year Ended November 30, 2010	Year Ended November 30, 2009
<b>Per Common Share Data<sup>(1)</sup></b>				
Net Asset Value, beginning of period	\$ 33.37	\$ 32.91	\$ 25.53	\$ 17.36
Income (Loss) from Investment Operations				
Net investment loss <sup>(2)(3)</sup>	(0.17)	(0.77)	(0.66)	(0.16)
Net realized and unrealized gains (losses) on investments and interest rate swap contracts <sup>(2)(3)</sup>	4.28	3.35	10.10	10.65
Total income (loss) from investment operations	4.11	2.58	9.44	10.49
Distributions to Auction Preferred Stockholders				
Net investment income				
Return of capital			(0.01)	(0.19)
Total distributions to auction preferred stockholders			(0.01)	(0.19)
Distributions to Common Stockholders				
Net investment income				
Return of capital	(0.56)	(2.20)	(2.16)	(2.16)
Total distributions to common stockholders	(0.56)	(2.20)	(2.16)	(2.16)
Capital Stock Transactions				
Underwriting discounts and offering costs on issuance of common and auction preferred stock <sup>(4)</sup>				
Premiums less underwriting discounts and offering costs on issuance of common stock <sup>(5)</sup>	0.02	0.08	0.11	0.03
Total capital stock transactions	0.02	0.08	0.11	0.03
Net Asset Value, end of period	\$ 36.94	\$ 33.37	\$ 32.91	\$ 25.53
Per common share market value, end of period	\$ 41.83	\$ 39.35	\$ 36.25	\$ 29.50
Total Investment Return Based on Market Value <sup>(6)</sup>	7.80%	15.25%	31.58%	88.85%
<b>Supplemental Data and Ratios</b>				
Net assets applicable to common stockholders, end of period (000 s)	\$ 1,029,274	\$ 925,419	\$ 890,879	\$ 613,601
Average net assets (000 s)	\$ 994,375	\$ 912,567	\$ 782,541	\$ 500,661
Ratio of Expenses to Average Net Assets <sup>(7)</sup>				
Advisory fees	1.59%	1.57%	1.53%	1.54%
Other operating expenses	0.13	0.16	0.21	0.26
Expense reimbursement	(0.01)	(0.01)		(0.03)
Subtotal	1.71	1.72	1.74	1.77
Leverage expenses <sup>(8)</sup>	1.67	1.75	2.11	2.54
Income tax expense (benefit) <sup>(9)</sup>	27.26	4.63	17.89	29.98
Total expenses	30.64%	8.10%	21.74%	34.29%

See accompanying Notes to Financial Statements.

## Financial Highlights

	Period from December 1, 2011  through February 29, 2012 (Unaudited)	Year Ended November 30,  2011	Year Ended November 30,  2010	Year Ended November 30,  2009	Year E Novem 30,  2008
Ratio of net investment loss to average net assets before expense reimbursement <sup>(7)(8)</sup>	(1.93)%	(2.32)%	(2.23)%	(0.97)%	(2.32)%
Ratio of net investment loss to average net assets after expense reimbursement <sup>(7)(8)</sup>	(1.92)%	(2.31)%	(2.23)%	(0.94)%	(1.92)%
Portfolio turnover rate	3.35%	17.70%	10.26%	17.69%	5.00%
Short-term borrowings, end of period (000 s)	\$ 53,100	\$ 47,900	\$ 38,200	\$ 10,400	\$ 10,400
Long-term debt obligations, end of period (000 s)	\$ 194,975	\$ 194,975	\$ 169,975	\$ 170,000	\$ 210,000
Preferred stock, end of period (000 s)	\$ 73,000	\$ 73,000	\$ 73,000	\$ 70,000	\$ 70,000
Per common share amount of long-term debt obligations outstanding, end of period	\$ 7.00	\$ 7.03	\$ 6.28	\$ 7.07	\$ 8.00
Per common share amount of net assets, excluding long-term debt obligations, end of period	\$ 43.94	\$ 40.40	\$ 39.19	\$ 32.60	\$ 26.00
Asset coverage, per \$1,000 of principal amount of long-term debt obligations and short-term borrowings <sup>(10)(11)</sup>	\$ 5,443	\$ 5,111	\$ 5,630	\$ 4,789	\$ 3,500
Asset coverage ratio of long-term debt obligations and short-term borrowings <sup>(10)(11)</sup>	544%	511%	563%	479%	300%
Asset coverage, per \$25,000 liquidation value per share of auction preferred stock <sup>(11)(12)</sup>				\$ 86,262	\$ 64,000
Asset coverage, per \$10 liquidation value per share of mandatory redeemable preferred stock <sup>(12)</sup>	\$ 42	\$ 39	\$ 42		
Asset coverage ratio of preferred stock <sup>(11)(12)</sup>	421%	393%	417%	345%	200%

