3i Infrastructure plc

Annual report and accounts 2012

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Performance highlights

Year to 31 March 2012

5.6%
Total return on opening shareholders' equity

£73.1m
Portfolio income

£203.6m
Investment in the year

4.5%
EBITDA growth in investments

5.94p
Total dividend, 5% of shareholders' equity(1)

Performance highlights

Five years since inception

9.4%
Annualised return to shareholders

5%
Dividend objective achieved in each year

16%
Annualised asset IRR

>£1bn
Net Asset Value growth to over £1bn achieved in five years

(1) Weighted average shareholders' equity, which takes into account the warrants converted in the year.
Note: All of the information on this page is presented according to the investment basis of preparation.

Our business

Our strategy is to invest in infrastructure businesses, making equity and junior or mezzanine debt investments. We invest in companies with stable underlying performance: asset-intensive businesses, providing essential services over the long term, often on a regulated basis, or with significant contracted revenues.

Our objective is to provide shareholders with a total return of **12%** per annum over the long term, to be achieved by building and managing a balanced portfolio of infrastructure investments. Within this overall objective we target an annual distribution yield of **5%** of opening net asset value.

For more information
Investment strategy – page 08
Market and opportunities – page 15
Key performance indicators – page 35

Our market focus is on core infrastructure in Europe, principally in the utilities and transportation sectors. We also have investments in social infrastructure, as well as in hybrid infrastructure through our commitment to the 3i India Infrastructure Fund. The infrastructure asset class offers the opportunity to diversify investments across the risk/return spectrum.

Social infrastructure/ PPP/PFI

Typically **government-backed concessions**, mainly in education, healthcare and accommodation. These investments tend to provide returns between 8–12%, mostly through yield, as well as high inflation correlation.

11%

£94m portfolio value at 31 March 2012

Core infrastructure

Also known as **"economic" infrastructure;** these investments typically provide returns between 10–16%. Key characteristics include **low volatility across economic cycles** and **strong market positions** through favourable competitive dynamics or regulatory protection. An in-depth operational understanding is key to driving value from these investments, as these tend to be **dynamic businesses**, not concessions with a finite life.

76%

£683m portfolio value at 31 March 2012

Hybrid infrastructure

These investments have **higher risk characteristics**, usually through exposure to greater market or geopolitical risk, and as such tend to provide returns above 15% over the long term.

13%

£114m portfolio value at 31 March 2012

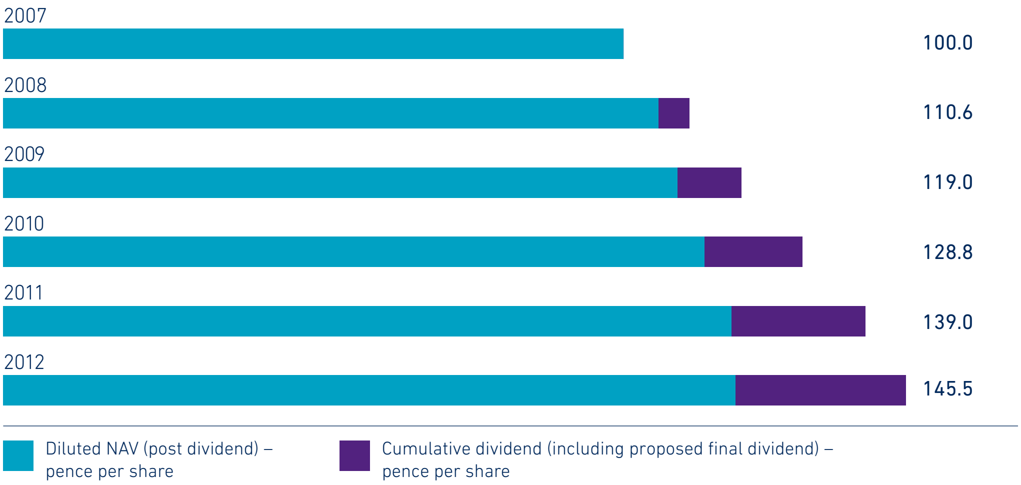
A closer look at our business

Financial highlights for the year to 31 March 2012

	Investment basis(1)		Consolidated IFRS basis(2)	
	31 March 2012	31 March 2011	**31 March 2012**	31 March 2011
Total return	**£56.0m**	£85.5m	**£55.0m**	£86.8m
Total return on average shareholders' equity(3)	**5.6%**	9.2%	**5.5%**	9.3%
Total dividend per share	**5.94p**	5.72p	**5.94p**	5.72p
Net asset value ("NAV")/share(4)	**121.0p**	120.3p	**121.4p**	120.9p
NAV after deducting proposed final dividend of 2.97p(4)	**118.0p**	117.4p	**118.4p**	117.9p
Portfolio value	**£890.8m**	£821.7m	**£1,182.2m**	£1,093.3m
Warrant conversion	**£64.4m**	£5.8m	**£64.4m**	£5.8m
Cash balances	**£173.4m**	£174.6m	**£183.6m**	£176.3m

(1) The investment basis accounts for majority investments and subsidiaries formed specifically for investment purposes in the same way as minority investments and does not consolidate these entities as required by International Financial Reporting Standards ("IFRS").
(2) For the consolidated IFRS basis, the total return in this measure is the total comprehensive income attributable to equity holders of the parent and does not include non-controlling interests. The gross consolidated total return for the year to 31 March 2012 was £70.9 million (2011: £99.5 million).
(3) Average shareholders' equity is defined as the time-weighted average of (i) opening shareholders' funds, less the final prior-year dividend paid, and (ii) the equity proceeds raised through the conversion of warrants.
(4) The NAV as at 31 March 2011 was diluted to take into account the warrants that were outstanding at that date. The warrants expired on 13 March 2012, and no further dilutive securities are outstanding.

