Financial review and Risk report

The Company delivered strong NAV growth and continues to grow its dividend per share.

Key financial measures (year to 31 March)	2023	2022
Total return[1]	**£394m**	£404m
NAV	**£3,101m**	£2,704m
NAV per share	**336.2p**	303.3p
Total income	**£158m**	£133m
Total income and non-income cash	**£202m**	£143m
Portfolio asset value	**£3,641m**	£2,873m
Cash balances	**£5m**	£17m
Total liquidity[2]	**£404m**	£786m

1 IFRS Total comprehensive income for the year.
2 Includes cash balances of £5 million (2022: £17 million) and £399 million (2022: £769 million) undrawn balances available under the Company's total revolving credit facility of £900 million.

"We continued to deliver on our objectives, with strong NAV growth and an increased dividend."

James Dawes
CFO, Infrastructure

The Company delivered another year of outperformance, with the portfolio generating strong capital growth and income materially higher than the prior year. The dividend was well covered by net income this year. The target dividend for FY24 of 11.90 pence per share is an increase of 6.7% over FY23.

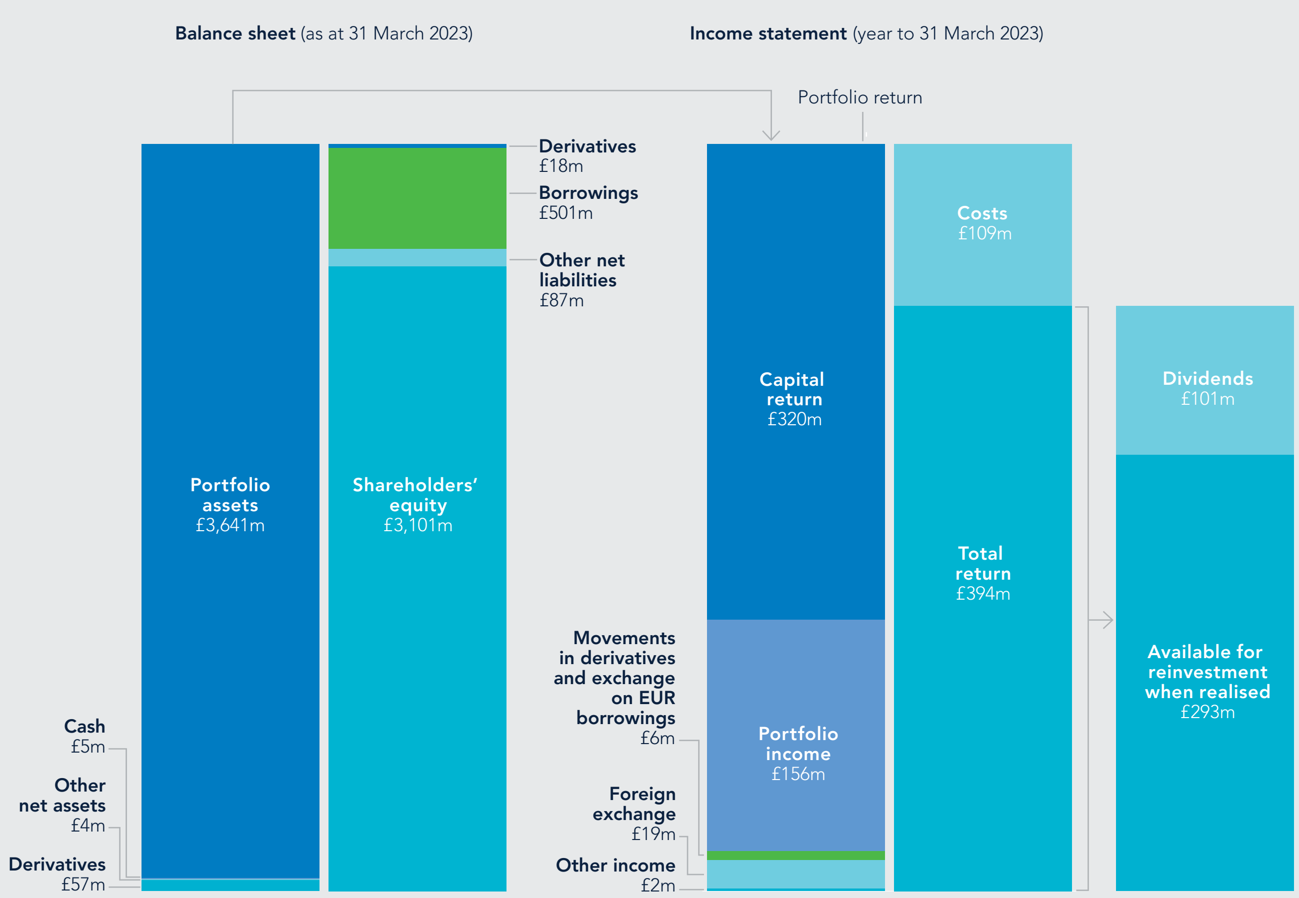
Total net investment in the year was £452 million, including the closing of the investments in GCX, TCR and Future Biogas, the syndication of a portion of the investments in ESVAGT and TCR and further investments in DNS:NET and Infinis. The Company maintained low levels of uninvested cash throughout the year and actively managed its liquidity position through its £900 million RCF facility and a £100 million capital raise in February 2023.

Returns

Total return

The Company generated a total return for the year of £394 million, representing a 14.7% return on time-weighted opening NAV and equity issued net of the prior year final dividend (2022: £404 million, 17.2%). This performance is significantly ahead of the target return of 8% to 10% per annum to be achieved over the medium term.

Composition of balance sheet and income statement (year to 31 March 2023)



Financial review continued

This outperformance was driven by strong performance across the portfolio, particularly from TCR, Tampnet, Valorem, Attero and Ionisos, partially offset by underperformance from DNS:NET. Changes in the valuation of the Company's portfolio assets are described in the Movements in portfolio value section of the Portfolio review. The investment cases of our portfolio companies reflected in the valuations at 31 March 2023 are fully funded, with the exception of the DNS:NET fibre roll out. Our companies continue to generate discretionary growth opportunities that are accretive to our investment cases.

Total income and non-income cash of £202 million in the year was significantly higher than last year, due to income from new investments in GCX, ESVAGT, TCR and SRL (2022: £143 million).

Non-income cash receipts reflect distributions from underlying portfolio companies, which would usually be income to the Company, but which are distributed as a repayment of investment for a variety of reasons. Whilst non-income cash does not form part of the total return shown in Table 3, it is included when considering dividend coverage.

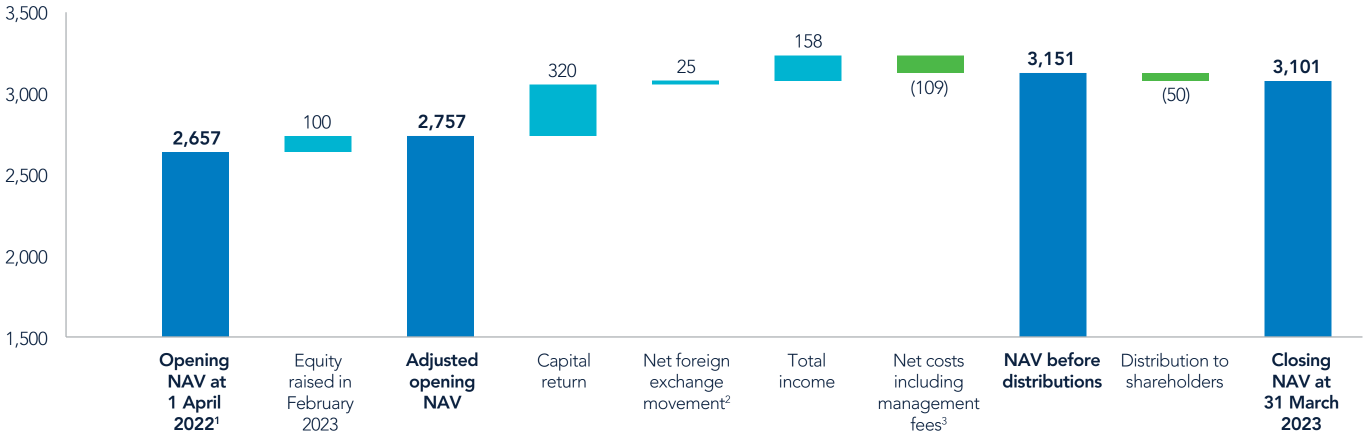
An analysis of the elements of the total return for the year is shown in Table 3.