(1) Information presented relates to a share of common stock outstanding for the entire period.

(2) The per common share data for the years ended November 30, 2010, 2009, 2008, and 2007 do not reflect the change in estimate of investment income and return of capital, for the respective year. See Note 2C to the financial statements for further disclosure.

(3) The per common share data for the year ended November 30, 2008 reflects the cumulative effect of adopting ASC 740-10, which was a \$1,165,009 increase to the beginning balance of accumulated net investment loss, or \$(0.06) per share.

(4) Represents the dilution per common share from underwriting and other offering costs for the year ended November 30, 2008. Represents the effect of the issuance of auction preferred stock for the year ended November 30, 2007.

(5) Represents the premium on the shelf offerings of \$0.02 per share, less the underwriting and offering costs of \$0.00 per share for the period from December 1, 2011 through February 29, 2012. Represents the premium on the shelf offerings of \$0.09 per share, less the underwriting and offering costs of \$0.01 per share for the year ended November 30, 2011. Represents the premium on the shelf offerings of \$0.25 per share, less the underwriting and offering costs of \$0.14 per share for the year ended November 30, 2010. Represents the premium on the shelf offerings of \$0.05 per share, less the underwriting and offering costs of \$0.02 per share for the year ended November 30, 2009. Represents the premium on the shelf offerings of \$0.34 per share, less the underwriting and offering costs of \$0.25 per share for the year ended November 30, 2008. Represents the premium on the shelf offerings of \$0.21 per share, less the underwriting and offering costs of \$0.13 per share for the year ended November 30, 2007.

(6) Not annualized for periods less than one full year. Total investment return is calculated assuming a purchase of common stock at the beginning of the period and a sale at the closing price on the last day of the period reported (excluding brokerage commissions). The calculation also assumes reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.

(7) Annualized for periods less than one full year.

(8) The expense ratios and net investment loss ratios do not reflect the effect of distributions to auction preferred stockholders.

(9) For the period from December 1, 2011 through February 29, 2012, the Company accrued \$67,398,555 for net deferred income tax expense. For the year ended November 30, 2011, the Company accrued \$8,950,455 for current income tax expense and \$33,248,897 for net deferred income tax expense. For the year ended November 30, 2010, the Company accrued \$984,330 for current income tax expense and \$139,019,876 for net deferred income tax expense. For the year ended November 30, 2009, the Company accrued \$230,529 for net current income tax benefit and \$150,343,906 for net deferred income tax expense. For the year ended November 30, 2008, the Company accrued \$260,089 for net current income tax expense and \$185,024,497 for deferred income tax benefit. For the year ended November 30, 2007, the Company accrued \$344,910 for current income tax expense and \$42,171,411 for net deferred income tax expense.