Our track record – growth in shareholder returns



9.4%
Annualised return to shareholders

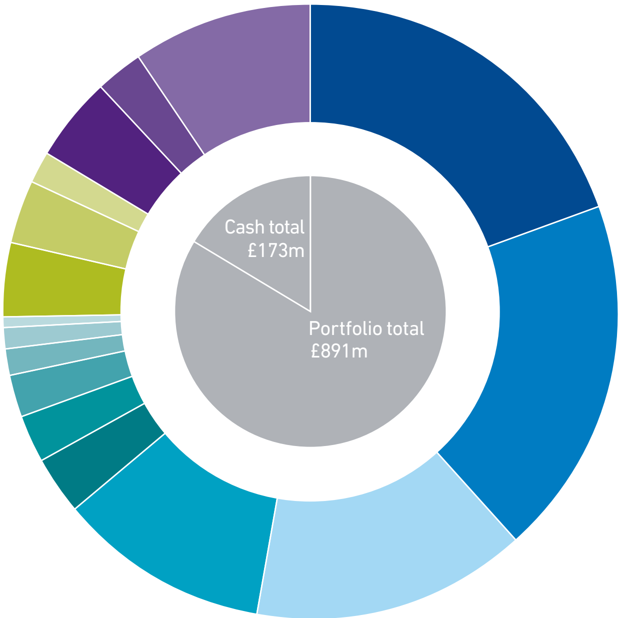
5%
Dividend objective achieved in each year since inception

Our portfolio

14
assets

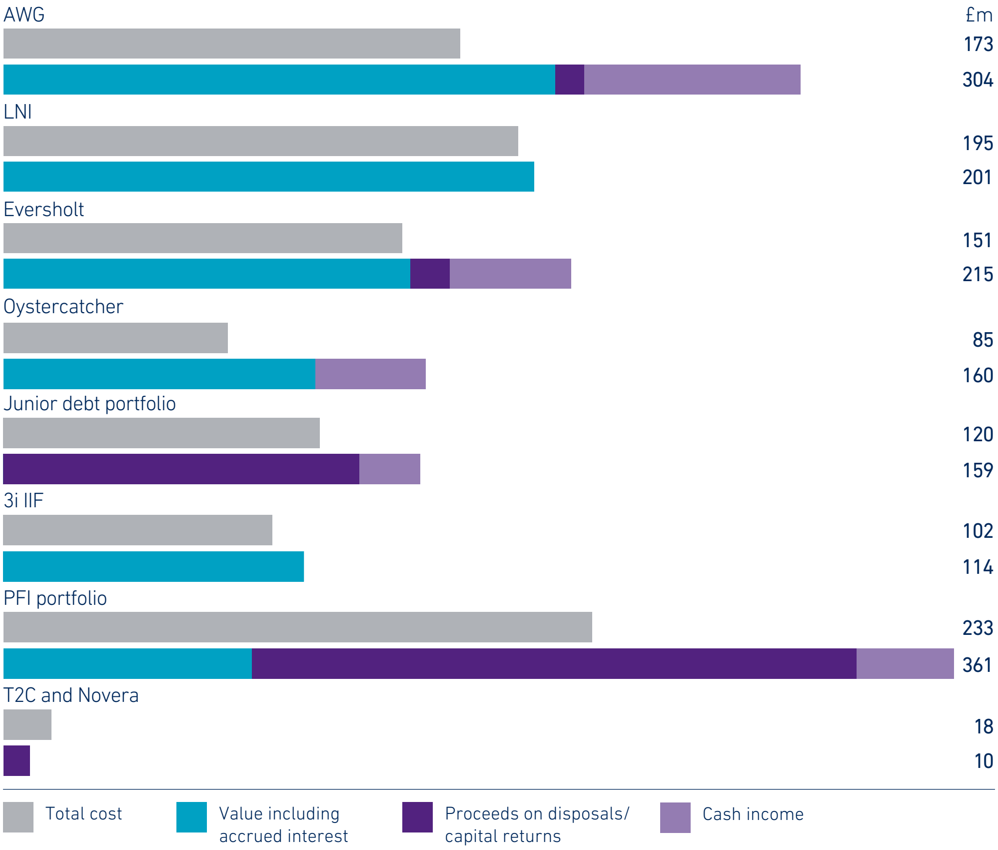
£891m
portfolio value

£173m
cash balances



	£m
Anglian Water Group	209
Lakeside Network Investments ("LNI")	201
Eversholt Rail Group	154
Oystercatcher	118
3i India Infrastructure Fund	
Krishnapatnam Port	31
Adani Power	28
GVK Energy	22
KMC Roads	16
Soma Enterprise	12
Ind-Barath Utkal	6
PFI portfolio	
Elgin	42
Octagon	33
Alpha Schools	19
T2C	nil
Total portfolio value	**891**
Cash	
Cash committed to India	47
Cash committed to final dividend	26
Free cash	100
Total cash	**173**

Our track record – value creation from the portfolio



16%
Annualised asset IRR since inception to 31 March 2012

The calculation of the IRR (Internal Rate of Return) uses cash flows generated from the assets to calculate the annualised effective compound rate of return. The calculation uses: (i) total cost (original cost plus any further investment); (ii) proceeds for assets that have been sold; and (iii) closing values for assets that have not been sold. Note: all data on this page is presented according to the investment basis of preparation.

Chairman's statement

"The Company delivered steady NAV growth this year in challenging conditions. This stable performance builds on a strong track record for the Company which, in its five years of existence, has delivered annualised returns to shareholders of 9.4%, including the payment of a 5% dividend in each year."

Peter Sedgwick, Chairman
8 May 2012

3i Infrastructure plc ("3i Infrastructure" or "the Company") delivered a stable financial performance for the year to 31 March 2012, supported by strong returns from the European assets in the portfolio. These were partly offset by weaker returns from the 3i India Infrastructure Fund (the "Fund"), whose financial performance was affected by a number of market and macroeconomic factors. Most notably, the portfolio generated strong income, which fully covers the total dividend and the operating costs incurred during the year.

This performance builds on a strong track record for the Company which, in its five years of existence, has delivered annualised returns to shareholders of 9.4% and, importantly, has delivered its 5% dividend objective in each year.

Performance

The total comprehensive income attributable to the equity holders of the parent (the "total return"), on a consolidated IFRS basis, totalled £55 million in the year to 31 March 2012. On an investment basis, which the Board also uses to monitor investment performance, the total return totalled £56 million, or 5.6% on shareholders' equity. This return was supported by the strong income generated from our European portfolio assets, which totalled £73 million in the year, which was indicative of their resilient operational performance.

The strong performance of most portfolio assets, however, was offset by mark-to-market declines in the valuation of Adani Power, held through the 3i India Infrastructure Fund, as well as by foreign exchange losses from the rupee exposure through the Fund.

Dividend

Based on the strong levels of income generated during the year, the Board proposes a final dividend of 2.97 pence per share which, added to the interim dividend of 2.97 pence per share paid in January 2012, brings the total dividend for the year to 5.94 pence per share, meeting our 5% dividend objective.

Investment activity

The Company invested a total of £204 million during the year. Most of this amount (£195 million) was invested in a 39% holding in Lakeside Network Investments ("LNI"), with the balance drawn by the Fund to finance the second tranche of the investment in GVK Energy Limited.

The acquisition of LNI was a key achievement in the implementation of 3i Infrastructure's strategy of building its portfolio of core infrastructure assets. The investment in LNI, which owns Finland's second-largest electricity distribution network, as well as a smaller district heating business, enhances the sector and geographic diversification of our portfolio, and provides exposure to relatively low risk revenue streams and good inflation linkage. In addition, LNI is expected to contribute strongly to portfolio income from the next financial year.

