

TORTOISE ENERGY INFRASTRUCTURE CORP
Form N-30B-2
April 22, 2005

Tortoise Energy Infrastructure Corporation

Investor Update

1Q 2005

Tortoise Energy Reports First Quarter Results

April 12, 2005

DEAR FELLOW STOCKHOLDERS,

We are pleased to submit to you our report for Tortoise Energy Infrastructure Corporation for the quarter ended February 28, 2005. This quarter begins our first full fiscal year, which will end November 30, 2005. Our quarters were chosen to allow us to pay dividends to stockholders as quickly as possible following the receipt of distributions from our investments. Accordingly, the release of our financial information will be after the dividend has already been declared.

Tortoise Energy paid its first dividend for fiscal year 2005 of \$0.44 per share to stockholders on March 1, 2005. This dividend represented an increase over the previous quarter despite the additional shares outstanding due to the December equity offering. We expect a significant portion of dividends paid in 2005 to be treated as return of capital for income tax purposes. As of February 28, 2005, total assets of Tortoise Energy were approximately \$623 million.

| Calculation of Distributable Cash Flow (DCF) | |
|---|---|
| | Three months ended February 28, 2005⁽¹⁾ |
| Distributions Received from MLPs | \$ 7,642,832 |
| Plus stock dividend | 1,001,416 |
| Interest and dividend income | 297,857 |
| Cash Received from Investments | \$ 8,942,105 |
| Net Operating Expenses ⁽²⁾ | (2,478,064) |
| Distributable Cash Flow | \$ 6,464,041 |
| Shares Outstanding | 14,744,095 |
| Dividend per Share (100.4% DCF) | \$ 0.44 |
| (1) For complete financial information refer to the unaudited financial statements and footnotes included in this report. | |
| (2) Current and anticipated operating expenses, less the expense reimbursement and waiver from the advisor. | |

Investment Review

The proceeds of the December offering were invested in a combination of direct investments and open market purchases of MLPs. These investments included Tortoise Energy's participation in the direct purchase of Enbridge Energy Partners, LP's Class A Common Unit.

MLP Overview and Investment Outlook

The year 2004 marked a very strong period of total returns in the MLP sector driven by:

- Strong business fundamentals throughout much of the sector,
- Increased cash flow from accretive acquisitions and expansion projects, and
- Strong demand for MLPs due to increased investor interest.

In spite of rising oil and gas prices during the year, the demand for energy commodities continued to grow, according to the United States Energy Information Agency. This growth in demand for energy commodities is the primary driver of revenue for MLPs operating in the energy infrastructure sector. Increases in volumes transported, processed, stored and delivered have positively impacted the operating results and cash distributions of the MLPs in which we have invested. Acquisition activity by MLPs was also strong during the year, as MLPs purchased \$7 billion in assets another positive indicator of growth. So far in 2005, another \$3 billion of assets have been purchased by MLPs.

We believe the outlook for 2005 remains positive. We believe that visible growth prospects, accretion from recent acquisitions, and healthy distribution coverage ratios, combined with solid fundamentals, should lead to another year of distribution increases in the MLP sector. One variable that we expect will impact how MLPs perform in the short-term is movement in interest rates. While many economists are predicting higher short and long-term interest rates, and the Federal Reserve has increased the short-term Federal funds rate, we believe that the ability of MLPs to increase distributions should help maintain stock prices for MLP shares.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS: This report contains "forward-looking statements" as defined under the U.S. federal securities laws. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from the Company's historical experience and its present expectations or projections. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; MLP industry risk; leverage risk; valuation risk; interest rate risk; tax risk and other risks discussed in the Company's filings with the SEC. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise any forward-looking statements. There is no assurance that Tortoise Energy's investment objective will be attained.

Financing Activity and Leverage Strategy

Tortoise Energy currently is engaged in the use of financial leverage. During 2004, we issued \$110,000,000 in aggregate principal amount of Tortoise Notes and Money Market Preferred Shares with an aggregate liquidation preference of \$35,000,000. Together, the aggregate principal amount of outstanding Tortoise Notes and the aggregate liquidation preference of outstanding MMP Shares represented approximately 23.2% of total assets as of February 28, 2005. Currently under the 1940 Act, a company may not borrow for investment purposes more than 33 1/3% of its total assets and may not issue preferred stock with an aggregate liquidation preference of more than 50% of its total assets.

On April 11, 2005 and subsequent to quarter end, Tortoise Energy completed an offering of Series C Tortoise Notes which provided an additional \$55 million (before offering costs) available for investment.