Table 3: Summary total return (year to 31 March, £m)

	2023	2022
Capital return (excluding exchange)	**320**	375
Foreign exchange movement in portfolio	**19**	9
Capital return (including exchange)	**339**	384
Movement in fair value of derivatives and exchange on EUR borrowings	**6**	(2)
Net capital return	**345**	382
Total income	**158**	133
Costs[1]	**(109)**	(111)
Total return	**394**	404

1 Includes non-portfolio related exchange gain of £2 million (2022: loss of £3 million).

Chart 6: Reconciliation of the movement in NAV (year to 31 March 2023, £m)



1 Opening NAV of £2,704 million net of final dividend of £47 million for the prior year.
2 Foreign exchange movements are described in Chart 8.
3 Includes non-portfolio related exchange gain of £2 million.

Financial review continued

Capital return

The capital return is the largest element of the total return. The portfolio generated a value gain of £320 million in the year to 31 March 2023 (2022: £375 million), as shown in Chart 6. There was a positive contribution across the majority of the portfolio and the largest contributors were TCR (£86 million), Infinis (£52 million) and Tampnet (£52 million). The only negative contribution was from DNS:NET (£54 million). These value movements are described in the Portfolio review section.

Income

The portfolio generated income of £156 million in the year (2022: £127 million). Of this amount, £1 million was through dividends (2022: £24 million) and £155 million through interest on shareholder loans (2022: £103 million). An additional £2 million of interest was accrued on the vendor loan notes issued in lieu of WIG proceeds (2022: £6 million) together with a further £0.5 million of interest receivable on deposits (2022: £0.1 million).

Total income and non-income cash is shown in Table 4.

Table 4: Total income and non-income cash
(year to 31 March, £m)

	2023	2022
Total income	**158**	133
Non-income cash	**44**	10
Total	**202**	143

A strong income contribution from the new investments in GCX and SRL and higher non-income cash receipts, particularly from Attero, offset the reduction in income from the divestment of the European Projects portfolio. A breakdown of portfolio income is provided in Chart 9 on page 62, together with an explanation of the change from prior year.

Interest income from the portfolio was significantly higher than prior year due to the new investments in GCX, SRL, TCR and ESVAGT. Dividend income was lower than prior year due to a high level of dividend income from Tampnet in the prior year as liquidity preserved during the pandemic was released.

Foreign exchange impact

The portfolio is diversified by currency as shown in Chart 7. We aim to deliver steady NAV growth for shareholders, and the foreign exchange hedging programme helps us to do this by reducing our exposure to fluctuations in the foreign exchange markets.

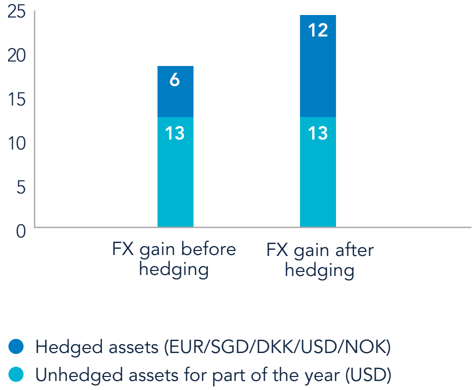
Portfolio foreign exchange movements, after accounting for the hedging programme, increased the net capital return by £25 million (2022: increased by £7 million).

Chart 7: Portfolio value by currency
(at 31 March 2023)

EUR	52%
GBP	18%
DKK	13%
USD	9%
NOK	8%

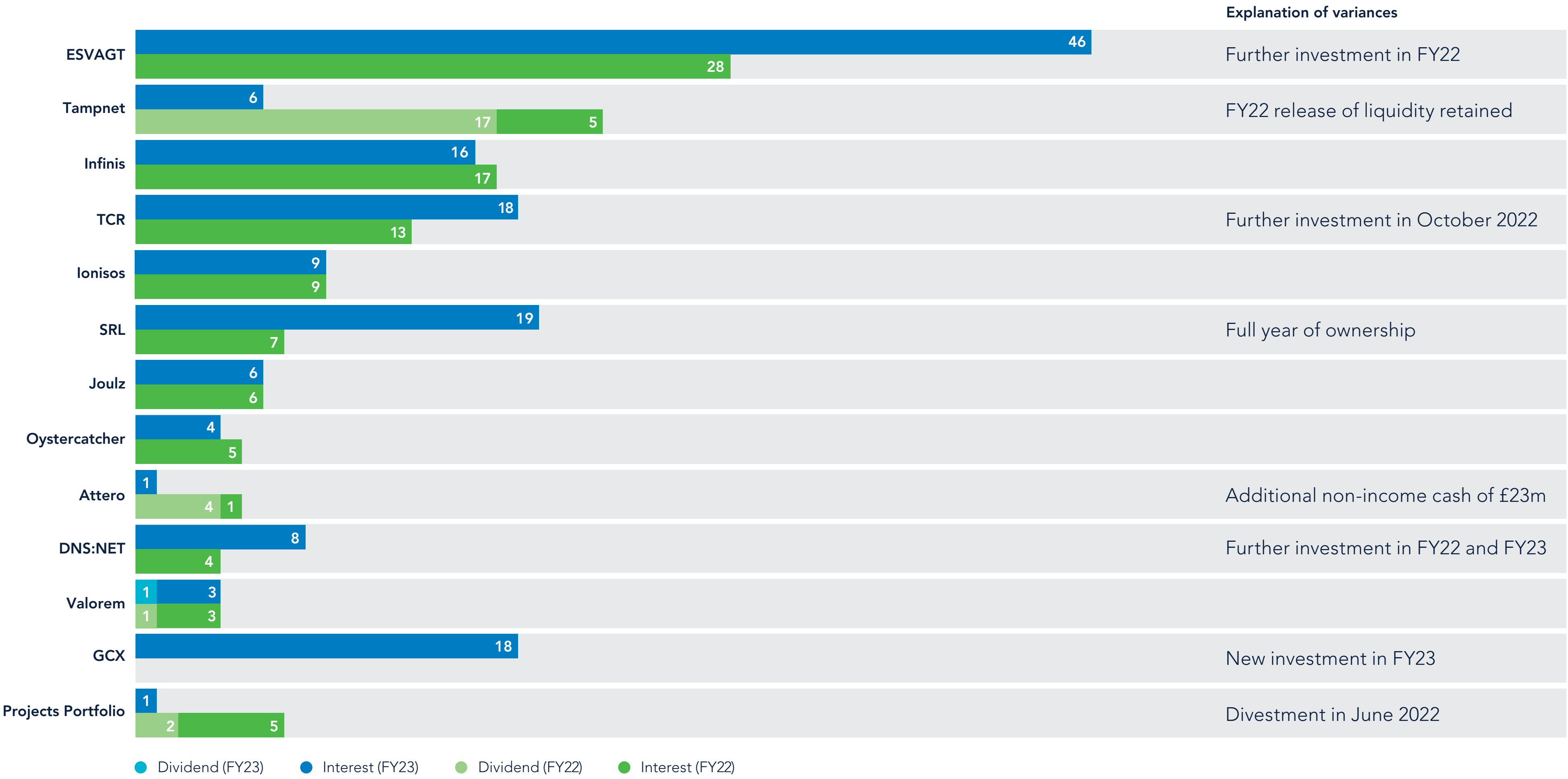
As shown in Chart 8, the reported foreign exchange gain on investments of £19 million (2022: £9 million) included a gain of £13 million from the Company's exposure to the US dollar, largely through Tampnet, which was not hedged in the first half of the year. This was accompanied by a £6 million gain on the hedging programme (2022: loss of £2 million). The positive hedge benefit resulted from favourable interest rate differentials on the euro hedging programme.