(10)

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- Represents value of total assets less all liabilities and indebtedness not represented by long-term debt obligations, short-term borrowings and preferred stock at the end of the period divided by long-term debt obligations and short-term borrowings outstanding at the end of the period.*
- (11) As of November 30, 2008, the Company had restricted cash in the amount of \$20,400,000 to be used to redeem long-term debt obligations with a par value of \$20,000,000, which are excluded from these asset coverage calculations.*
- (12) Represents value of total assets less all liabilities and indebtedness not represented by long-term debt obligations, short-term borrowings and preferred stock at the end of the period divided by long-term debt obligations, short-term borrowings and preferred stock outstanding at the end of the period.*

*See accompanying Notes to Financial Statements.*

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**Notes to Financial Statements** *(Unaudited)*

February 29, 2012

**1. Organization**

Tortoise Energy Infrastructure Corporation (the Company) was organized as a Maryland corporation on October 29, 2003, and is a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Company's investment objective is to seek a high level of total return with an emphasis on current distributions paid to stockholders. The Company seeks to provide its stockholders with an efficient vehicle to invest in the energy infrastructure sector. The Company commenced operations on February 27, 2004. The Company's stock is listed on the New York Stock Exchange under the symbol TYG.

**2. Significant Accounting Policies**

**A. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, recognition of distribution income and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**B. Investment Valuation**

The Company primarily owns securities that are listed on a securities exchange or over-the-counter market. The Company values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company uses the price from the exchange that it considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ will be valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. If there has been no sale on such exchange or over-the-counter market on such day, the security will be valued at the mean between the last bid price and last ask price on such day.

The Company may invest up to 30 percent of its total assets in restricted securities. Restricted securities are subject to statutory or contractual restrictions on their public resale, which may make it more difficult to obtain a valuation and may limit the Company's ability to dispose of them. Investments in private placement securities and other securities for which market quotations are not readily available will be valued in good faith by using fair value procedures approved by the Board of Directors. Such fair value procedures consider factors such as discounts to publicly traded issues, time until conversion date, securities with similar yields, quality, type of issue, coupon, duration and rating. If events occur that affect the value of the Company's portfolio securities before the net asset value has been calculated (a significant event), the portfolio securities so affected will generally be priced using fair value procedures.

An equity security of a publicly traded company acquired in a direct placement transaction may be subject to restrictions on resale that can affect the security's liquidity and fair value. Such securities that are convertible or otherwise will become freely tradable will be valued based on the market value of the freely tradable security less an applicable discount. Generally, the discount will initially be equal to the discount at which the Company purchased the securities. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be used to determine the discount.

The Company generally values debt securities at prices based on market quotations for such securities, except those securities purchased with 60 days or less to maturity are valued on the basis of amortized cost, which approximates market value.

**C. Security Transactions and Investment Income**

Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis. Interest income is recognized on the accrual basis, including amortization of premiums and



accretion of discounts. Dividend and distribution income is recorded on the ex-dividend date. Distributions received from the Company's investments in master limited partnerships ( MLPs ) generally are comprised of ordinary income and return of capital from the MLPs. The Company allocates distributions between investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on information provided by each MLP and other industry sources. These estimates may subsequently be revised based on actual allocations received from MLPs after their tax reporting periods are concluded, as the actual character of these distributions is not known until after the fiscal year end of the Company.

For the period from December 1, 2011 through February 29, 2012, the Company estimated the allocation of investment income and return of capital for the distributions received from MLPs within the Statement of Operations. For this period, the Company has estimated approximately 7 percent as investment income and approximately 93 percent as return of capital.

#### **D. Distributions to Stockholders**

Distributions to common stockholders are recorded on the ex-dividend date. The Company may not declare or pay distributions to its common stockholders if it does not meet asset coverage ratios required under the 1940 Act or the rating agency guidelines for its debt and preferred stock following such distribution. The character of distributions to common stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. For book purposes, the source of the Company's distributions to common stockholders for the year ended November 30, 2011 and the period ended February 29, 2012 was 100 percent return of capital. For tax purposes, the Company's distributions to common stockholders for the year ended November 30, 2011 were 100 percent qualified dividend income. The tax character of distributions paid to common stockholders in the current year will be determined subsequent to November 30, 2012.