With the strength of the energy infrastructure sector and the innovative investment structure pioneered by Tortoise Capital Advisors, we believe Tortoise Energy is well positioned to deliver yield, growth and quality to its stockholders.

Sincerely,

The Managers

TORTOISE CAPITAL ADVISORS, L.L.C.

H. Kevin Birzer

David J. Schulte

Terry Matlack

Zachary A. Hamel

Kenneth P. Malvey

SCHEDULE OF INVESTMENTS (Unaudited)

| | February 28, 2005 | |
|---|--------------------------|--------------|
| | Shares | Value |
| Common Stock - 0.56% + | | |
| Natural Gas Gathering/Processing - 0.56% + Crosstex Energy, Inc. (Cost \$2,246,338) | 56,536 | \$ 2,346,244 |
| Master Limited Partnerships - 142.80% + | | |
| Coal - 2.48% + | | |
| Natural Resource Partners L.P. | 169,700 | 10,356,791 |
| Shipping - 0.63% + | | |
| U.S. Shipping Partners L.P. | 2,000 | 54,240 |
| K-Sea Transportation Partners L.P. | 71,300 | 2,583,912 |
| | | 2,638,152 |
| Crude/Refined Products Pipelines - 87.30% + | | |
| Buckeye Partners, L.P. | 415,200 | 18,231,432 |
| Enbridge Energy Partners, L.P. | 419,200 | 22,657,760 |
| Enbridge Energy Partners, L.P. ^ | 501,300 | 25,400,871 |
| Holly Energy Partners, L.P. | 427,070 | 16,634,377 |
| Kaneb Pipe Line Partners, L.P. | 414,500 | 25,429,575 |
| Kinder Morgan Management, LLC # | 946,032 | 40,603,693 |
| Kinder Morgan Management, LLC #^ | 420,815 | 17,779,434 |
| Magellan Midstream Partners, L.P. | 841,637 | 51,045,284 |
| Pacific Energy Partners, L.P. | 656,500 | 21,277,165 |
| Plains All American Pipeline, L.P. | 728,400 | 28,509,576 |
| Plains All American Pipeline, L.P. ^ | 486,855 | 18,768,260 |
| Sunoco Logistics Partners, L.P. | 810,100 | 33,943,190 |
| TEPPCO Partners, L.P. | 607,400 | 26,628,416 |
| Valero, L.P. | 294,700 | 18,321,499 |
| | | 365,230,532 |
| Natural Gas/Natural Gas Liquid Pipelines - 13.64% + | | |
| Enterprise Products Partners, L.P. | 1,845,800 | 49,319,776 |
| Northern Border Partners, L.P. | 151,200 | 7,726,320 |
| | | 57,046,096 |
| Natural Gas Gathering/Processing - 24.43% + | | |
| Copano Energy, LLC | 155,800 | 4,349,936 |
| Energy Transfer Partners, L.P. | 902,300 | 57,566,740 |
| Hiland Partners, L.P.* | 36,548 | 1,112,887 |
| Markwest Energy Partners, L.P. | 226,100 | 11,110,554 |

Markwest Energy Partners, L.P. ^

579,710

28,057,964
102,198,081

SCHEDULE OF INVESTMENTS (Unaudited)
(Continued)

| | February 28, 2005 | |
|---|--------------------------|--------------|
| | Shares | Value |
| Propane Distribution - 14.32% + | | |
| Inergy, L.P. | 1,732,220 | 56,470,372 |
| Inergy, L.P. ^ | 118,414 | 3,419,796 |
| | | 59,890,168 |
| | | |
| Total Master Limited Partnerships (Cost \$466,105,528) | | 597,359,820 |
| | | |
| Principal | | |
| Promissory Notes - 1.78% + | | |
| | Amount | |
| K-Sea Transportation Partners L.P. - Unregistered, 8.320%, Due 03/31/2009 (Cost \$7,454,492) ^ @ | | |
| | | |
| \$ | | 7,552,475 |
| | | 7,454,492 |
| | | |
| Short Term Investments - 1.63% + | | |
| | Shares | |
| | | |
| First American Government Obligations Money Market Fund - Class Y (Cost \$6,822,983) | | |

6,822,983

6,822,983

Total Investments - 146.77% + (Cost \$482,629,341)

613,983,539

Interest Rate Swap Contracts - 0.20% +

\$60,000,000 notional, matures 7/10/2007 - Unrealized Appreciation

431,106

\$50,000,000 notional, matures 7/17/2007 - Unrealized Appreciation

393,332

824,438

Liabilities in Excess of Other Assets - (38.60%) +

(161,468,778

)

Preferred Shares at Redemption Value - (8.37%) +

(35,000,000

)

Total Net Assets Applicable to Common Stockholders - 100.00% +

\$

418,339,199

Footnotes and Abbreviations

+ Calculated as a percentage of net assets.