Chart 8: Impact of foreign exchange ('FX') movements on portfolio value
(year to 31 March 2023, £m)



Financial review continued

Chart 9: Breakdown of portfolio income (year to 31 March, £m)



Financial review continued

Costs

Management and performance fees

During the year to 31 March 2023, the Company incurred management fees of £47 million (2022: £43 million), including transaction fees of £3 million (2022: £10 million). The fees, payable to 3i plc, consist of a tiered management fee, and a one-off transaction fee of 1.2% payable in respect of new investments. The management fee tiers range from 1.4%, reducing to 1.2% for any proportion of gross investment value above £2.25 billion.

An annual performance fee is also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the total return. This performance fee is payable in three equal annual instalments, with the second and third instalments only payable if certain future performance conditions are met. This hurdle was exceeded for the year ended 31 March 2023, resulting in a performance fee payable to 3i plc in respect of the year ended 31 March 2023 of £45 million (2022: £54 million).

The first instalment, of £15 million, will be paid in May 2023 along with the second instalment of £18 million relating to the previous year's performance fee and the third instalment of £2 million relating to the FY21 performance fee.

For a more detailed explanation of how management and performance fees are calculated, please refer to Note 18 of the accounts.

Fees payable

Fees payable on investment activities include costs for transactions that did not reach, or have yet to reach, completion and the reversal of costs for transactions that have successfully reached completion and were subsequently borne by the portfolio company. For the year to 31 March 2023, fees payable totalled less than £1 million (2022: £3 million).

Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £3 million in the year (2022: £3 million).

Finance costs of £16 million (2022: £5 million) in the year comprised arrangement and commitment fees for the Company's £900 million RCF and interest on drawings. Finance costs were higher than in FY22 due to an increase in interest rates and a greater average drawn balance.

Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in Table 5 below, against the average NAV over the reporting period.

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ('AIC') recommended methodology and was 1.64% for the year to 31 March 2023 (2022: 1.41%). The ongoing charges ratio is higher in periods where new investment levels are high and new equity is raised or capital is returned to shareholders. Realisation of assets reduces the ongoing charges ratio. The cost items that contributed to the ongoing charges ratio are shown below.

Table 5: Ongoing charges (year to 31 March, £m)

	2023	2022
Investment Manager's fee	**44.6**	32.6
Auditor's fee	**0.8**	0.6
Directors' fees and expenses	**0.5**	0.5
Other ongoing costs	**1.9**	2.4
Total ongoing charges	**47.7**	36.1
Ongoing charges ratio	**1.64%**	1.41%

The AIC methodology does not include transaction fees, performance fees or finance costs. However, the AIC recommends that the impact of performance fees on the ongoing charges ratio is noted, where performance fees are payable. The ratio including the performance fee was 3.19% (2022: 3.52%). The total return of 14.7% for the year is after deducting this performance fee and ongoing charges.

Financial review continued

Balance sheet

The NAV at 31 March 2023 was £3,101 million (2022: £2,704 million). The principal components of the NAV are the portfolio assets, cash holdings, the fair value of derivative financial instruments, borrowings under the RCF and other net assets and liabilities. A summary balance sheet is shown in Table 6.

At 31 March 2023, the Company's net assets after the deduction of the proposed final dividend were £3,050 million (2022: £2,657 million).

Cash and other assets

Cash balances at 31 March 2023 totalled £5 million (2022: £17 million).

Cash on deposit was managed actively by the Investment Manager and there are regular reviews of counterparties and their limits. Cash is principally held in AAA-rated money market funds.

Other net assets and liabilities predominantly comprise a performance fee accrual of £83 million (2022: £64 million), including amounts relating to prior year fees.

Table 6: Summary balance sheet (at 31 March, £m)

	2023	2022
Portfolio assets	**3,641**	2,873
Cash balances	**5**	17
Derivative financial instruments	**39**	8
Borrowings	**(501)**	(231)
Other net (liabilities)/assets	**(83)**	37
NAV	**3,101**	2,704

The movement from March 2022 is due to an increase in the performance fee payable of £45 million, following the outperformance in the period. £26 million of prior year performance fees were paid during the period. The vendor loan note of £98 million, included as an asset within other net assets at March 2022, was redeemed in July 2022.

Borrowings

The Company increased the commitments under its RCF in July 2022 from £700 million to £900 million in order to maintain a good level and maturity of liquidity for further investment whilst minimising returns dilution from holding excessive cash balances. This is a three-year facility, with a maturity date of November 2025. A further one-year extension option is available under the facility agreement. At 31 March 2023, the total amount drawn was £501 million.

An additional credit facility of £300 million available at the beginning of this financial year, with a maturity of less than one year, was cancelled in July 2022 at the same time as the commitments under the RCF were increased.

Capital raise

In February 2023, the Company successfully completed a capital raise, with net proceeds of £100 million, by way of a placing of ordinary shares in the capital of the Company at 330 pence per share. The placing price represented a discount of approximately 3.4% to the share price immediately prior to the announcement of the placing. A total of 30,915,990 new ordinary shares were admitted to trading on the London Stock Exchange main market for listed securities on 14 February 2023. The Company now has a total of 922,350,000 shares in issue, an increase of 3.5%. Soft pre-emption was followed where possible in allocating the shares.

NAV per share

The total NAV per share at 31 March 2023 was 336.2 pence (2022: 303.3 pence). This reduces to 330.6 pence (2022: 298.1 pence) after the payment of the final dividend of 5.575 pence (2022: 5.225 pence). There are no dilutive securities in issue.

Dividend and dividend cover

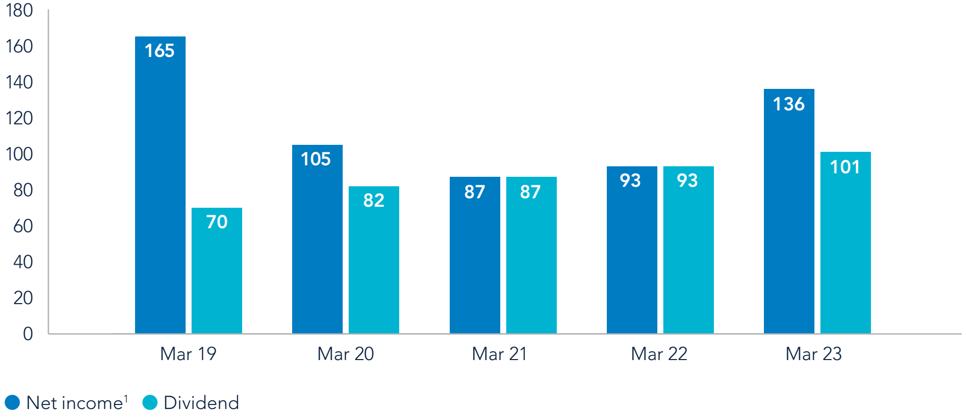
The Board has proposed a dividend for the year of 11.15 pence per share, or £101 million in aggregate (2022: 10.45 pence; £93 million). This is in line with the Company's target announced in May last year.

Financial review continued

Table 7: Dividend cover (year to 31 March, £m)

	2023	2022
Total income, other income and non-income cash	**202**	143
Operating costs, including management fees	**(66)**	(50)
Dividends paid and proposed	**(101)**	(93)
Dividend surplus for the year	**35**	–
Dividend reserves brought forward from prior year	**794**	868
Realised gain/(loss) over cost on disposed assets	**30**	(20)
Performance fees	**(45)**	(54)
Dividend reserves carried forward	**814**	794

Chart 10: Dividend cover (five years to 31 March 2023, £m)



1 Net income is Total income, other income and non-income cash less operating costs.

When considering the coverage of the proposed dividend, the Board assesses the income earned from the portfolio, interest received on cash balances and any additional non-income cash distributions from portfolio assets which do not follow from a disposal of the underlying assets, as well as the level of ongoing operational costs incurred in the year. The Board also takes into account any surpluses retained from previous years, and net capital profits generated through asset realisations, which it considers available as dividend reserves for distribution.

Table 7 shows the calculation of dividend coverage and dividend reserves. The dividend was fully covered for the year with a surplus of £35 million (2022: no surplus).