The Company also sold investments, generating proceeds of £133 million during the year. These include £86 million from the sale of the three remaining holdings in the junior debt portfolio, and £47 million from the repayment of all of the outstanding I² vendor loan notes and a portion of the shareholder loan to Eversholt Rail Group.

The junior debt portfolio divestments were well timed and protected the net asset value over a period of volatile market conditions. This portfolio was built during the course of 2008 and 2009, at a time when the market for M&A transactions was largely closed. The Company was able to acquire these holdings at a significant discount to their par value, with the expectation that they would deliver equity-like returns to maturity and high levels of cash yield. These investments, now fully realised, generated an IRR of 11.6% throughout the holding period, demonstrating 3i Infrastructure's ability to deploy its financial resources flexibly to take advantage of market opportunities.

Warrants and cash balances

The warrants issued by 3i Infrastructure to the subscribers of its Initial Public Offering expired in March 2012. The Board was pleased that only a few of the warrants issued at IPO remained unexercised on expiry.

Importantly, the conversion of these warrants has allowed the Company to raise £70.4 million in new equity, of which £64.4 million was raised during the financial year under review, providing liquidity to invest in the current market. As a result of the investment and realisation activity described above, as well as the new equity raised through the conversion of the warrants, 3i Infrastructure currently has cash balances of £173 million to invest, much reduced from £310 million at the half year.

Corporate governance and Board

The Company aims to uphold the highest standards of corporate governance and complies with all applicable provisions of the UK Corporate Governance Code, updated and reissued in June 2010. Many of the provisions of the revised Code, such as shareholder approval of Directors' remuneration and the annual re-election of all Directors, were voluntarily adopted early by the Company, and at the last Annual General Meeting, held on 5 July 2011, the shareholders of 3i Infrastructure approved the re-election of all Directors to the Board, as well as changes to their remuneration which took effect in October 2011.

The Board continues to maintain a regular dialogue with shareholders and is aware of any concerns as they emerge. Philip Austin (Senior Independent Director) and I are always available to meet with shareholders, and will continue to ensure that concerns are listened to and that the Board continues to act in the interest of all shareholders.

Pipeline and outlook

Markets remain volatile and conditions for investment are challenging. However, the infrastructure asset class has continued to perform robustly relative to other asset classes and has remained attractive to debt providers. The Investment Adviser's track record of investment and returns puts the Company in a strong position to continue to invest profitably in the year to come.

The Investment Adviser is focusing on bringing the Thameslink transaction to a financial close, and is pursuing a number of opportunities. However, it retains its prudent investment approach and pricing discipline, so that the Company can build on the strong returns already achieved in its five years of existence.

Investment Adviser's review

Investment Adviser's review

"3i Infrastructure has built a strong portfolio of core infrastructure businesses. The Investment Adviser's origination and portfolio management skills have allowed the Company to invest at the appropriate price points and to manage the investments to drive a strong yield and steady capital growth over time. We will maintain our disciplined approach and look forward to building on our strong investment track record."

Cressida Hogg, Managing Partner, Infrastructure, 3i Investments plc
8 May 2012

About the Investment Adviser

3i Investments plc ("3i Investments"), a wholly-owned subsidiary of 3i Group plc ("3i Group"), acts as the investment adviser (the "Investment Adviser") to the Company through its infrastructure investment team (the "investment advisory team").

The investment advisory team provides advice to the Company on the origination and completion of new investments, on the management of the portfolio and on realisations, as well as on funding requirements.

The investment advisory team is managed as a separate business line within 3i Group and operates from hubs in London and India. All investment professionals have significant experience investing in infrastructure assets. The investment advisory team can also draw on 3i Group's network of investment professionals, based in 12 countries, to originate infrastructure investment opportunities.

3i Group was among the subscribers to 3i Infrastructure's Initial Public Offering and subsequent Placing and Open Offer and owns 34% of the equity in the Company.

The infrastructure asset class – key characteristics

Infrastructure businesses generally have a strong market position, often operating within regulatory frameworks, or with revenues underpinned by strong, long-term contracts. They can be described as "essential", either because they are fundamental to economic activity and economic growth, such as utilities or transport infrastructure, or because they support important social functions, such as education or healthcare facilities. Key features include:

- capital-intensive;
- high EBITDA margins;
- some degree of inflation linkage;
- low cyclical volatility;
- predictable, income-oriented returns once operational; and
- potential for capital growth.

Infrastructure assets typically have only a low correlation with other asset classes, including listed equities, real estate and fixed income. The quality and predictability of cash flows tend to result in attractive distributions to shareholders.

Investment strategy

3i Infrastructure's objective is to provide shareholders with a total return of **12%** per annum, to be achieved over the long term. Within this overall objective, the Company targets an annual distribution yield of **5%** of opening net asset value.

In advising the Company on how to deliver these objectives, the Investment Adviser adopts a three-step process, as represented in the diagram below.

We have applied this strategy consistently since the Company was set up, and **have built a core infrastructure portfolio, which now has a five-year track record of providing:**

- **significant income** – this has supported and will continue to support the delivery of 3i Infrastructure's 5% yield objective;
- **strong capital profits** – from well managed realisations; and
- **an element of capital growth** – underpinning the overall 9.4% annual return to shareholders over the five years of the Company's existence.

Investment Adviser's approach

1. Rigorous approach to investment

We maintain a firm focus on core infrastructure, buying assets at attractive price points that contribute to the delivery of the Company's objectives.

2. Best-in-class portfolio management

We apply consistent and rigorous asset management to drive good operational performance in investments, which underpins portfolio cash generation.

3. Investing for long-term value creation

3i Infrastructure is a long-term investor. We encourage portfolio companies to invest to create value over time.

Building a core portfolio

The Investment Adviser's strategy is to build a portfolio that delivers a balance of yield and capital growth, in line with the Company's return objectives.

The infrastructure asset class is well suited to this strategy, as it offers the opportunity to diversify investments across the risk/return spectrum. As shown in the diagram below, we believe the infrastructure asset class can be subdivided into three main categories: social, core and hybrid infrastructure.

Returns from these assets typically range between 8% and 15% or more, depending on the risks associated with the investment. Yields generated from the investments also vary, depending, among other things, on the state of development of the assets (eg assets under construction versus operational assets).

3i Infrastructure aims to deliver the 12% net return over the long term by building a portfolio which is predominantly weighted towards mature core infrastructure, with some exposure to social infrastructure to underpin the yield, and some exposure to hybrid infrastructure to provide an element of higher capital growth.

Core infrastructure companies are dynamic businesses which own their asset base, not finite concessions like PFI investments. As such, the management of core infrastructure businesses is more complex and requires a broader set of skills, including:

- a **sound operational understanding** of the businesses and how to drive long-term value through investment in the asset base, the management of costs and the incentivisation of management teams;
- **in-depth knowledge of the market and regulatory dynamics;** and
- the **ability to deliver an efficient financing structure** which must evolve over time according to the needs of the business.