* Non-Income producing security.

^ Fair valued securities represent a total market value of \$100,880,817 which represents 24.11% of net assets.

Security distributions are paid in kind.

@ Security is a variable rate instrument. Interest rate is as of February 28, 2005.

See Accompanying Notes to the Financial Statements.

STATEMENT OF ASSETS & LIABILITIES (Unaudited)

| Assets | February 28, 2005 |
|--|------------------------------|
| Investments at value (cost \$482,629,341) | \$ 613,983,539 |
| Cash | 5,546,800 |
| Receivable for Adviser reimbursement | 485,710 |
| Receivable for investments sold | 564,388 |
| Interest and dividend receivable | 38,261 |
| Unrealized appreciation on interest rate swap contracts | 824,438 |
| Prepaid expenses and other assets | 2,083,584 |
| Total assets | 623,526,720 |
| Liabilities | |
| Payable to Adviser | 1,134,756 |
| Dividend payable on preferred shares | 66,116 |
| Dividend payable on common shares | 6,487,453 |
| Accrued expenses and other liabilities | 225,418 |
| Deferred tax liability | 52,273,778 |
| Auction rate senior notes payable: | |
| Series A, due July 15, 2044 | 60,000,000 |
| Series B, due July 15, 2044 | 50,000,000 |
| Total liabilities | 170,187,521 |
| Preferred Shares | |
| \$25,000 liquidation value per share applicable to 1,400 outstanding shares(7,500 shares authorized) | 35,000,000 |
| Net assets applicable to common stockholders | \$ 418,339,199 |
| Net Assets Applicable to Common Stockholders Consist of | |
| Capitol stock, \$0.001 per value; 14,744,095 shares issued and outstanding (100,000,000 shares authorized) | \$ 14,744 |
| Additional paid-in capital | 336,581,138 |
| Accumulated net investment loss, net of deferred tax benefit | (423,327) |
| Undistributed realized gain, net of deferred tax expense | 1,544,787 |
| Net unrealized gain on investments and interest rate swap contracts, net of deferred tax expense | 80,621,857 |
| Net assets applicable to common stockholders | \$ 418,339,199 |
| Net Asset Value per common share outstanding (net assets applicable to common shares, divided by common shares outstanding) | \$ 28.37 |

See Accompanying Notes to the Financial Statements.

STATEMENT OF OPERATIONS (Unaudited)

| | Period from December 1, 2004 through February 28, 2005 |
|--|---|
| Investment Income | |
| Gross distributions from master limited partnerships | \$ 7,642,832 |
| Less: return of capital on distributions | (6,285,258) |
| Distribution income from master limited partnerships | 1,357,574 |
| Dividends from money market mutual funds | 132,870 |
| Interest | 164,987 |
| Total Investment Income | 1,655,431 |
| Expenses | |
| Advisory fees | 1,249,758 |
| Professional fees | 84,801 |
| Administrator fees | 86,584 |
| Directors' fees | 19,641 |
| Custodian fees and expenses | 12,447 |
| Reports to stockholders | 10,593 |
| Registration fees | 9,000 |
| Fund accounting fees | 10,224 |
| Stock transfer agent fees | 2,640 |
| Other expenses | 18,087 |
| Total expenses before interest expense and auction agent fees | 1,503,775 |
| Interest expense on auction rate senior notes | 686,915 |
| Auction agent fees | 62,460 |
| | 749,375 |
| Total Expenses | 2,253,150 |
| Less expense reimbursement by Adviser | (302,573) |
| Net Expenses | 1,950,577 |
| Net Investment Loss, before deferred tax benefit | (295,146) |
| Deferred tax benefit | 115,107 |
| Net Investment Loss | (180,039) |