The retained amount available for distribution, following the payment of the final dividend, the realised profit over cost relating to the sale of the European Projects portfolio and the performance fee will be £814 million (2022: £794 million). This is a substantial surplus, which is available to support the Company's progressive dividend policy, particularly should dividends not be fully covered by income in a future year.

A shortfall could arise, for example, due to holding substantial uninvested cash or through lower distributions being received from portfolio companies in order to preserve liquidity.

Chart 10 shows that the Company has consistently covered the dividend over the last five years.

Sensitivities

The sensitivity of the portfolio to key inputs to our valuations is shown in Chart 11 and described in more detail in Note 7 to the accounts. The portfolio valuations are positively correlated to inflation. The longer-term inflation assumptions beyond two years remain consistent with central bank targets, eg. UK CPI at 2%.

The sensitivities shown in Chart 11 on page 66 are indicative and are considered in isolation, holding all other assumptions constant. Timing and quantum of price increases will vary across the portfolio and the sensitivity may differ from that modelled. Changing the inflation rate assumption may necessitate consequential changes to other assumptions used in the valuation of each asset.

Financial review continued

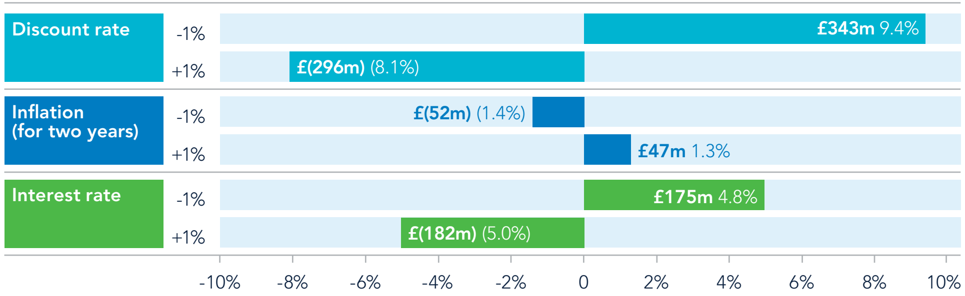
Alternative Performance Measures ('APMs')

We assess our performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies. These APMs provide additional information of how the Company has performed over the year and are all financial measures of historical performance.

The APMs are consistent with those disclosed in prior years but this year we have added two new APMs, Total liquidity and Portfolio debt to enterprise value. The Directors monitor total liquidity to assess the Company's ability to make further investments, the efficiency of the balance sheet, and short-term viability. Portfolio debt to enterprise value is monitored to assess the underlying gearing of portfolio companies, the consequential risk in the forecast cashflows of those companies and the ability of portfolio companies to fund capital expenditure from their own resources.

- Total return on opening NAV reflects the performance of the capital deployed by the Company during the year. This measure is not influenced by movements in share price or ordinary dividends to shareholders. This is a common APM used by investment companies
- The NAV per share is a measure of the underlying asset base attributable to each ordinary share of the Company and is a useful comparator to the share price. This is a common APM used by investment companies
- Total income and non-income cash is used to assess dividend coverage based on distributions received and accrued from the investment portfolio
- Investment value including commitments measures the total value of shareholders' capital deployed by the Company
- Total portfolio return percentage reflects the performance of the portfolio assets during the year
- Total liquidity is a measure of the Company's ability to make further investments and meet its short-term obligations
- Portfolio debt to enterprise value is a measure of underlying indebtedness of the portfolio companies

Chart 11: Portfolio sensitivities (year to 31 March 2023)



Financial review continued

The definition and reconciliation to IFRS of the APMs is shown below.

APM	Purpose	Calculation	Reconciliation to IFRS
Total return on opening NAV	A measure of the overall financial performance of the Company. For further information see the KPI section.	It is calculated as the total return of £394 million, as shown in the Statement of comprehensive income, as a percentage of the opening NAV of £2,704 million net of the final dividend for the previous year of £47 million, adjusted on a time-weighted basis for the receipt of the £100 million capital raise on 14 February 2023. An adjustment to increase the opening NAV by £13 million is required for this time weighting.	The calculation uses IFRS measures.
NAV per share	A measure of the NAV per share in the Company.	It is calculated as the NAV divided by the total number of shares in issue at the balance sheet date.	The calculation uses IFRS measures and is set out in Note 14 to the accounts.
Total income and non-income cash	A measure of the income and other cash receipts by the Company which support the payment of expenses and dividends.	It is calculated as the total income from the underlying portfolio and other assets plus non-income cash being the repayment of shareholder loans not resulting from the disposal of an underlying portfolio asset.	Total income uses the IFRS measures Investment income and Interest receivable. The non-income cash, being the proceeds from partial realisations of investments, are shown in the Cash flow statement. The realisation proceeds which result from a partial sale of an underlying portfolio asset are not included within non-income cash.
Investment value including commitments	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company.	It is calculated as the portfolio asset value plus the amount of the contracted commitment. At 31 March 2023, the Company had no investment commitments.	The portfolio asset value is the 'Investments at fair value through profit or loss' reported under IFRS. The value of future commitments is set out in Note 16 to the accounts.
Total portfolio return percentage	A measure of the financial performance of the portfolio.	It is calculated as the total portfolio return in the year of £501 million, as shown in Table 1, as a percentage of the sum of the opening value of the portfolio and investments less amounts syndicated in the year (excluding capitalised interest) of £3,325 million.	The calculation uses capital return (including exchange), movement in fair value of derivatives, underlying portfolio income, opening portfolio value and investment in the year. The reconciliation of all these items to IFRS is shown in Table 1, including in the footnotes.
Total liquidity	A measure of the Company's ability to make further investments and meet its short-term obligations.	It is calculated as the cash balance of £5 million plus the undrawn balance available under the Company's revolving credit facility of £399 million.	The calculation uses the cash balance, which is an IFRS measure and undrawn balances available under the Company's revolving credit facility, which are described in Note 11 to the accounts.
Portfolio debt to enterprise value	A measure of underlying indebtedness of the portfolio companies.	It is calculated as total debt as a percentage of the enterprise value of the portfolio companies, and does not include indebtedness of the Company.	The calculation is a portfolio company measure and therefore cannot be reconciled to the Company's accounts under IFRS.

"Thoughtful risk management is a cornerstone of our risk governance framework."

Wendy Dorman
Chair, Audit and Risk Committee

This was the second year of a three-year cycle of risk reviews, whereby the Audit and Risk Committee (the 'Committee'), alongside the Investment Manager, conducted a thorough review to identify and consider the impact and likelihood of the key, principal and emerging risks facing the Company today.

Against the backdrop of the current geopolitical and macroeconomic environment, the Company has continued to perform strongly, supported by our risk management framework and process, which enables appropriate and responsive decision making.

The following sections explain how we identify and manage risks to the Company. We outline the key risks, our assessment of their potential impact on the Company and our portfolio in the context of the current environment and how we seek to mitigate them.

Our risk review process follows a three-year cycle, whereby once every three years we carry out a detailed review involving each Director independently assessing the risks facing the Company, then collating and comparing the results, which we refer to as the 'blank sheet of paper exercise'. This was performed last year as it was the first year of the cycle.

This year, a number of risks were reassessed to reflect developments in the year, and the list of emerging risks was refreshed. The Committee updated the risk register and risk matrix as a result of the analysis conducted during the year, and considered the alignment of the principal risks identified to the Company's strategic objectives.

Risk framework

Risk-related reporting

Internal

- Monthly management accounts
- Internal and external audit reports
- Service provider control reports
- Risk logs
- Compliance reports
- Risk-related reporting

External – Annual report

- Risk appetite
- Viability statement
- Resilience statement
- Internal controls
- Going concern
- Statutory/accounting disclosures

Approach to risk governance

The Board is ultimately responsible for the risk management of the Company. It seeks to achieve an appropriate balance between mitigating risk and generating long-term sustainable risk-adjusted returns for shareholders. Integrity, objectivity and accountability are embedded in the Company's approach to risk management.

The Board exercises oversight of the risk framework, methodology and process through the Committee. The risk framework is designed to provide a structured and consistent process for identifying, assessing and responding to risks. The Committee ensures that there is a consistent approach to risk across the Company's strategy, business objectives, policies and procedures.