The Investment Adviser applies these skills to its origination and asset management activities and has built a strong track record of investment in core infrastructure businesses.

Social infrastructure/ PPP/PFI	Core infrastructure	Hybrid infrastructure
8–12% target return	10–16% target return	>15% target return
■ High inflation correlation ■ Mainly government-backed revenue streams ■ Lower risk/return profile ■ Strong yield when fully operational	■ Dynamic businesses owning their asset base, not concessions with a finite life ■ Low volatility across economic cycles – low volume/market/GDP risk – strong market position ■ Asset management key to driving value – operational expertise/management of long-term performance – financing skills – management incentives	■ Higher risk characteristics – country risk – market/volume risk – GDP correlation ■ Operational expertise in building out the assets and running the business is more important

← Yield   Capital growth →

New investment: LNI

The businesses

Lakeside Network Investments ("LNI") holds 100% of two companies: LNI Verkko Oy ("LNI Verkko") and LNI Lämpö Oy ("LNI Lämpö"). The businesses were purchased from Vattenfall AB in January 2012, as part of the vendor's non-core disposal programme, for an enterprise value of €1.54 billion. 3i Infrastructure contributed £195 million in equity to fund its share of the consideration, reaching its investment concentration limit.

LNI Verkko is the second-largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 400,000 customers in South West Finland, and has a 12% market share. The business is regulated on a four-year cycle, delivering a set return on its Regulated Asset Base ("RAB"). LNI Verkko accounts for approximately 85% of the overall transaction value.

LNI Lämpö operates 17 local district heating networks, with strong market shares in their areas, and owns the seventh longest network in Finland. District heating, which involves the pumping of hot water for heating and general purposes directly into homes from central hubs, is not regulated in Finland.

The consortium

LNI is owned by a consortium comprising

- 3i Infrastructure plc (39% share) and 3i Group plc (6% share)
- GS Infrastructure Partners (45% share)
- Ilmarinen Mutual Pension Insurance Company (10% share)

A compelling investment case

1. Stable and transparent regulatory environment for LNI Verkko

- The new four-year regulatory period began in January 2012, providing clarity over the medium term
- Current regulatory incentives encourage investment, providing opportunities for value-accretive growth in LNI Verkko's RAB
- LNI Verkko is one of the most efficient Finnish electricity distribution networks, with a strong track record of delivering network development and technical innovation (eg smart metering). Investment and innovation are likely to remain key aspects of future regulatory incentives

2. Profitable, with inflation linkage and attractive yield

- Both businesses generate high EBITDA margins, which are likely to support a strong yield over the long term
- Returns for LNI Verkko are linked to inflation through the annual indexation of its RAB and the annual adjustment of operating cost allowances in line with local inflation indices
- LNI Lämpö has generally been able to increase its charges at least in line with inflation

3. Attractive market, with opportunities for growth

- Finland is one of the largest electricity consumers in Europe on a per capita basis, with demand expected to grow steadily
- LNI Verkko may be able to leverage its operational efficiencies and technological superiority to create consolidation opportunities in the electricity distribution market in Finland

4. Sector and geographic diversification

- This investment diversifies the Company's portfolio away from UK regulation and provides 3i Infrastructure with exposure to a core utility business in an economically strong, AAA-rated European country

Asset distribution

At 31 March 2012, 76% of the portfolio was invested in core infrastructure. This core portfolio has been built over time, as shown in Chart 1.

The Company's core infrastructure investments, now including AWG, Oystercatcher, Eversholt and LNI, generate gross returns that are consistent with 3i Infrastructure's return objectives, a substantial proportion of which are delivered in the form of portfolio income.

The completion of the investment in LNI in 2012 was a key event. LNI, a mature business with operations in a country with attractive macroeconomic fundamentals, complements the other portfolio companies in terms of geography and sector exposure.

Managing the portfolio

The Company's intention is generally to hold investments over the long term and to generate income from these over time. Matching the long-term hold period of the underlying investments with evergreen funding was the principal reason for structuring the Company as a listed vehicle with permanent capital.

In contrast, the 3i India Infrastructure Fund was structured as a 10-year investment vehicle with a strategy of holding investments through their construction/development phase and exiting when they establish a track record of operational performance.

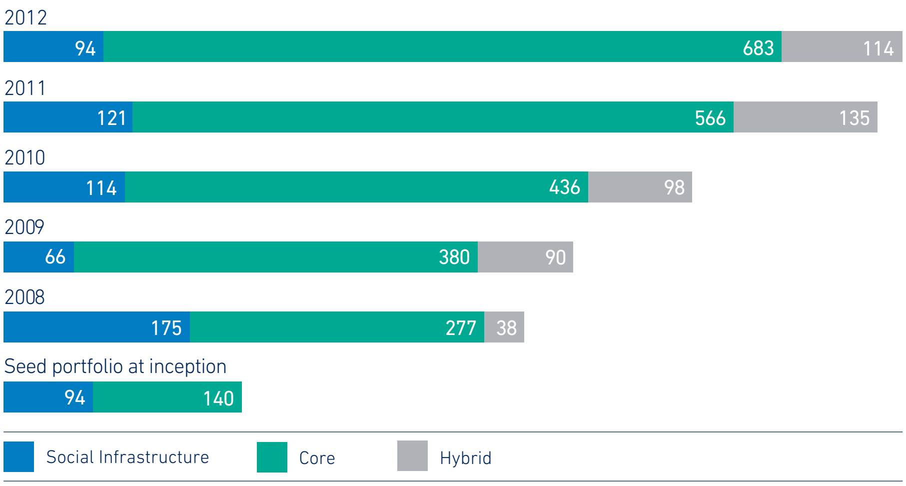
In light of the complexity and long-term nature of infrastructure investing, and in particular core infrastructure investing, portfolio management is a key area of focus for the Investment Adviser and is an important tool in achieving 3i Infrastructure's return objectives.

We develop a comprehensive understanding of the businesses in which the Company invests, of the markets in which they operate, their competitive dynamics and the relevant regulatory environment. We engage with the management teams of the portfolio companies, at board level as well as more informally, with the objective of delivering:

- **strategies that support growth in the long term**;
- continued **improvements in operational performance**;
- **disciplined cash management**;
- **efficient capital structures**, that can evolve according to market contingencies and business needs; and
- **alignment of interests between management and shareholders**, ensuring management focus on the long-term development of the business, rather than short-term goals.

We monitor business performance to ensure that any issues are identified and acted upon quickly. We receive monthly management information from portfolio companies, and establish channels of communication with management teams, outside the formal governance framework, including regular working groups with a focus on, for instance, business plans, capital structure and regulation.