STATEMENT OF OPERATIONS (Unaudited)
(Continued)

| | Period from December 1, 2004 through February 28, 2005 |
|---|---|
| Realized and Unrealized Gain (Loss) on Investments | |
| Net realized gain on investments | 2,893,683 |
| Net realized loss on interest rate swap settlements | (305,463) |
| Net realized gain, before deferred tax expense | 2,588,220 |
| Deferred tax expense | (1,009,406) |
| Net realized gain on investments and interest rate swap settlements | 1,578,814 |
| Net change in unrealized appreciation of investments | 52,769,208 |
| Net change in unrealized appreciation of interest rate swap contracts | 1,032,968 |
| Net change in unrealized gain, before deferred tax expense | 53,802,176 |
| Deferred tax expense | (21,049,461) |
| Net change in unrealized appreciation of investments and interest rate swap contracts | 32,752,715 |
| Net Realized and Unrealized Gain on Investments | 34,331,529 |
| Dividends to Preferred Stockholders | (222,024) |
| Net Increase in Net Assets Applicable to Common Stockholders | |
| Resulting from Operations | \$ 33,929,466 |

See Accompanying Notes to the Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS

| | Period from December 1, 2004 through February 28, 2005 (Unaudited) |
|---|---|
| | Period from February 27, 2004 ⁽¹⁾ through November 30, 2004 |
| Operations | |
| Net investment loss | |
| \$ | (180,039) |
|) | |
| \$ | 243,288 |
|) | |
| Net realized gain (loss) on investments and interest rate swap settlements | 1,578,814 |
| | (34,027) |
|) | |
| Net change in unrealized appreciation of investments and interest rate swap contracts | 32,752,715 |
| | 47,869,142 |
| Dividends to preferred stockholders | |
| | (222,024) |
|) | |
| | (152,568) |
|) | |

Net increase in net assets applicable to common stockholders resulting from operations

33,929,466

47,439,259

Dividends and Distributions to Common Stockholders

Net investment income

-

-

Return of capital

(6,487,453

)

(12,278,078

)

Total dividends to common stockholders

(6,487,453

)

(12,278,078

)

Capital Share Transactions

Proceeds from initial public offering of 11,000,000 common shares

-

275,000,000

Proceeds from issuance of 1,600,000 common shares in connection with exercising an

overallotment option granted to underwriters of the initial public offering

-

40,000,000

Underwriting discounts and offering expenses associated with the issuance of

common shares

-

(14,705,165

)
Underwriting discounts and offering expenses associated with the issuance of

preferred shares

157,715

(725,000

)
Issuance of 41,660 and 61,107 common shares from reinvestment of dividend distributions

1,453,105

to stockholders, respectively

1,105,224

Proceeds from secondary offering of 1,755,027 common shares

47,999,988

-

Proceeds from issuance of 263,254 common shares in connection with exercising an

overallotment option granted to underwriters of the secondary offering

7,199,997

-

Underwriting discounts and offering expenses associated with the issuance of

common shares

| | |
|--|-------------|
|) | (2,118,281) |
| | - |
| Net increase in net assets, applicable to common stockholders, from capital share transactions | 54,344,643 |
| | 301,022,940 |
| Total increase in net assets applicable to common stockholders | 81,786,656 |
| | 336,184,121 |
| Net Assets | |
| Beginning of period | 336,552,543 |
| | 368,422 |
| End of period | |
| \$ | 418,339,199 |
| \$ | 336,552,543 |
| Accumulated net investment loss, net of deferred tax benefit, at the end of period | |
| \$ | (423,327) |
|) | |
| \$ | (243,288) |
|) | |
| (1) Commencement of Operations. | |

See Accompanying Notes to the Financial Statements.

STATEMENT OF CASH FLOWS (Unaudited)

| | Period from December 1, 2004 through February 28, 2005 |
|---|---|
| Cash Flows from Operating Activities | |
| Distributions received from master limited partnerships | \$ 7,642,832 |
| Interest and dividend income received | 283,627 |
| Purchases of long term investments | (64,071,497) |
| Proceeds from sale of long-term investments | 15,090,397 |
| Net purchases of short term investments | (3,613,657) |
| Payments for interest rate swap settlements | (305,463) |
| Interest expense paid | (718,253) |
| Operating expenses paid | (1,574,374) |
| Net cash used in operating activities | (47,266,388) |
| Cash Flows from Financing Activities | |
| Issuance of common stock | 55,199,985 |
| Common stock issuance costs | (2,118,281) |
| Dividends paid to preferred stockholders | (198,394) |
| Dividends paid to common stockholders | (4,348,962) |
| Net cash provided by financing activities | 48,534,348 |
| Net decrease in cash | 1,267,960 |
| Cash--beginning of period | 4,278,840 |
| Cash--end of period | \$ 5,546,800 |

STATEMENT OF CASH FLOWS (Unaudited)