Distributions to mandatory redeemable preferred ( MRP ) stockholders are paid on the first business day of each month and are accrued daily based on a fixed annual rate of 6.25 percent. The Company may not declare or pay distributions to its preferred stockholders if it does not meet a 200 percent asset coverage ratio for its debt or the rating agency basic maintenance amount for the debt following such distribution. The character of distributions to MRP stockholders made during the year may differ from their ultimate characterization for federal income tax purposes. For book purposes, the source of the Company's distributions to MRP stockholders for the year ended November 30, 2011 and the period ended February 29, 2012 was 100 percent return of capital. For tax purposes, the Company's distributions to MRP stockholders for the year ended November 30, 2011 were 100 percent qualified dividend income. The tax character of distributions paid to MRP stockholders for the current year will be determined subsequent to November 30, 2012.

#### **E. Federal Income Taxation**

The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. Currently, the highest regular marginal federal income tax rate for a corporation is 35 percent. The Company may be subject to a 20 percent federal alternative minimum tax on its federal alternative minimum taxable income to the extent that its alternative minimum tax exceeds its regular federal income tax.

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**Notes to Financial Statements** *(Unaudited)*

*(Continued)*

The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company reports its allocable share of the MLP's taxable income in computing its own taxable income. The Company's tax expense or benefit is included in the Statement of Operations based on the component of income or gains (losses) to which such expense or benefit relates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

**F. Offering and Debt Issuance Costs**

Offering costs related to the issuance of common and preferred stock are charged to additional paid-in capital when the stock is issued. Offering costs (excluding underwriter discounts and commissions) of \$26,951 related to the issuance of common stock were recorded to additional paid-in capital during the period ended February 29, 2012. Debt issuance costs related to long-term debt obligations and MRP Stock are capitalized and amortized over the period the debt and MRP Stock is outstanding.

**G. Derivative Financial Instruments**

The Company may use derivative financial instruments (principally interest rate swap contracts) in an attempt to manage interest rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for speculative purposes. All derivative financial instruments are recorded at fair value with changes in fair value during the reporting period, and amounts accrued under the agreements, included as unrealized gains or losses in the accompanying Statement of Operations. Monthly cash settlements under the terms of the derivative instruments and the termination of such contracts are recorded as realized gains or losses in the accompanying Statement of Operations. The Company did not hold any derivative financial instruments during the period ended February 29, 2012.

**H. Indemnifications**

Under the Company's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Company. In addition, in the normal course of business, the Company may enter into contracts that provide general indemnification to other parties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred, and may not occur. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**I. Recent Accounting Pronouncement**

In May 2011, the FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and the International Financial Reporting Standards (IFRSs). ASU No. 2011-04 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. Management is currently evaluating the impact of these amendments, but currently does not believe they will have a material impact on the Company's financial statements.

**3. Concentration of Risk**

Under normal circumstances, the Company intends to invest at least 90 percent of its total assets in securities of energy infrastructure companies, and to invest at least 70 percent of its total assets in equity securities of MLPs. The Company will not invest more than 10 percent of its total assets in any single issuer as of the time of purchase. The Company may invest up to 25 percent of its assets in debt securities, which may include below investment grade securities. In determining application of these policies, the term "total assets" includes assets obtained through leverage. Companies that primarily invest in a particular sector may

experience greater volatility than companies investing in a broad range of industry sectors. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy, it may not achieve its investment objective.

#### 4. Agreements

The Company has entered into an Investment Advisory Agreement with Tortoise Capital Advisors, L.L.C. (the Adviser ). Under the terms of the agreement, the Company pays the Adviser a fee equal to an annual rate of 0.95 percent of the Company's average monthly total assets (including any assets attributable to leverage and excluding any net deferred tax asset) minus accrued liabilities (other than net deferred tax liability, debt entered into for purposes of leverage and the aggregate liquidation preference of outstanding preferred stock) ( Managed Assets ), in exchange for the investment advisory services provided. The Adviser has contractually agreed to waive all fees due under the Investment Advisory Agreement related to the net proceeds received from the issuance of additional common stock under the at-the-market equity program for a six month period following the date of issuance.