Chart 1 – Asset distribution, value at 31 March (£m)



Investment Adviser's review continued

Charts 2 and 3 illustrate how the Investment Adviser's investment management strategy has delivered strong returns from the portfolio. In particular, the charts show that:

- **the return is underpinned by substantial cash generation** in the form of income or realised profits;
- most investments **return a significant proportion of their cost** through income **in a relatively short period of time**; and
- where investments have been sold, notably in the PFI and junior debt portfolios, **they have generated good uplifts over cost**.

As shown in Chart 3, in total, from investment of £1,075 million, the portfolio has already returned cash income of £233 million since inception, and realised proceeds of £400 million, helping to deliver the Company's dividend objectives since inception.

While 3i Infrastructure is set up to hold investments over the long term, it will sell assets on an opportunistic basis, where compelling offers generate shareholder value, as was the case for Alma Mater and I² in 2008 and 2009 respectively. The exit from I², completed this year, generated an IRR of 23.8%.

The Company will also sell investments where market conditions suggest that a sale might be appropriate, as was the case with the junior debt portfolio.

The assessment of the market opportunity for investment, as well as realisations, is another of the key skills that the Investment Adviser brings to the Company. Our ability to react quickly to market opportunities, timing investments and exits, is exemplified by the Company's investments in the junior debt portfolio, which delivered an IRR of 11.6% through their holding period, as described in more detail in the case study opposite.

Chart 2 – Portfolio asset returns throughout holding period
(five years since inception, £m)

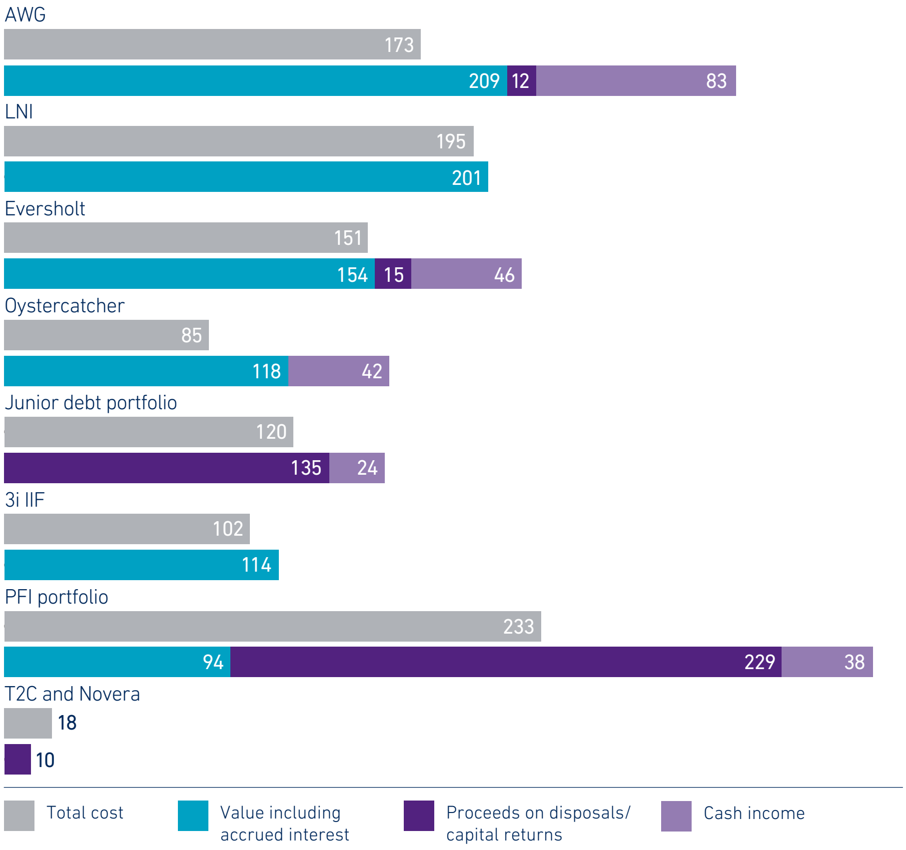
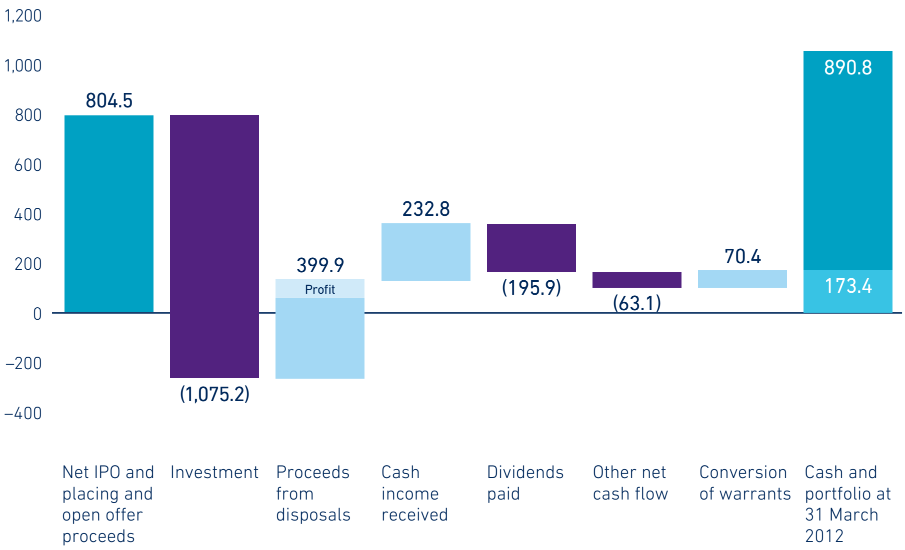


Chart 3 – Portfolio cash generation (five years since inception, £m)



Divestment: junior debt portfolio

The market opportunity and investment rationale

During the course of 2008 and 2009, 3i Infrastructure invested in a portfolio of five junior debt holdings in core infrastructure businesses with leading positions in the markets in which they operate.

The strategy was to acquire these holdings at prices below par, delivering attractive equity-like returns to maturity and strong levels of cash yield.

The graph below illustrates that the investments were timed (darker blue shading) over a period when asset valuations were under stress due to broader market pressures on similar debt instruments. This is shown by the decline in the S&P Leverage Loan Index. The operational performance of the issuers at the time of investment was, however, robust. The divestments (light blue shading) were timed when the pressure on the market value of traded loan instruments was easing and the portfolio was sold progressively through the course of 2010 and 2011, as the holdings traded towards par.

The assets

Viridian operates both regulated and unregulated businesses within the Irish energy market, managing power transmission, distribution and supply infrastructure, as well as a power generation business and a business offering services to the power industry.