(Continued)

| | Period from December 1, 2004 through February 28, 2005 |
|--|---|
| Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities | |
| Net increase in net assets applicable to common stockholders resulting from operations | \$ 33,929,466 |
| 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, net of return of capital adjustments | (57,786,239) |
| Proceeds from sales of investments | 15,090,397 |
| Net purchases of short term investments | (3,613,657) |
| Deferred income taxes | 21,943,760 |
| Net change in unrealized appreciation on investments and interest rate swap contracts | (53,802,176) |
| Realized gains on investments | (2,893,683) |
| Accretion of discount on investments | (5,014) |
| Amortization of debt issuance costs | 8,843 |
| Dividends to preferred stockholders | 222,024 |
| Changes in operating assets and liabilities | |
| Increase in interest and dividend receivable | (14,230) |
| Increase in prepaid expenses and other assets | (202,742) |
| Increase in payable to Adviser, net of reimbursement | 75,748 |
| Decrease in accrued expenses and other liabilities | (218,885) |
| Total adjustments | (81,195,854) |
| Net cash used in operating activities | \$ (47,266,388) |
| Non-Cash Financing Activities | |
| Reinvestment of distributions by common stockholders in additional common shares | \$ 1,105,224 |

See Accompanying Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

| | Period from December 1, 2004 through February 28, 2005 (Unaudited) | Period from February 27, 2004 ⁽¹⁾through November 30, 2004 |
|---|---|--|
| Per Common Share Data ⁽²⁾ | | |
| Net Asset Value, beginning of period | \$ 26.53 | \$ - |
| Public offering price | - | 25.00 |
| Underwriting discounts and offering costs on initial public offering | - | (1.17) |
| Underwriting discounts and offering costs on issuance of preferred shares | - | (0.06) |
| Premiums and underwriting discounts and offering costs on secondary offering ⁽⁷⁾ | - | - |
| Income (loss) from Investment Operations: | | |
| Net investment loss | (0.01) | (0.03) |
| Net realized and unrealized gain on investments | 2.31 | 3.77 |
| Total increase from investment operations | 2.30 | 3.74 |
| Less Dividends to Preferred Stockholders: | | |
| Net investment income | - | - |
| Return of capital | (0.02) | (0.01) |
| Total dividends to preferred stockholders | (0.02) | (0.01) |
| Less Dividends to Common Stockholders: | | |
| Net investment income | - | - |
| Return of capital | (0.44) | (0.97) |
| Total dividends to common stockholders | (0.44) | (0.97) |
| Net Asset Value, end of period | \$ 28.37 | \$ 26.53 |
| Per common share market value, end of period | \$ 29.44 | \$ 27.06 |
| Total Investment Return Based on Market Value ⁽³⁾ | 10.48% | 12.51% |
| Supplemental Data and Ratios | | |
| Net assets applicable to common stockholders, end of period (000's) | \$ 418,339 | \$ 336,553 |
| Ratio of expenses to average net assets before waiver: ⁽⁴⁾ ⁽⁶⁾ | 2.35% | 2.01% |
| Ratio of expenses to average net assets after waiver: ⁽⁴⁾ ⁽⁶⁾ | 2.04% | 1.73% |

FINANCIAL HIGHLIGHTS

(Continued)

| | Period from December 1, 2004 through February 28, 2005 (Unaudited) | Period from February 27, 2004 ⁽¹⁾ through November 30, 2004 |
|--|---|---|
| Ratio of expenses, without regard to non-recurring organizational expenses, to average net assets before waiver: ⁽⁴⁾ ⁽⁶⁾ | 2.35% | 1.90% |
| Ratio of expenses, without regard to non-recurring organizational expenses, to average net assets after waiver: ⁽⁴⁾ ⁽⁶⁾ | 2.04% | 1.62% |
| Ratio of net investment loss to average net assets before waiver: ⁽⁴⁾ ⁽⁶⁾ | (0.62)% | (0.45)% |
| Ratio of net investment loss to average net assets after waiver: ⁽⁴⁾ ⁽⁶⁾ | (0.31)% | (0.17)% |
| Portfolio turnover rate | 2.82% | 1.39% |
| Tortoise Auction Rate Senior Notes, end of period (000's) | \$ 110,000 | \$ 110,000 |
| Tortoise Preferred Shares, end of period (000's) | \$ 35,000 | \$ 35,000 |
| Per common share amount of borrowings outstanding at end of period | \$ 7.46 | \$ 8.67 |
| Per common share amount of net assets, excluding borrowings, at end of period | \$ 35.83 | \$ 35.21 |
| Asset coverage, per \$1,000 of principal amount of auction rate senior notes | | |
| Series A | \$ 5,121 | \$ 4,378 |
| Series B | \$ 5,121 | \$ 4,378 |
| Asset coverage, per \$25,000 liquidation value per share of preferred shares | \$ 323,814 | \$ 265,395 |
| Asset coverage ratio of auction rate senior notes ⁽⁵⁾ | 512% | 438% |