The Company is also reliant on the risk management frameworks of the Investment Manager and other key service providers, as well as on the risk management operations of each portfolio company.

The Board manages risks through reports from the Investment Manager and other service providers and through representation on all portfolio companies' boards by the Investment Manager's team members.

There were no significant changes to the overall approach to risk governance or its operation in FY23, but we continued to refine our framework for risk management where appropriate.

Risk appetite

The Committee discusses the Company's risk appetite annually and this year concluded that it remained broadly stable. As an investment company, the Company seeks to take investment risk. The appetite for investment risk is described previously in the Our business model section, and in the Investment policy towards the end of this document. Investments are made subject to the Investment Manager's Responsible Investment policy, which addresses an important element of our appetite for investment risk. Given the strong competition for new investments, investment discipline remains a key consideration.

The target risk-adjusted objective of delivering 8% to 10% return per annum over the medium term remains consistent with our current portfolio investment cases, including our recent new investments.

It is expected that, as the portfolio expands, the range of expected returns in individual investment cases may also expand to include higher risk/return 'value add' cases and lower risk/return 'core' investments. We recognise that this has the potential to result in greater volatility in returns on an individual asset basis.

The benefits of diversification across sectors, countries and types of underlying economic risk will mitigate this volatility, and the Company has sought to build a diverse portfolio while considering carefully the underlying risks to which our portfolio companies are exposed. The Committee concluded that the risk appetite of the Company for core-plus infrastructure investments has not changed, and remains appropriate for our investment mandate and target returns. The Covid-19 pandemic provided a severe test of the appropriateness of the Company's risk appetite, and its attractiveness to investors. The portfolio overall has been resilient, and benefitted from diversification across infrastructure subsectors and types of underlying risks.

The key tools used by the Committee to define the Company's risk appetite and to determine the appetite for key risks are the risk register and the risk matrix.

The process of creating and reviewing the risk register and risk matrix is described below, together with a discussion of the Company's appetite for each of the key risks. Beyond the appetite for investment risk discussed above, the Company seeks to limit or manage exposure to other risks to acceptable levels.

Risk review process

The Company's risk review process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in its risk profile. The review takes place three times a year, with the last review in April 2023, and includes, but is not limited to, the following:

- infrastructure and broader market overviews;
- key macroeconomic indicators and their impact on the performance and valuation of portfolio companies;
- regular updates on the operational and financial performance of portfolio companies;
- experience of investment and divestment processes;
- compliance with regulatory obligations, including climate-related regulations;
- analysis of new and emerging regulatory initiatives;
- liquidity management;
- assessment of climate risks to the portfolio, including physical, transition and litigation risks;
- consideration of scenarios that may impact the viability of the Company;
- assessment of emerging risks; and
- review of the Company's risk log.

The Committee uses the risk framework to identify emerging and key risks, and to evaluate changes in risks over time. The framework is designed to manage rather than eliminate the risk of failure to achieve objectives and breaches of risk appetite. Developments during the year in the more significant key risks or 'principal risks' are discussed later in this document. These are risks that the Committee considers to have the potential to materially impact the delivery of our strategic objectives.

The Committee evaluates the probability of each identified risk materialising and the impact it may have, with reference to the Company's strategy and business model.

The review process assesses the likelihood and impact of each risk over two timeframes, within three years and beyond three years. The evaluation of these key risks is then presented on a risk matrix. Mitigating controls have been developed for each risk and the adequacy of the mitigation is then assessed and, if necessary, additional controls are implemented and reviewed by the Committee at a subsequent meeting.

Risk categorisation

The Committee uses the following categorisation to describe risks that are identified during the risk review process.

Emerging risks → **Key risks** → **Principal risks**

Emerging risks

An emerging risk is one that may in future be likely to have a material impact on the performance of the Company and the achievement of our long-term objectives, but that is not yet considered to be a key risk and is subject to uncertainty as to nature, impact and timing.

Key risks

A key risk is considered currently to pose the risk of a material impact on the Company. Risks may be identified as emerging risks and subsequently become key risks. Identified key risks may cease to be considered key risks over time.

Principal risks

The Committee maintains a risk matrix, onto which the key risks are mapped by impact and likelihood. The principal risks are identified on the risk matrix as those with the highest combination of impact and likelihood scores.

The Committee considers the identified principal risks in greater detail in the assessment of the Company's viability.

A number of scenarios have been developed to reflect plausible outcomes should the principal risks be experienced, as well as consideration of stressed scenarios that could result in the Company ceasing to be viable.

As the Company is an investment company, the stressed scenarios reflect reduced cash flows from the Company's investment portfolio, such that debt covenants are breached and liabilities not met.

The Investment Manager models the impact of these scenarios on the Company and reports the results to the Committee.

The resulting assessment of viability is included in this Risk report.

Review during the year

In October 2022, the Committee reassessed the identified key risks and considered any update to the list of emerging risks currently facing the Company. This involved a 'blank sheet of paper' exercise where each Director, and several members of the Investment Manager's team, identified the top emerging risks facing the Company, and discussed changes to the impact and likelihood of the principal risks.

In December 2022, the Investment Manager analysed the data collected and identified the emerging and principal risks facing the Company, scoring the principal risks for impact and likelihood (within a three-year period and beyond a three-year period). In January 2023, the results of the principal risk scoring were considered and assessed by the Committee and additional changes made. In April 2023, the Committee reviewed the updated risk register and risk matrix and the Company's appetite for each of the key risks.

We have a relatively diverse spread of assets in the portfolio and it is important that risk diversity is maintained as we evolve the portfolio through new investments, realisations and syndications.

Future realisations and syndications may continue the evolution of risk in the portfolio in line with our strategy and allow the Company to manage its exposure to more sensitive assets, or to take account of where the risk profile of an asset has changed over time.

We are confident that the portfolio remains defensive and resilient, and in a position to benefit from accretive but discretionary growth opportunities as highlighted in the Investment Manager's review. We believe the current appetite for risk is appropriate.

Risk register review process

October 2022

Directors identify potential emerging or new key risks facing the Company

December 2022

Analysis and interpretation of responses

April 2023

Risk register and risk matrix updated

January 2023

Impact and likelihood of the identified risks considered

Emerging risks

The Company is a long-term investor and therefore needs to consider the impact of both identified key risks, as detailed below, and risks that are considered emerging or longer-term.

Risk categorisation, including the definition of emerging risk, is shown on page 70.

The Board and the Investment Manager consider these factors when reviewing the performance of the portfolio and when evaluating new investments, seeking to identify which factors present a potential risk and can either be mitigated or converted into opportunities.

As part of the ongoing risk identification and management of the Company, the Committee considers whether these emerging risks should be added to the Company's risk register. The risk register is a 'live' document that is reviewed and updated regularly by the Committee as new risks emerge and existing risks change. Examples of emerging risks that were considered during the year include the impact of energy price caps, UK political change, escalation of the conflict in Ukraine, divergence between the UK and the EU regulation increasing friction over trade in goods and services, and escalating regulatory reporting requirements, including climate-related reporting requirements. In some cases, emerging risks may already be considered within a broader identified key risk, such as market and economic risk.

Risk report continued

Key risks

Key risks are mapped by impact and likelihood on a risk matrix. During the year, the Committee considered the development of all the key risks in detail. Within the category of key risks, the principal risks identified by the Committee in the financial year are set out in the Principal risks and mitigation table on pages 73 to 75 alongside how the Company seeks to mitigate these risks.

The risk review showed a high level of consistency with the prior year, with a small number of changes in the key risks identified. The assessment of likelihood and impact of the key risks resulted in some changes to the principal risks facing the Company.

Market and economic risk was considered the top risk facing the Company and was considered to have increased during the year. This includes the consequences of sanctions on Russia and Russian companies, increased commodity and energy prices, rising inflation and interest rates, supply chain constraints and a heightened risk of recession.

Following the high level of new investment, the management of liquidity risk is considered to have increased.

The risk of an inappropriate rate of investment and loss of senior Investment Manager staff is considered to have increased this year, given this liquidity risk.

These changes are reflected in the Principal risks and mitigations table.