NGW Arqiva is the leading owner and operator of national broadcast infrastructure supporting television, radio and wireless communication in the UK.

Télédiffusion de France is the leading provider of broadcast transmission infrastructure and services and telecommunications infrastructure in France, and also has operations in Germany, Finland and Hungary.

Thames Water is the UK's largest water and wastewater services company, operating across London and the Thames Valley.

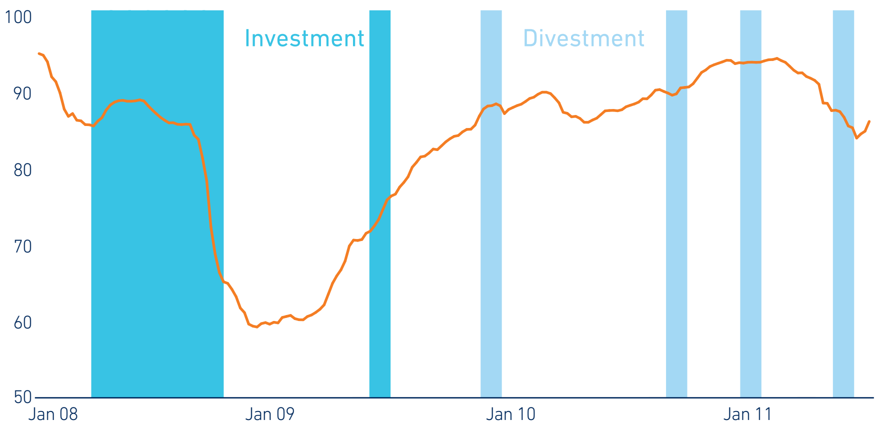
Associated British Ports is the largest port group in the UK, and operates facilities in England, Scotland and Wales.

Income generation and IRRs

Holding	Investment cost (£m)	Income throughout holding period (£m)	IRR (%)
Viridian	42.0	6.6	12.0
NGW Arqiva	32.4	6.4	8.5
Télédiffusion de France	24.2	6.6	14.9
Thames Water	18.9	3.9	11.6
Associated British Ports	2.4	0.1	20.3
Total	**119.9**	**23.6**	**11.6**

Overall, the investments, which are now fully realised, generated an aggregate IRR of 11.6% and proved that the Company can take advantage of its financial flexibility and the experience and track record of the Investment Adviser to execute quickly on new opportunities that emerge in challenging markets.

S&P European leveraged loan index



S&P European Leveraged Loan Index, used as a market proxy for traded debt instruments

Investment Adviser's review continued

Investing for the long term

Driving income generation from the portfolio is crucial to the delivery of the Company's return objectives. Returns from core infrastructure businesses, however, also have a significant capital growth component, which is maximised through capital investment for long-term development. **Infrastructure investing, and in particular core infrastructure investing, is not just about extracting short-term yield, but about creating and maintaining value over the long term**.

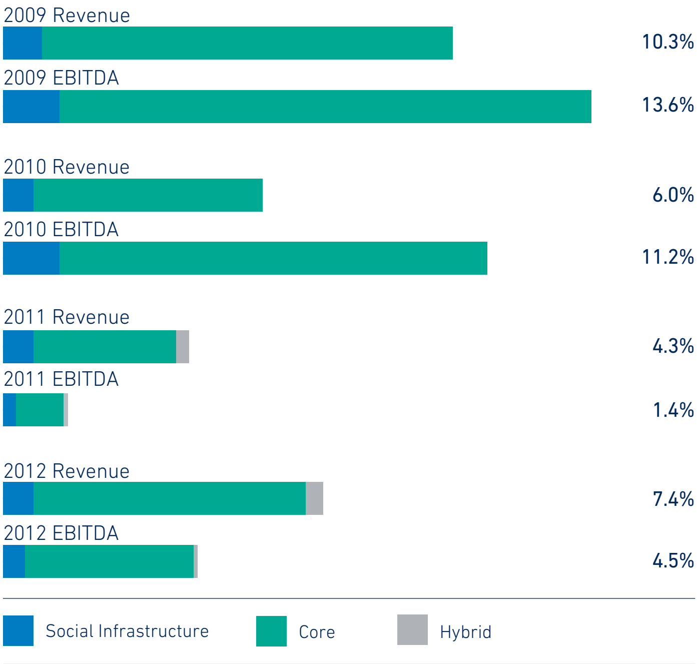
As long-term investors, we encourage companies to implement strategies that deliver value accretion over time.

As described earlier, the Investment Adviser engages constructively with the management teams of portfolio companies at board level, as well as more informally. As an engaged partner, the **Investment Adviser supports and empowers management teams to devise and implement development strategies that support growth over a long-term period of ownership**. This requires an in-depth knowledge of market and sector dynamics, as well as an understanding of the long-term value drivers for each of the assets.

Chart 4 shows how **this strategy has resulted in robust levels of revenue and EBITDA growth year-on-year** in the underlying portfolio companies. This, in turn, supports the steady value growth of the companies in 3i Infrastructure's portfolio.

High EBITDA and revenue growth levels in 2009 and 2010 were driven by strong performance at Oystercatcher, during an expansion phase following investment, and at AWG. Given the portfolio composition at that time, these strong performances had a disproportionately high impact on the weighted average. In subsequent years, as the portfolio developed, the weighted average EBITDA growth for those years was therefore representative of a broader set of underlying investments.

Chart 4 – Portfolio companies' revenue and EBITDA growth by category (last four financial years, % year-on-year growth)



Note: the figures shown in the chart are calculated on a weighted average basis and the assets included in the analysis for each year are those that were operational and had been held by the Company for one year or more.

Market and opportunities

Conditions for investment

Europe

A number of relatively sizeable infrastructure transactions were completed during the year, despite significant market and macroeconomic headwinds. These included the sale of electricity networks in the UK and in Germany, the public-to-private acquisition of Northumbrian Water in the UK, the acquisition of major stakes in the Gassled pipeline in Norway, as well as the €1.5 billion acquisition of LNI in Finland by the Company and its consortium partners. This activity was underpinned by the continued availability, for strong infrastructure businesses, of bank and capital markets debt at relatively attractive terms, even while liquidity remained constrained in other sectors and asset classes.

Other significant processes are ongoing, such as the Thameslink procurement programme, for which 3i Infrastructure, in the XLT consortium with Siemens and Innisfree, was selected as preferred bidder last summer. We are currently working with the Department for Transport to bring this transaction to a financial close.

The year was, however, characterised by an increase in macroeconomic and market volatility, fuelled by concerns over European sovereign debt, the stability and viability of the euro as a currency, the solvency of European banks and the availability of credit to the broader economy.

Due to this increased volatility, we have focused our investment origination activities on a narrower set of opportunities. In particular, in light of the increased risks involved in investing in the euro periphery, our focus has been on opportunities in the UK and Northern Europe, as exemplified by the Company's investment in LNI and the proposed investment in the Thameslink project.