- (1) Commencement of Operations.
- (2) Information presented relates to a share of common stock outstanding for the entire period. Not Annualized. Total investment return is calculated assuming a purchase of common stock at the market price on the first day and
- (3) a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of dividends at actual prices pursuant to the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.
- (4) Annualized for periods less than one full year.

- (5) Represents value of total assets less all liabilities and indebtedness not represented by Auction rate senior notes and MMP shares at the end of the period divided by Auction rate senior notes outstanding at the end of the period. The expense ratios and net investment ratios do not reflect the effect of dividend payments to preferred stockholders.
- (6) The amount is less than \$0.01 per share, and represents the premium on the secondary offering of \$0.14 per share, less the underwriting discounts and offering costs of \$0.14 per share.
- (7) See Accompanying Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Unaudited
February 28, 2005

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 dividends paid to shareholders. The Company seeks to provide its shareholders with an efficient vehicle to invest in the energy infrastructure sector. The Company commenced operations on February 27, 2004. The Company's shares are 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 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. The Company values those securities at their last sale price on that exchange on the valuation date. If the security is listed on more than one exchange, the Company will use the price of the exchange that it generally considers to be the principal exchange on which the security is traded. Securities listed on the NASDAQ Stock Market, Inc. ("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 NASDAQ on such day, the security will be valued at the mean between bid and ask price on such day.

The Company may invest up to 30% of its total assets in restricted securities. Restricted securities may be subject to statutory and 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, securities with similar yields, quality, type of issue, coupon, duration and rating.

The Company generally values short-term 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. If events occur that will 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 a fair value procedure.

The Company generally values its interest rate swap contracts by discounting the future cash flows from the stated terms of the interest rate swap agreement by using interest rates currently available in the market, or based on dealer quotations, if available.

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. Distributions are recorded on the ex-dividend date. Distributions received from the Company's investments in master limited partnerships (MLPs) generally are comprised of income and return of capital from the MLP. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts.

D. Dividends to Shareholders

Dividends to common shareholders are recorded on the ex-dividend date. The character of dividends to common shareholders made during the year may differ from their ultimate characterization for federal income tax purposes. For the periods ended February 28, 2005 and November 30, 2004, the Company's dividend, for book purposes, was comprised entirely of return of capital as a result of the net investment loss incurred by the Company. For the period ended November 30, 2004, for tax purposes, the Company determined the current dividend to common shareholders is also comprised of 100% return of capital.

Dividends to preferred shareholders are based on a variable rates set at auctions, normally held every 28 days. Dividends on preferred shares are accrued on a daily basis for the subsequent 28 day period at a rate as determined on the auction date. Dividends on preferred shares are payable every 28 days, on the first day following the end of the dividend period.

E. Federal Income Taxation

The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. 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 will be 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. To the extent the Company has a net deferred tax asset, 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. Future realization of deferred income tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period under the tax law.

F. Organization Expenses, Offering and Debt Issuance Costs

The Company is responsible for paying all organization expenses, which are expensed as incurred. Offering costs related to the issuance of common and preferred stock are charged to additional paid-in capital when the shares are issued. Debt issuance costs related to the auction rate senior notes payable are capitalized and amortized over the period the notes are outstanding.

G. Derivative Financial Instruments

The Company uses derivative financial instruments (principally interest rate swap contracts) 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 value during the reporting period, and amounts accrued under the agreements, included as unrealized gains or losses in the Statement of Operations. Monthly cash settlements under the terms of the interest rate swap agreements are recorded as realized gains or losses in the Statement of Operations.

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.

3. Concentration of Risk

The Company's investment objective is to seek a high level of total return with an emphasis on current dividends paid to its shareholders. Under normal circumstances, the Company intends to invest at least 90% of its total assets in securities of domestic energy infrastructure companies, and will invest at least 70% of its total assets in equity securities of MLPs. The Company may invest up to 25% of its assets in debt securities, which may include below investment grade securities. 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 objectives.