U.S. Bancorp Fund Services, LLC serves as the Company's administrator. The Company pays the administrator a monthly fee computed at an annual rate of 0.04 percent of the first \$1,000,000,000 of the Company's Managed Assets, 0.01 percent on the next \$500,000,000 of Managed Assets and 0.005 percent on the balance of the Company's Managed Assets.

Computershare Trust Company, N.A. serves as the Company's transfer agent and registrar and Computershare Inc. serves as the Company's dividend paying agent and agent for the automatic dividend reinvestment and cash purchase plan.

U.S. Bank, N.A. serves as the Company's custodian. The Company pays the custodian a monthly fee computed at an annual rate of 0.004 percent of the Company's portfolio assets, plus portfolio transaction fees.

#### 5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. Components of the Company's deferred tax assets and liabilities as of February 29, 2012, are as follows:

Deferred tax assets:	
Net operating loss carryforwards	\$ 9,191,612
Deferred tax liabilities:	
Basis reduction of investment in MLPs	74,361,550
Net unrealized gains on investment securities	307,953,436
	382,314,986
Total net deferred tax liability	\$ 373,123,374

**Notes to Financial Statements** (Unaudited)

(Continued)

At February 29, 2012, a valuation allowance on deferred tax assets was not deemed necessary because the Company believes it is more likely than not that there is an ability to realize its deferred tax assets through future taxable income. Any adjustments to the Company's estimates of future taxable income will be made in the period such determination is made. The Company's policy is to record interest and penalties on uncertain tax positions as part of tax expense. As of February 29, 2012, the Company had no uncertain tax positions and no penalties and interest were accrued. Tax years subsequent to the year ending November 30, 2003 remain open to examination by federal and state tax authorities.

Total income tax expense differs from the amount computed by applying the federal statutory income tax rate of 35 percent to net investment loss and net realized and unrealized gains on investments for the period ended February 29, 2012, as follows:

Application of statutory income tax rate	\$ 63,579,856
State income taxes, net of federal tax benefit	3,378,815
Nondeductible payments on preferred stock	439,884
Total income tax expense	\$ 67,398,555

Total income taxes are computed by applying the federal statutory rate plus a blended state income tax rate.

For the period from December 1, 2011 through February 29, 2012, the components of income tax expense include deferred federal and state income tax expense (net of federal tax benefit) of \$63,997,543 and \$3,401,012, respectively.

As of November 30, 2011, the Company had net operating losses for state income tax purposes of approximately \$5,866,000. If not utilized, these net operating losses will expire in the years ending November 30, 2014 through November 30, 2030. The amount of deferred tax asset for net operating losses at February 29, 2012 includes amounts for the period from December 1, 2011 through February 29, 2012. As of November 30, 2011, the Company estimated that it utilized its capital loss carryforward of approximately \$51,000,000. Such estimate is subject to revision upon receipt of the 2011 tax reporting information from the individual MLPs. As of November 30, 2011, the Company utilized its alternative minimum tax credit of \$605,833 as a credit against regular income tax.

As of February 29, 2012, the aggregate cost of securities for federal income tax purposes was \$703,937,133. The aggregate gross unrealized appreciation for all securities in which there was an excess of fair value over tax cost was \$1,037,306,928, the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over fair value was \$98,608 and the net unrealized appreciation was \$1,037,208,320.

**6. Fair Value of Financial Instruments**

Various inputs are used in determining the value of the Company's investments. These inputs are summarized in the three broad levels listed below:

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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The following table provides the fair value measurements of applicable Company assets by level within the fair value hierarchy as of February 29, 2012. These assets are measured on a recurring basis.