Fraud and cyber risk

We remain vigilant to cyber- and other IT-related issues which could result in disruption to the Company, loss of data and/or reputational damage. The Investment Manager has a robust fraud risk assessment and anti-fraud programme in place. The latter includes fraud prevention work by their Internal Audit team, mandatory training to maintain vigilance and awareness, and provision of an independent reporting service or 'hotline' accessible by all staff. The Investment Manager's cyber security programme also aims to identify and mitigate the risks of third-party frauds, for example ransomware and phishing attacks, through the use of IT security tools and regular staff training. There is also a detailed business continuity and disaster recovery plan, should a significant event occur. The Company asks its service providers to inform it of any significant cyber events that they experience.

Environmental sustainability and climate risk

Environmental sustainability and ESG are an increasingly important focus amongst our shareholders and in the wider market.

Climate risk includes the short- to medium-term impacts, including transitional changes (for example, regulation and financial) as well as the long-term emerging risk of climate change (for example, flooding events). Failure to identify and mitigate risks at this stage could result in a reduction in the attractiveness of our assets, reputational damage and a reduction in value of our portfolio in the future.

Although there is still much uncertainty around the extent and timing of the impact of climate change, government and societal action, and future regulations, we recognise that climate-related risk is a key risk as well as an investment theme for the Company. We have separated climate-related risk into two distinct but related risks.

Climate regulation risk addresses the regulatory risk to the Company and the portfolio associated with the transition to a low-carbon economy. Climate risk addresses the physical and transition risks from climate change on the portfolio.

ESG and sustainability is increasingly important in the context of our strategic and investment objectives. Further information on work done in relation to ESG reporting, including climate-related disclosures, and our approach to climate-related risk and opportunities can be found in our Sustainability report on pages 46 to 56. All of the companies in our portfolio recognise the importance of considering climate change and of evolving a sustainable business model. As discussed in the Sustainability report, the physical and transition climate-related risks are also seen as opportunities for all companies in our portfolio.

There are no acute physical nor transition risks identified in the portfolio that would suggest that climate risk is a principal risk, although an example of the impact of a transition risk is the introduction of a tax on imported waste or a carbon tax in the Netherlands, which impacts Attero, and the risk of early decommissioning of oil and gas assets, which impacts some customers of Tampnet and ESVAGT.

We consider that the mitigating controls at the Company and the Investment Manager over climate regulation risk prevent this from being a principal risk at the moment.

Risk report continued
Principal risks and mitigations

Our Strategic priorities

- Maintain balanced portfolio
- Disciplined approach
- Manage portfolio intensively
- Efficient balance sheet
- Sustainability key driver

External

Principal risk	Risk description	Risk mitigation
Market/economic **Risk exposure movement in the year** Increased **Link to Strategic priorities** Manage portfolio intensively	• Macroeconomic or market volatility, such as may arise from the consequences of the conflict in Ukraine and from the effects on economies of post-pandemic demand and supply imbalances, flows through to pricing, valuations and portfolio performance • Fiscal tightening impacts market environment • Risk of sovereign default lowers market sentiment and increases volatility • Misjudgement of inflation and/or interest rate outlook	• Resources and experience of the Investment Manager on deal-making, asset management and hedging solutions to market volatility • Periodic legal and regulatory updates on the Company's markets and in-depth market and sector research from the Investment Manager and other advisers • Portfolio diversification to mitigate the impact of a downturn in any geography or sector or portfolio company-specific effects • The permanent capital nature of an investment trust allows us to look through market volatility and the economic cycle
Competition **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Disciplined approach	• Increased competition for the acquisition of assets in the Company's strategic focus areas • Deal processes become more competitive and prices increase • New entrants compete with a lower cost of capital	• Continual review of market data and review of Company return target compared to market returns • Ongoing analysis of the competitor landscape • Origination experience and disciplined approach of Investment Manager • Strong track record and strength of the 3i Infrastructure brand
Debt markets deteriorate **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Manage portfolio intensively	• Debt becomes increasingly expensive, eroding returns • Debt availability is restricted • The Company's RCF or portfolio company debt cannot be refinanced due to lack of appetite from banks	• The Investment Manager maintains close relationships with a number of banks and monitors the market through transactions and advice • Regular reporting of Company liquidity and portfolio company refinancing requirements • Investment Manager has extensive experience in raising debt finance for portfolio companies, alongside an in-house Treasury team to provide advice on treasury issues • Active management of portfolio company debt facilities, with fixed rates and long duration of debt

Risk report continued

Principal risks and mitigations continued

Our Strategic priorities

Maintain balanced portfolio | Disciplined approach | Manage portfolio intensively | Efficient balance sheet | Sustainability key driver

Operational

Principal risk	Risk description	Risk mitigation
Loss of senior Investment Manager staff **Risk exposure movement in the year** Increased **Link to Strategic priorities** Maintain balanced portfolio, Sustainability key driver	• Members of the deal team at the Investment Manager leave, and 'deal-doing' and portfolio management capability in the short to medium term is restricted	• Performance-linked compensation packages, including an element of deferred remuneration • Notice periods within employment contracts • Strength and depth of the senior team and strength of the 3i Group brand • Careful management and robust planning of senior management transition

Strategic

Principal risk	Risk description	Risk mitigation
Management of liquidity **Risk exposure movement in the year** Increased **Link to Strategic priorities** Disciplined approach	• Failure to manage the Company's liquidity, including cash and available credit facilities • Insufficient liquidity to pay dividends and operating expenses or to make new investments • Hold excessive cash balances, introducing cash drag on the Company's returns	• Regular reporting of current and projected liquidity • Investment and planning processes consider sources of liquidity • Flexible funding model, where liquidity can be sought from available cash balances including reinvestment of proceeds from realisations, committed credit facilities which can be increased with approval from our lenders, and the issue of new share capital • Growth opportunities can be part or fully funded by portfolio company cash balances and/or available debt facilities
Deliverability of return target **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Maintain balanced portfolio, Sustainability key driver	• Failure to ensure the investment strategy can deliver the return target and dividend policy of the Company • Failure to adapt the strategy of the Company to changing market conditions	• Market returns are reviewed regularly • The Investment Manager and other advisers to the Company report on market positioning • Investment process addresses expected return on new investments and the impact on the portfolio • Consideration of megatrends in the investment process • Consideration of risks, including ESG and climate risks, in the investment process

Risk report continued
Principal risks and mitigations continued

Our Strategic priorities

Maintain balanced portfolio | Disciplined approach | Manage portfolio intensively | Efficient balance sheet | Sustainability key driver

Investment

Principal risk	Risk description	Risk mitigation
Security of assets **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Maintain balanced portfolio Sustainability key driver	• An incident, such as a cyber or terrorist attack • Unauthorised access to information and operating systems • Regulatory and legal risks from failure to comply with cyber-related laws and regulations, including data protection	• Regular review of the Company and key service providers • Regular review and update of cyber due diligence for potential investments • Review of portfolio companies for cyber risk management and incident readiness
Poor investment performance **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Maintain balanced portfolio Sustainability key driver	• Misjudgement of the risk and return attributes of a new investment • Material issues at a portfolio company • Poor judgement in the realisation of an asset	• Robust investment process with thorough challenge of the investment case supported by detailed due diligence • Investment Manager's active asset management approach, including proactive management of issues arising at portfolio company level • Experience of the Investment Manager's team in preparing for and executing realisations of investments

Risk report continued

Development of significant key risks in the year

The disclosures in the Risk report are not an exhaustive list of risks and uncertainties faced by the Company, but rather a summary of significant key risks which are under active review by the Board. These significant key risks have the potential to affect materially the achievement of the Company's strategic objectives and impact its financial performance. This disclosure shows developments in these significant key risks for the year. The risks that have been identified as principal risks are described in more detail in the Principal risks and mitigations table.

External risks – market and competition

In the face of rising interest rates and macroeconomic uncertainty, infrastructure assets have proven relatively resilient when compared to the dislocation in other markets, but a difficult GDP environment remains a key risk for the Company. Infrastructure's fundamental characteristics as an asset class anchored by predictable, long-term revenue streams that are often linked to inflation have positioned the sector well to withstand recessionary risk and volatile markets.