India

Macroeconomic conditions in India are challenging, with high inflation and a growing fiscal deficit impacting the outlook for growth. These challenges have affected market performance: the BSE Sensex, India's principal stock market index, declined by 10.4% in the year to 31 March 2012. Transaction activity, as a result, has been slower. Nevertheless, the local banking market remains supportive of infrastructure development and our team in India is progressing a number of opportunities.

Opportunities

There has been little change to the themes driving our pipeline. **Non-core disposals** from corporates and financial institutions continue to provide the bulk of the opportunities, including the Company's investment in LNI in Finland.

Over time, we expect governments throughout Europe to **develop frameworks and incentives to encourage private investment in infrastructure**, as they continue to focus on reducing their budget deficits. The UK government, for instance, published an updated National Infrastructure Plan in November 2011, containing major commitments to improve the UK's transport and broadband networks as well as steps to attract significant new private sector investment. The Treasury is also leading initiatives to encourage UK pension fund investment in infrastructure, as well as increased foreign investment.

Resource-constrained governments might also choose to **privatise or open up essential infrastructure through PPP-style transactions**, as was the case for the Thameslink procurement programme. In the UK, it is likely that government-owned assets, in particular in the transportation sector, will be sold to private investors when operational. In addition, the UK government announced in March that it is assessing the possibility of privatising trunk roads. Similar debates and initiatives are taking place across Europe.

Opportunities in Europe could also come, in due time, **from the acquisition of assets from other financial investors**. Some infrastructure funds are nearing the end of their investing periods and will need to realise investments to return capital to investors, or to prove valuations. There may also be opportunities from the **refinancing of companies**, as overall levels of leverage reduce.

India remains a significant market for private infrastructure investors. Strong GDP growth and an increasingly urbanised population continue to drive demand for new build infrastructure. While overall transaction volumes have declined, the Indian government remains committed to private sector participation.

Outlook

In addition to broader M&A and debt market considerations, the outlook for inflation and interest rates will be an important determinant of the conditions for investment in the future. While inflation is relatively high in most developed countries, we believe that in the short term this will have a limited impact on interest rates, as governments and monetary authorities try to stimulate growth.

Competition for infrastructure assets is increasing. Significant funds have been raised over the last few years. However, disintermediation is becoming a key feature of the market, as some investors, including notably sovereign wealth funds and large pension funds, are investing directly in infrastructure assets rather than through funds. Corporate buyers have also been active in the market over the last few years, as many restructure and refocus their businesses. This has resulted in greater pricing pressure for infrastructure assets, in particular at the lower end of the risk/return spectrum.

The Investment Adviser has a solid track record of completing complex transactions and working alongside strong operating partners and other investors. It also has a broad network of relationships with banks and the capital markets. This means that 3i Infrastructure is well placed to access the best deal flow and to manage the portfolio to deliver on its return objectives when fully invested, even in volatile markets.

Investment Adviser's review continued

Portfolio

Table 1 below summarises the valuation and movements in the portfolio, as well as the return per asset, for the year to 31 March 2012 on an investment basis. Chart 5 illustrates the breakdown of the portfolio by geography, sector and maturity at 31 March 2012. Chart 6 illustrates the distribution of the portfolio in the risk/return framework.

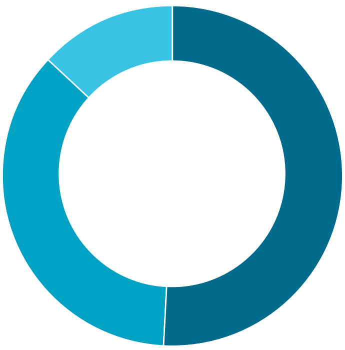
Table 1 – Portfolio summary on an investment basis (£m)

Portfolio assets	Directors' valuation 31 March 2011	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	**Directors' valuation 31 March 2012**	Loss on disposal in the year	Income in the year	**Asset total return in the year**
AWG	195.9	–	–	13.5	–	**209.4**	–	20.2	**33.7**
LNI	–	194.8	–	4.6	1.6	**201.0**	–	–	**6.2**
Eversholt	160.7	–	(14.7)	8.2	–	**154.2**	–	33.1	**41.3**
Oystercatcher	119.6	–	–	5.8	(7.2)	**118.2**	–	9.5	**8.1**
3i India Infrastructure Fund	134.7	8.2	–	(30.0)	1.3	**114.2**	–	–	**(28.7)**
Elgin	40.2	–	(0.1)	1.9	–	**42.0**	–	3.2	**5.1**
Octagon	31.1	–	–	2.2	–	**33.3**	–	2.9	**5.1**
Alpha Schools	17.7	–	–	0.8	–	**18.5**	–	1.3	**2.1**
Junior debt portfolio	90.2	–	(90.2)	–	–	**–**	(4.7)	1.8	**(2.9)**
I^2 loan notes	31.6	0.6(1)	(32.2)	–	–	**–**	–	1.1	**1.1**
T2C	–	–	–	–	–	**–**	–	–	**–**
	821.7	203.6	(137.2)	7.0	(4.3)	**890.8**	(4.7)	73.1	**71.1**

(1) Capitalised loan note interest.

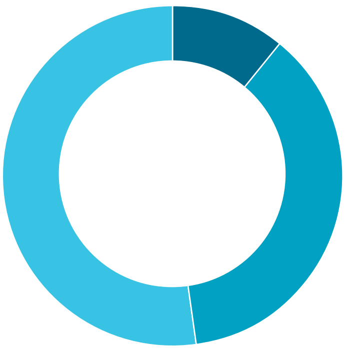
Chart 5

Portfolio by geography



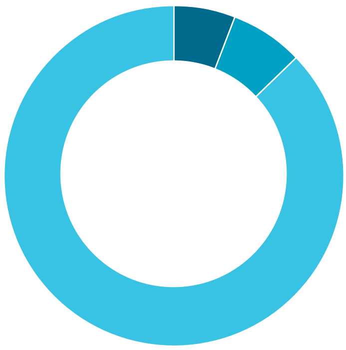
UK and Ireland	51%
Continental Europe	36%
Asia	13%

Portfolio by sector



Social Infrastructure	11%
Transportation	37%
Utilities	52%

Portfolio by maturity



Early stage	6%
Operational growth	7%
Mature	87%

Chart 6 – Risk/return spectrum and asset distribution

Social infrastructure/ PPP/PFI

8–12% target return

- Three assets
  - Elgin: a portfolio of 16 school and community healthcare projects
  - Octagon: concession company to build, operate and maintain the Norfolk and Norwich University Hospital
  - Alpha Schools: a portfolio of 11 schools in the Highlands of Scotland
- No new additions in the year
- I² vendor loan notes repaid during the year