Description	Fair Value at			
	February 29, 2012	Level 1	Level 2	Level 3
Equity Securities:				
Master Limited Partnerships and Related Companies <sup>(a)</sup>	\$ 1,741,009,813	\$ 1,741,009,813	\$	\$
Other:				
Short-Term Investment <sup>(b)</sup>	135,640	135,640		
<b>Total</b>	<b>\$ 1,741,145,453</b>	<b>\$ 1,741,145,453</b>	<b>\$</b>	<b>\$</b>

*(a) All other industry classifications are identified in the Schedule of Investments.*

*(b) Short-term investment is a sweep investment for cash balances in the Company at February 29, 2012.*

### Valuation Techniques

In general, and where applicable, the Company uses readily available market quotations based upon the last updated sales price from the principal market to determine fair value. This pricing methodology applies to the Company's Level 1 investments.

An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's fair value. If such a security is convertible into publicly-traded common shares, the security generally will be valued at the common share market price adjusted by a percentage discount due to the restrictions and categorized as Level 2 in the fair value hierarchy. If the security has characteristics that are dissimilar to the class of security that trades on the open market, the security will generally be valued and categorized as Level 3 in the fair value hierarchy.

The Company utilizes the beginning of reporting period method for determining transfers between levels. There were no transfers between levels during the period from December 1, 2011 through February 29, 2012.

### 7. Investment Transactions

For the period from December 1, 2011 through February 29, 2012, the Company purchased (at cost) and sold securities (proceeds received) in the amount of \$81,771,120 and \$55,429,623 (excluding short-term debt securities), respectively.

### 8. Long-Term Debt Obligations

The Company has \$194,975,000 aggregate principal amount of private senior notes, Series E, Series F, Series G, Series H, and Series I (collectively, the "Notes"), outstanding. The Notes are unsecured obligations of the Company and, upon liquidation, dissolution or winding up of the Company, will rank: (1) senior to all of the Company's outstanding preferred shares; (2) senior to all of the Company's outstanding common shares; (3) on parity with any unsecured creditors of the Company and any unsecured senior securities representing indebtedness of the Company and (4) junior to any secured creditors of the Company. Holders of the Notes are entitled to receive cash interest payments each quarter until maturity. The Series E, Series F, Series G, and Series I Notes accrue interest at fixed rates and the Series H Notes accrue interest at an annual rate that resets each quarter based on the 3-month LIBOR plus 1.35 percent. The Notes are not listed on any exchange or automated quotation system.

**Notes to Financial Statements** (Unaudited)

(Continued)

The Notes are redeemable in certain circumstances at the option of the Company. The Notes are also subject to a mandatory redemption if the Company fails to meet asset coverage ratios required under the 1940 Act or the rating agency guidelines if such failure is not waived or cured. At February 29, 2012, the Company was in compliance with asset coverage covenants and basic maintenance covenants for its senior notes.

The estimated fair value of each series of fixed-rate Notes was calculated, for disclosure purposes, by discounting future cash flows by a rate equal to the current U.S. Treasury rate with an equivalent maturity date, plus either 1) the spread between the interest rate on recently issued debt and the U.S. Treasury rate with a similar maturity date or 2) if there has not been a recent debt issuance, the spread between the AAA corporate finance debt rate and the U.S. Treasury rate with an equivalent maturity date plus the spread between the fixed rates of the Notes and the AAA corporate finance debt rate. The estimated fair value of the Series H Notes approximates the carrying amount because the interest rate fluctuates with changes in interest rates available in the current market. The following table shows the maturity date, interest rate, notional/carrying amount and estimated fair value for each series of Notes outstanding at February 29, 2012.

Series	Maturity Date	Interest Rate	Notional/ Carrying Amount	Estimated Fair Value
Series E	April 10, 2015	6.11%	\$ 110,000,000	\$ 121,889,890
Series F	December 21, 2012	4.50%	29,975,000	30,783,986
Series G	December 21, 2016	5.85%	30,000,000	34,261,660
Series H	May 12, 2014	1.86% <sup>(1)</sup>	15,000,000	15,000,000
Series I	May 12, 2018	4.35%	10,000,000	10,608,408
			\$ 194,975,000	\$ 212,543,944

(1) Floating rate; rate effective for period from February 12, 2012 through May 12, 2012. The weighted-average interest rate for the period from December 1, 2011 through February 29, 2012 was 1.81 percent.