The urgency of tackling climate change has also made investment in some sectors, such as those with a focus on energy transition, relatively insulated from macro headwinds. As a result, the European infrastructure market continues to experience strong demand for new investments. Private funds with a core-plus infrastructure focused mandate have significant amounts of dry powder and these are the Company's primary competition for new investment. Fundraising has increased at a faster pace than the number of funds raised, resulting in larger fund sizes creating intense competition for suitable infrastructure targets. There remains a risk that pricing does change for core-plus infrastructure in the medium term, but at this point we are not seeing any upward pressure on discount rates for core-plus infrastructure investments as these tend to have greater discount rate headroom to risk-free rates and strong inflation protection features. In this environment, the Investment Manager continues to leverage its network and skills to look for investments that can deliver attractive and sustainable risk-adjusted returns to the Company's shareholders.

Inflation in the UK and Europe has risen sharply in the year, driven by rising energy costs, supply chain bottlenecks, labour and raw material shortages and the reopening of economies from pandemic-related lockdowns. The portfolio is positively correlated to inflation as most portfolio companies have revenues at least partially linked to inflation, although higher inflation may also result in increased costs and supply chain disruption and, should it persist, is generally bad for economies as a whole. Sensitivities to macroeconomic assumptions are discussed in the Financial review and in Note 7 to the accounts.

Central bank base rates increased during the year in response to higher inflation and, although there is evidence, particularly in Europe, that this is bringing inflation back towards target levels, there is a risk that inflation will return to a level either above or below our long-term assumptions. There are no material refinancing requirements in the portfolio until 2026 and over 95% of long-term debt facilities are either hedged or fixed rate at 31 March 2023. This mitigates the risk from further near-term interest rate rises.

The Company is exposed to movements in sterling exchange rates against a number of currencies, most significantly the euro.

The Company operates a hedging programme which substantially offsets volatility in returns from exchange rate movements. The Board monitors the effectiveness of the Company's hedging policy on a regular basis.

The valuation of our portfolio companies that generate electricity is affected by the evolution of long-term power price forecasts and by fluctuations in the spot power price. Medium-term power price forecasts have also increased considerably during the year, driven by gas supply concerns, record carbon prices, low wind levels and higher commodity prices, particularly for gas. This has benefitted those portfolio companies that generate electricity and typically sell it on a forward basis in order to avoid spot market volatility: Infinis, Attero and Valorem.

Sanctions on Russia and Russian companies, together with the recovery from the Covid-19 pandemic, led to an increase in oil prices, peaking in June 2022.

Risk report continued

Since then prices have come down, due to a softer economic environment and reduced trans-shipment volumes, but the market continues to be backwardated. For Oystercatcher, this may maintain some short-term downward pressure on pricing of contract renewals.

Ionisos is a provider of cold sterilisation and ionising radiation treatment services to the medical, pharmaceutical, plastics and cosmetics industries. Gamma radiation, one of the three methods of cold sterilisation used, relies on the radioactive decay of Cobalt-60, a scarce resource. Although a worldwide shortage of Cobalt-60 is expected until 2028, resulting from increased demand and the permanent closure of a large Russian reactor, Ionisos is in a good position to maintain its capacity as it has recently expanded its supplier base and is in advanced discussions with one supplier for a five-year supply agreement.

During the past three years, TCR was affected by air traffic movements and passenger numbers being substantially below the levels seen before the Covid-19 pandemic.

We are pleased with the performance of TCR over the duration of the pandemic and the strong performance this year and we have maintained our assumption of a return to pre-pandemic levels of air travel by 2024.

DNS:NET is being affected by the industry-wide challenge of rolling out a FTTH network in Germany due to the complexity of the construction process and difficulty in obtaining permits for construction, alongside cost inflation. The German government is planning to accelerate the roll out through a simpler and digitalised approval process.

External risks – regulatory and tax

The Company's investments in Infinis, Valorem and Attero are exposed to electricity market regulation risk in their respective countries. On 1 January 2023, the UK government introduced a levy or price cap on extraordinary returns from electricity generation (the 'EGL').

The EGL is an exceptional and time-limited measure that is due to expire in 2028.

The French and Dutch governments introduced taxes on merchant revenues above a price cap for 2023. The effect of current and proposed legislation is reflected in the valuations of these portfolio companies.

Strategic risks

The Company manages its balance sheet and liquidity position actively, seeking to maintain adequate liquidity to pursue new investment opportunities, while not diluting shareholder returns by holding surplus cash balances. At 31 March 2023 there was £5 million available in cash, with drawings of £501 million under the RCF. During the year the Company raised a further £100 million through an equity placing and extended the maturity of its RCF facility to November 2025.

The portfolio is diversified across sector and geography, with no investment above 15% of portfolio value.

Investment risks

As part of our investment due diligence and active portfolio management, the Investment Manager uses specialist cyber security advisers to ensure that our companies remain vigilant and continue to focus on effective operations of controls against possible cyber-attacks. Some of our portfolio companies do experience fraud attempts, some of which are successful, but none have had a material impact on any of our companies.

Operational risks

The key areas of operational risk include attracting and retaining key personnel at the Investment Manager, and whether the Investment Manager's team can continue to support the delivery of the Company's objectives. The team has strength and depth, and the transition in senior management has been carefully managed. The Board monitors the performance of the Investment Manager through the Management Engagement Committee. It also monitors the performance of key service providers, receiving reports of any significant control breaches.

Risk report continued

Resilience statement

Our resilience comes from the effective implementation of our business model, described on pages 9 to 13. Key elements of our business model relating to resilience include the Investment Manager's disciplined approach to new investment and engaged asset management, the defensive characteristics of our portfolio of investments, high ESG standards, our flexible funding model and efficient balance sheet, and the capability of the Investment Manager's team.

This is underpinned by the strong institutional culture and values of our Investment Manager, high standards of corporate governance, and effective risk management.

Over the life of the Company, the Investment Manager has built a resilient and diversified portfolio with good growth potential and downside protection that delivers an attractive mix of income yield and capital appreciation for shareholders. This has been achieved through consistent delivery of our strategic priorities, described on page 20.

Short-term resilience

The Directors assess the Company's short-term resilience through monitoring portfolio, pipeline and finance reports. These are prepared monthly, and discussed at quarterly scheduled board meetings and board update calls held between scheduled meetings. Six-monthly detailed investment reviews are prepared by the Investment Manager and discussed with the Board, as part of the half-yearly and annual valuation and reporting processes. These reviews describe sources of risk at portfolio company level, and mitigating actions being taken or considered.

The resilience of key suppliers, including the Investment Manager, is considered annually or more frequently if appropriate. The Audit and Risk Committee is provided with relevant extracts of reports from the Investment Manager's internal audit team, which includes an annual report on the Investment Manager's European infrastructure investment team. Further detail is included in the Governance section on page 111.

The Directors manage the Company's liquidity actively, reviewing reports on current and forecast liquidity from the Investment Manager, alongside recommendations for seeking additional liquidity when appropriate. The Directors approved the issue of new equity during the year, raising £100 million net of issue costs, and the extension of the RCF to £900 million of commitments. Further discussion on the RCF can be found in the Financial review on page 64.

The identification of material uncertainties that could cast significant doubt over the ability of the Company to continue as a going concern forms the basis of the Going concern statement below.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and in the Financial statements and related Notes to our Annual report and accounts to 31 March 2023. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Financial statements and related Notes to the accounts.

In addition, Note 9 to the accounts includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Directors have made an assessment of going concern, taking into account the Company's cash and liquidity position, current performance and outlook, which considered the impact of the higher inflationary and interest rate environment, using the information available up to the date of issue of these Financial statements.

The Company has liquid financial resources and a strong investment portfolio providing a predictable income yield and an expectation of medium-term capital growth.

The Company manages and monitors liquidity regularly, ensuring that it is sufficient.

At 31 March 2023, liquidity remained strong at £404 million (2022: £786 million). Liquidity comprised cash and deposits of £5 million (2022: £17 million) and undrawn facilities of £399 million (2022: £769 million). The £900 million revolving credit facility matures beyond 12 months of the date of this report.