4. Agreements

The Company has entered into an Investment Advisory Agreement with Tortoise Capital Advisors, LLC (the "Adviser"). Under the terms of the agreement, the Company will pay the Adviser a fee equal to an annual rate of 0.95% of the Company's average monthly total assets (including any assets attributable to leverage) minus the sum of accrued liabilities (other than deferred income taxes, debt entered into for purposes of leverage and the aggregate liquidation preference of outstanding preferred shares) ("Managed Assets"), in exchange for the investment advisory services provided. For the period following the commencement of the Company's operations through February 28, 2006, the Adviser has agreed to waive or reimburse the Company for fees and expenses in an amount equal to 0.23% of the average monthly Managed Assets of the Company. For years ending February 28, 2007, 2008 and 2009, the Adviser has agreed to waive or reimburse the Company for fees and expenses in an amount equal to 0.10% of the average monthly Managed Assets of the Company.

The Company has engaged U.S. Bancorp Fund Services, LLC to serve as the Company's administrator. The Company will pay the administrator a monthly fee computed at an annual rate of 0.07% of the first \$300 million of the Company's Managed Assets, 0.06% on the next \$500 million of Managed Assets and 0.04% on the balance of the Company's Managed Assets, subject to a minimum annual fee of \$45,000.

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 0.015% on the first \$100 million of the Company's Managed Assets and 0.01% on the balance of the Company's Managed Assets, subject to a minimum annual fee of \$4,800.

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 28, 2005, are as follows:

| | |
|--|---------------|
| Deferred tax assets: | |
| Net operating loss carryforwards | \$ 726,336 |
| Organization costs | 77,689 |
| | 804,025 |
| Deferred tax liabilities: | |
| Unrealized gains on investment securities and interest rate swap contracts | 51,556,779 |
| Basis of investment in MLPs | 1,521,024 |
| | 53,077,803 |
| Total net deferred tax liability | \$ 52,273,778 |

For the period from December 1, 2004 to February 28, 2005, the components of income tax expense include \$19,693,118 and \$2,250,642 for deferred federal and state income taxes (net of federal tax benefit), respectively. For the period from December 1, 2004 to February 28, 2005, the Company had net income for federal income tax purposes of approximately \$844,000. For the fiscal year ended November 30, 2004, the Company had a net operating loss for federal income tax purposes of approximately \$2,786,000. This net operating loss may be carried forward for 20 years, and accordingly would expire after the year ending November 30, 2024.

Total income taxes differ from the amount computed by applying the federal statutory income tax rate of 35% to net investment income and realized and unrealized gains on investments and interest rate swap contracts before taxes as follows:

| | |
|--|---------------|
| Application of statutory income tax rate | \$ 19,633,338 |
| State income taxes, net of federal tax benefit | 2,243,810 |
| Other, net | 66,612 |
| Total | \$ 21,943,760 |

At February 28, 2005, the Company did not record a valuation allowance against its deferred tax assets.

At February 28, 2005, the cost basis of investments for federal income tax purposes was \$478,729,279 and gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

| | |
|-------------------------------|----------------|
| Gross unrealized appreciation | \$ 135,254,260 |
| Gross unrealized depreciation | - |
| Net unrealized appreciation | \$ 135,254,260 |

6. Investment Transactions

For the period ended February 28, 2005, the Company purchased (at cost) and sold securities (at proceeds) in the amount of \$64,071,497 and \$15,508,802 (excluding short-term debt securities and interest rate swaps), respectively.

7. Auction Rate Senior Notes

The Company has issued \$60,000,000 and \$50,000,000 aggregate principal amount of auction rate senior notes Series A and Series B, respectively (collectively, the Notes). The Notes were issued in denominations of \$25,000. The principal amount of the Notes will be due and payable on July 15, 2044. Fair value of the notes approximates carrying amount because the interest rate fluctuates with changes in interest rates available in the current market.

Holders of the Notes are entitled to receive cash interest payments at an annual rate that may vary for each rate period. Interest rates for Series A and Series B as of February 28, 2005 were 2.80% and 2.90%, respectively. The weighted average interest rates for Series A and Series B for the period from December 1, 2004 through February 28, 2005, were 2.72% and 2.71%, respectively. These rates include the applicable rate based on the latest results of the auction, plus commissions paid to the auction agent in the amount of 0.25%. For each subsequent rate period, the interest rate will be determined by an auction conducted in accordance with the procedures described in the Notes prospectus. Generally, each rate period will be 28 days. The Notes will not be listed on any exchange or automated quotation system.

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 an asset coverage ratio required by law, or fails to cure deficiency as stated in the Company's rating agency guidelines in a timely manner.