**9. Preferred Stock**

The Company has 10,000,000 shares of preferred stock authorized. Of that amount, the Company has 7,475,000 authorized shares of Mandatory Redeemable Preferred ( MRP ) Stock and 7,300,000 shares are outstanding at February 29, 2012. The MRP Stock has a liquidation value of \$10.00 per share plus any accumulated but unpaid distributions, whether or not declared, and is mandatorily redeemable on December 31, 2019. The MRP Stock pays cash distributions on the first business day of each month at an annual rate of 6.25 percent. The shares of MRP Stock trade on the NYSE under the symbol TYG Pr A.

The MRP Stock has rights determined by the Board of Directors. Except as otherwise indicated in the Company's Charter or Bylaws, or as otherwise required by law, the holders of MRP Stock have voting rights equal to the holders of common stock (one vote per MRP share) and will vote together with the holders of shares of common stock as a single class except on matters affecting only the holders of preferred stock or the holders of common stock. The 1940 Act requires that the holders of any preferred stock (including MRP Stock), voting separately as a single class, have the right to elect at least two directors at all times.

At February 29, 2012, the estimated fair value of the MRP Stock is based on the closing market price of \$10.65 per share. The following table shows the mandatory redemption date, fixed rate, number of shares outstanding, aggregate liquidation preference and estimated fair value as of February 29, 2012.

Series	Mandatory Redemption Date	Fixed Rate	Shares Outstanding	Aggregate Liquidation Preference	Estimated Fair Value
MRP Stock	December 31, 2019	6.25%	7,300,000	\$73,000,000	\$77,745,000

The MRP Stock is redeemable in certain circumstances at the option of the Company. Under the Investment Company Act of 1940, the Company may not declare dividends or make other distributions on shares of common stock or purchases of such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding MRP Stock would be less than 200 percent. The MRP Stock is also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio of at least 225 percent as determined in accordance with the 1940 Act or a rating agency basic maintenance amount if such failure is not waived or cured. At February 29, 2012, the Company was in compliance with asset coverage covenants and basic maintenance covenants for its MRP Stock.

#### 10. Credit Facility

On June 20, 2011, the Company entered into an amendment to its credit facility that extends the credit facility through June 18, 2012. U.S. Bank, N.A. serves as a lender and the lending syndicate agent on behalf of other lenders participating in the credit facility. The terms of the amendment provide for an unsecured revolving credit facility of \$85,000,000. During the extension, outstanding balances generally will accrue interest at a variable annual rate equal to one-month LIBOR plus 1.25 percent and unused portions of the credit facility will accrue a non-usage fee equal to an annual rate of 0.20 percent.

The average principal balance and interest rate for the period during which the credit facility was utilized during the period ended February 29, 2012 was approximately \$57,000,000 and 1.52 percent, respectively. At February 29, 2012, the principal balance outstanding was \$53,100,000 at an interest rate of 1.49 percent.

Under the terms of the credit facility, the Company must maintain asset coverage required under the 1940 Act. If the Company fails to maintain the required coverage, it may be required to repay a portion of an outstanding balance until the coverage requirement has been met. At February 29, 2012, the Company was in compliance with the terms of the credit facility.

#### 11. Common Stock

The Company has 100,000,000 shares of capital stock authorized and 27,861,084 shares outstanding at February 29, 2012. Transactions in common stock for the period ended February 29, 2012, were as follows:

Shares at November 30, 2011	27,728,820
Shares sold through shelf offerings	132,264
Shares at February 29, 2012	27,861,084

#### 12. Subsequent Events

On March 1, 2012, the Company paid a distribution in the amount of \$0.5575 per common share, for a total of \$15,532,554. Of this total, the dividend reinvestment amounted to \$1,246,340.