The Company had no contracted investment commitment at 31 March 2023. However, the Company expects to make follow-on investments in portfolio companies to fund growth opportunities.

The Company had ongoing charges of £48 million in the year to 31 March 2023, detailed in Table 5 in the Financial review, which are indicative of the ongoing run rate in the short term. In addition, the FY23 performance fee of £45 million (2022: £54 million) is due in three equal instalments with the first instalment payable in the next 12 months along with the second instalment of FY22's performance fee and the third instalment of FY21's performance fee, and a proposed final dividend for FY23 of £51 million which is expected to be paid in July.

Although not a commitment, the Company has announced a dividend target for FY24 of 11.90 pence per share. Income and non-income cash is expected to be received from the portfolio investments during the coming year, some of which will be required to support the payment of this dividend target and the Company's other financial commitments.

The Directors have acknowledged their responsibilities in relation to the Financial statements for the year to 31 March 2023. After making the assessment on going concern, the Directors considered it appropriate to prepare the Financial statements of the Company on a going concern basis.

The Company has sufficient financial resources and liquidity and is well-positioned to manage business risks in the current economic environment and can continue operations for a period of at least 12 months from the date of this report. This is supported by the scenario analysis and stress testing described in the medium-term resilience section and the Viability statement. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual report and accounts.

Medium-term resilience

The assessment of medium-term resilience, which includes modelling of stressed scenarios and reverse stress tests, considers the viability and performance of the Company in the event of specific stressed scenarios which are assumed to occur over a three-year horizon. This stress testing forms the basis of the Viability statement.

The Directors consider that a three-year period to March 2026 is an appropriate period to review for assessing the Company's viability. This reflects greater predictability of the Company's cash flows over that time period and increased uncertainty surrounding economic, political and regulatory changes over the longer term.

The stress testing focuses on the principal risks, but also reflects those new and emerging risks that are considered to be of sufficient importance to require active monitoring by the Audit and Risk Committee. The scenarios used are described in the Viability statement. The medium-term resilience of the Company is assessed through analysing the impact of these scenarios on key metrics such as total return, income yield, net asset value, covenants on the RCF and available liquidity.

Viability statement

The Directors consider the medium-term prospects of the Company to be favourable. The Company has a diverse portfolio of infrastructure investments, producing good and reasonably predictable levels of income which cover the dividend and costs. The defensive nature of the portfolio and of the essential services that the businesses in which we invest provide to their customers are being demonstrated in the current climate. The Investment Manager has a strong track record of investing in carefully selected businesses and projects and of driving value through an engaged asset management approach. The Directors consider that this portfolio can continue to meet the Company's objectives.

The Directors have assessed the viability of the Company over a three-year period to March 2026. The Directors have taken account of the current position of the Company, including its liquidity position, with £5 million of cash and £399 million of undrawn credit facilities, and the principal risks it faces, which are documented in this Risk report on pages 73 to 75.

The Directors have considered the potential impact on the Company of a number of scenarios in addition to the Company's business plan and recent forecasts, which quantify the financial impact of the principal risks occurring. These scenarios represent severe yet plausible circumstances that the Company could experience, including a significant impairment in the value of the portfolio and a reduction in the cash flows available from portfolio companies from a variety of causes.

The assessment was conducted over several months, during which the proposed scenarios were evaluated by the Board, the assumptions set, and the analysis produced and reviewed. Analysis included the impact of an escalation of the conflict in Ukraine on our portfolio companies and the impact of a resulting economic downturn. Other considerations included the possible impact of climate-related events and transition risks, widespread economic turmoil, a reduction in cash distributions from portfolio companies to the Company, a tightening of debt markets and the failure of a large investment.

The assumptions used to model these scenarios included a fall in value of some or all of the portfolio companies, a reduction in cash flows from portfolio companies, a reduction in the level of new investment and/or realisations, the imposition of additional taxes on distributions from, or transactions in, the portfolio companies, an increase in the cost of debt and restriction in debt availability, and an inability for the Company to raise equity. The implications of changes in the inflation, interest rate and foreign exchange environment were also considered, separately and in combination.

The results of this assessment showed that the Company would be able to withstand the impact of these scenarios occurring over the three-year period. The Directors also considered scenarios that would represent a serious threat to its liquidity and viability in that time period. These scenarios were considered to be remote, such as a fall in equity value of the portfolio of materially more than 50% whilst being fully drawn on the RCF including the accordion, or an equivalent fall in income.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to March 2026.

Long-term resilience

As described above, the long-term resilience of the Company, beyond the Viability statement period, comes from the effective implementation of our business model and consistent delivery of our strategic objectives.

Our approach to origination and portfolio construction, focus on price discipline and engaged asset management approach enable us to adapt in response to new and emerging risks and challenges, including climate change and developments in megatrends.

The characteristics that we look for in infrastructure investments, described on page 11, support the long-term resilience of the Company. The performance of the portfolio through the Covid-19 pandemic provided good evidence of this.

The underlying megatrends supporting the longer-term resilience of each portfolio company are identified in the Our approach section on page 15.

We have a long-term investment time horizon made possible by our permanent capital base that is unconstrained by the fixed investment period and fundraising cycle seen in private limited partnership funds.

Although the scenarios and stress testing to support the Viability statement are modelled over a three-year time horizon, the resilience shown by the Company, and its ability to recover from these stressed situations, supports the assessment of our resilience over a longer term than three years.

Directors' duties
Section 172 statement

The Company adheres to the AIC Code of Corporate Governance (the 'AIC Code') and it is the intention of the AIC Code that the matters set out in section 172 of the Companies Act 2006 ('s172') are reported on to the extent they do not conflict with Jersey law.

We recognise that our business can only grow and prosper by acting in the long-term interests of our key stakeholders and that a good understanding of the key issues affecting stakeholders should be an integral part of the Board's decision-making process. The insights that the Board gains through the stakeholder engagement mechanisms it has in place form an important part of the context for all the Board's discussions and decision-making processes.

As an externally managed investment trust, the Company has no employees or customers and its key stakeholders are its shareholders, third-party professional advisers and service providers (most notably the Investment Manager), portfolio companies, communities in which the Company operates, lenders, and government and regulatory bodies.

Under Jersey Law, the Directors are obliged to act honestly and in good faith with a view to the best interests of the Company; and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Pursuant to s172, a Director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members, and in doing so have regard (amongst other matters) to:

The likely consequences of any decisions in the long term

Our purpose and strategy, combined with the responsible investment approach of the Investment Manager, focus on sustainable returns and outcomes.

Read more
Pages 5, 20 and 46

The interests of the Company's employees

Whilst we do not have any employees, our purpose includes the intention to have a positive influence on our portfolio companies and their stakeholders, which includes the employees of those portfolio companies.

Read more
Page 51

Directors' duties continued
Section 172 statement continued

The need to foster the Company's business relationships with suppliers, customers and others

We engage with all our stakeholders either directly or through the Investment Manager.

Read more
Pages 95 to 98

The desirability of the Company maintaining a reputation for high standards of business conduct

Our success relies on maintaining a strong reputation, and our values and ethics are aligned to our purpose, our strategy and our ways of working.

Read more
Page 13

The impact of the Company's operations on the community and environment

We use our influence to promote a commitment in our portfolio companies to mitigate any adverse environmental and social impacts, and to enhance positive effects on their communities and the environment.

Read more
Pages 46 to 56

The need to act fairly between members of the Company

The Board actively engages with its shareholders and considers their interests when implementing our strategy.

Read more
Pages 95 to 98

Day-to-day engagement with our stakeholders is principally managed by the Investment Manager although, where appropriate, the Directors have direct touchpoints with stakeholders during the year.

Throughout this Annual report we provide examples of how the Directors promote the success of the Company for the benefit of its members in line with our purpose and our strategy, while taking into account the likely consequences of decisions in the long term, the need to build relationships with stakeholders, and ensuring that business is conducted responsibly. In particular, pages 95 to 98 set out the Company's stakeholders and how the Board considered matters under s172 during its deliberations.

Our purpose
Page 1

Our strategy
Pages 20 and 21

This Strategic report, on pages 1 to 82, is approved by order of the Board.

Authorised signatory
3i plc
Company Secretary
9 May 2023