The Notes are unsecured obligations of the Company and, upon liquidation, dissolution or winding up of the Company, will rank: (1) senior to all the Company's outstanding preferred shares; (2) senior to all of the Company's outstanding common shares; (3) on a 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.

8. Preferred Shares

The Company has 7,500 authorized preferred shares, of which 1,400 shares (MMP Shares) are currently outstanding. The MMP Shares have rights determined by the Board of Directors. The MMP Shares have a liquidation value of \$25,000 per share plus any accumulated, but unpaid dividends, whether or not declared.

Holders of the MMP Shares are entitled to receive cash dividend payments at an annual rate that may vary for each rate period. The dividend rate as of February 28, 2005 was 2.97%. The weighted average dividend rate for the period from December 1, 2004 through February 28, 2005, was 2.82%. This rate includes the applicable rate based on the latest results of the auction, plus commissions paid to the auction agent in the amount of 0.25%. Under the Investment Company Act of 1940, the Company may not declare dividends or make other distribution 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 Preferred Shares would be less than 200%.

The MMP Shares are redeemable in certain circumstances at the option of the Company. The MMP Shares are also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio required by law, or fails to cure deficiency as stated in the Company's rating agency guidelines in a timely manner.

The holders of MMP Shares have voting rights equal to the holders of common stock (one vote per 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 shares or the holders of common shares.

9. Interest Rate Swap Contracts

The Company has entered into interest rate swap contracts to protect itself from increasing interest expense on its leverage resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the value of the swap contracts, which may result in a decline in the net assets of the Company. In addition, if the counterparty to the interest rate swap contracts defaults, the Company would not be able to use the anticipated receipts under the swap contracts to offset the interest payments on the Company's leverage. At the time the interest rate swap contracts reach their scheduled termination, there is a risk that the Company would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. In addition, if the Company is required to terminate any swap contract early due to the Company failing to maintain a required 300% asset coverage of the liquidation value of the outstanding auction rate senior notes or if the Company loses its credit rating on its auction rate senior notes, then the Company could be required to make a termination payment, in addition to redeeming all or some of the auction rate senior notes. Details of the interest rate swap contracts outstanding as of February 28, 2005, were as follows:

| Counterparty | Maturity Date | Notional Amount | Fixed Rate Paid by the Company | Floating Rate Received by the Company | Unrealized Appreciation |
|-----------------|---------------|-----------------|--------------------------------|---------------------------------------|-------------------------|
| | | | | 1 month | |
| U.S. Bank, N.A. | 7/10/2007 | \$60,000,000 | 3.54% | U.S. Dollar LIBOR | \$ 431,106 |
| | | | | 1 month | |
| U.S. Bank, N.A. | 7/17/2007 | 50,000,000 | 3.56% | U.S. Dollar LIBOR | 393,332 |

\$ 824,438

The Company is exposed to credit risk on the interest rate swap contracts if the counterparty should fail to perform under the terms of the interest rate swap contract. The amount of credit risk is limited to the net appreciation of the interest rate swap contract, as no collateral is pledged by the counterparty. As of February 28, 2005, the exposure to credit risk was \$824,438.

10. Common Stock

The Company has 100,000,000 shares of beneficial interest authorized and 14,744,095 shares outstanding at February 28, 2005. Transactions in common shares for the period February 27, 2004 to November 30, 2004 and from December 1, 2004 to February 28, 2005, were as follows:

| | |
|--|------------|
| Shares at February 27, 2004 | 23,047 |
| Shares sold through initial public offering and exercise of over allotment options | 12,600,000 |
| Shares issued through reinvestment of dividends | 61,107 |
| Shares at November 30, 2004 | 12,684,154 |
| Shares sold through secondary offering and exercise of over allotment options | 2,018,281 |
| Shares issued through reinvestment of dividends | 41,660 |
| Shares at February 28, 2005 | 14,744,095 |

11. Subsequent Events

On March 1, 2005 the Company paid a dividend in the amount of \$0.44 per share, for a total of \$6,487,402. Of this total, the dividend reinvestment amounted to \$1,226,323.

The Company's Board of Directors approved the issuance of \$55,000,000 of Series C auction rate senior notes. This issuance is projected to close in early April 2005.

A description of the policies that Tortoise Energy uses to determine how to vote proxies relating to portfolio securities owned by Tortoise Energy is available to stockholders (i) without charge, upon request, by calling Tortoise Energy at (913) 981-1020; and (ii) on the Securities and Exchange Commission's website at www.sec.gov.