The Company has performed an evaluation of subsequent events through the date the financial statements were issued and has determined that no additional items require recognition or disclosure.

## **Additional Information** *(Unaudited)*

### **Director and Officer Compensation**

The Company does not compensate any of its directors who are interested persons, as defined in Section 2(a)(19) of the 1940 Act, nor any of its officers. For the period ended February 29, 2012, the aggregate compensation paid by the Company to the independent directors was \$35,500. The Company did not pay any special compensation to any of its directors or officers.

### **Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Company's actual results are the performance of the portfolio of investments held by it, the conditions in the U.S. and international financial, petroleum and other markets, the price at which shares of the Company will trade in the public markets and other factors discussed in filings with the SEC.

### **Proxy Voting Policies**

A description of the policies and procedures that the Company uses to determine how to vote proxies relating to portfolio securities owned by the Company and information regarding how the Company voted proxies relating to the portfolio of securities during the 12-month period ended June 30, 2011 are available to stockholders (i) without charge, upon request by calling the Company at (913) 981-1020 or toll-free at (866) 362-9331 and on the Company's Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com); and (ii) on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

### **Form N-Q**

The Company files its complete schedule of portfolio holdings for the first and third quarters of each fiscal year with the SEC on Form N-Q. The Company's Form N-Q is available without charge upon request by calling the Company at (866) 362-9331 or by visiting the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, you may review and copy the Company's Form N-Q at the SEC's Public Reference Room in Washington D.C. You may obtain information on the operation of the Public Reference Room by calling (800) SEC-0330.

The Company's Form N-Qs are also available on the Company's Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

### **Statement of Additional Information**

The Statement of Additional Information (SAI) includes additional information about the Company's directors and is available upon request without charge by calling the Company at (866) 362-9331 or by visiting the SEC's Web site at [www.sec.gov](http://www.sec.gov).

### **Certifications**

The Company's Chief Executive Officer has submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

The Company has filed with the SEC, as an exhibit to its most recently filed Form N-CSR, the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act.

### **Privacy Policy**

In order to conduct its business, the Company collects and maintains certain nonpublic personal information about its stockholders of record with respect to their transactions in shares of the Company's securities. This information includes the stockholder's



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address, tax identification or Social Security number, share balances, and distribution elections. We do not collect or maintain personal information about stockholders whose share balances of our securities are held in street name by a financial institution such as a bank or broker.

We do not disclose any nonpublic personal information about you, the Company's other stockholders or the Company's former stockholders to third parties unless necessary to process a transaction, service an account, or as otherwise permitted by law.

To protect your personal information internally, we restrict access to nonpublic personal information about the Company's stockholders to those employees who need to know that information to provide services to our stockholders. We also maintain certain other safeguards to protect your nonpublic personal information.

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and of the Investment Adviser  
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H. Kevin Birzer, Chairman  
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STOCK SYMBOL  
Listed NYSE Symbol: TYG

This report is for stockholder information. This is not a prospectus intended for use in the purchase or sale of fund shares. **Past performance is no guarantee of future results and your investment may be worth more or less at the time you sell.**

**Tortoise Capital Advisors Closed-end Funds**

Pureplay MLP Funds Name	TickerFocus	Total Assets <sup>(1)</sup> (\$ in millions)	Broader Funds Name	TickerFocus	Total Assets <sup>(1)</sup> (\$ in millions)
Tortoise Energy Infrastructure Corp.	Midstream Equity	\$1,683	Tortoise Pipeline & Energy Fund, Inc.	Pipeline Equity	\$339
Tortoise Energy Capital Corp.	Midstream Equity	\$863	Tortoise Power and Energy Infrastructure Fund, Inc.	Power & Energy Infrastructure Debt & Dividend Paying Equity	\$217
Tortoise MLP Fund, Inc.	Natural Gas Equity	\$1,667			
Tortoise North American Energy Corp.	Midstream/Upstream Equity	\$224			

(1) As of 3/31/12