Core infrastructure

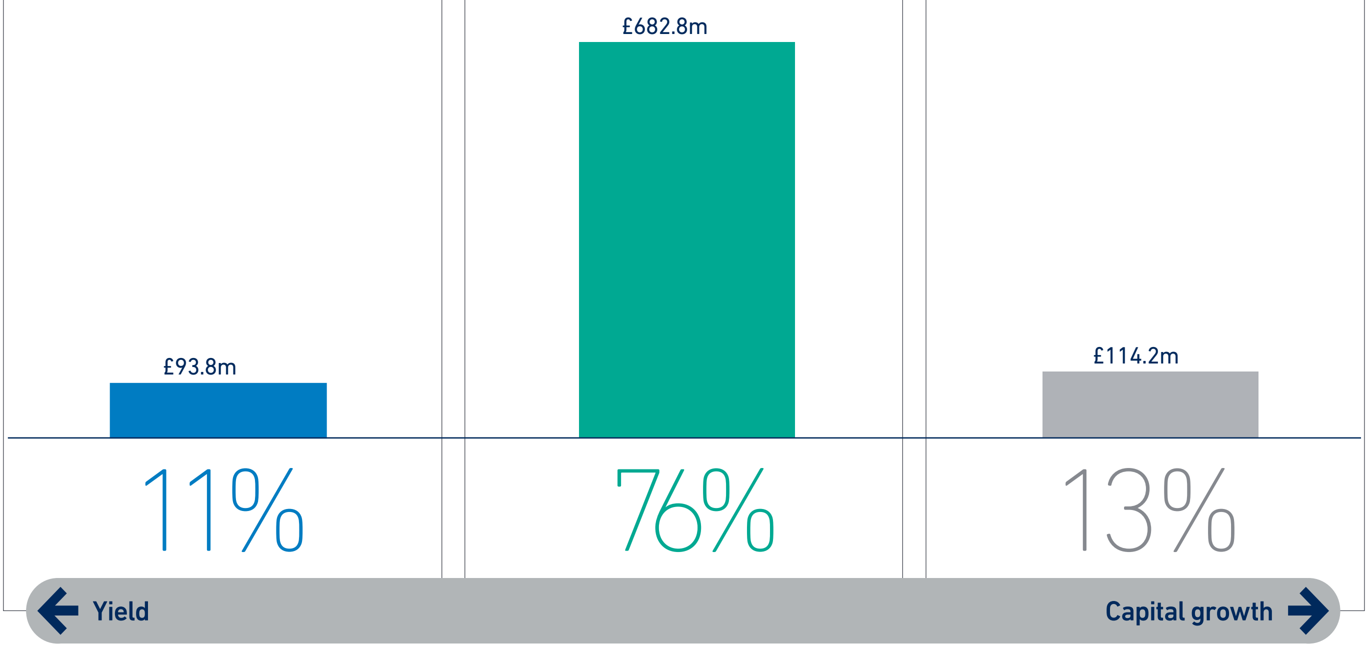
10–16% target return

- Four assets
  - Anglian Water Group: owns Anglian Water, the fourth largest water supply and wastewater company in England and Wales
  - Eversholt Rail Group: one of the three leading rail rolling stock companies in the UK
  - Oystercatcher: holding company through which 3i Infrastructure invested in stakes in three oil storage facilities
- New investment in LNI (£195 million) completed in the year – owns the second largest electricity distribution business in Finland and a district heating business

Hybrid infrastructure

>15% target return

- 3i Infrastructure has a US$250 million commitment to the 3i India Infrastructure Fund, 70% drawn at 31 March 2012
- This is a US$1.2 billion fund focusing on the port, airport, road and power sectors
- Six assets
  - three in the power sector
  - two in the roads sector
  - one in the ports sector
- The Fund drew £8 million in the year from 3i Infrastructure for a further investment in GVK Energy



Investment Adviser's review continued

Movements in portfolio value

As set out in Chart 7, the value of 3i Infrastructure's portfolio increased from £821.7 million to £890.8 million over the course of the financial year.

The change was driven by investment of £203.6 million, divestment of £137.2 million, an unrealised value growth of £7.0 million and reported foreign exchange losses (before hedging) of £4.3 million.

Investment

Investment activity increased in the year to 31 March 2012, with total investment of £203.6 million (2011: £187.5 million). This amount is almost entirely attributable to the £194.8 million (€235.6 million) acquisition of LNI, with the balance substantially attributable to a £8.2 million further investment in GVK Energy through the 3i India Infrastructure Fund (the "Fund").

Lakeside Network Investments

On 16 December 2011, 3i Infrastructure, as part of the LNI consortium, agreed to acquire 100% of the equity in LNI Verkko and LNI Lämpö from Vattenfall AB, in a transaction valuing these businesses at approximately €1.54 billion. 3i Infrastructure contributed £194.8 million in equity to this transaction.

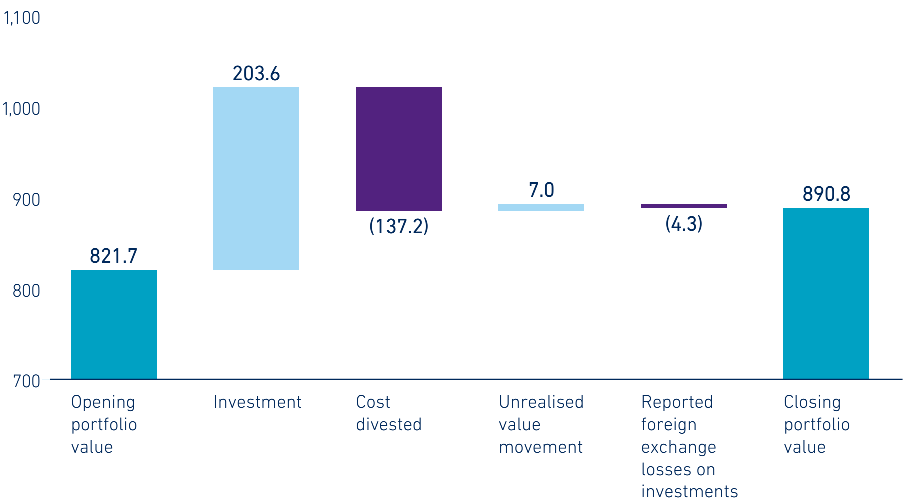
The acquisition enhances the current portfolio in terms of geographic and sector exposure. As core infrastructure investments, the businesses provide exposure to relatively low risk revenue streams and good inflation linkage.

The LNI consortium comprises 3i Infrastructure plc and 3i Group plc (together owning a 45% share), GS Infrastructure Partners (45% share) and Ilmarinen Mutual Pension Insurance Company (10% share). 3i Infrastructure and 3i Group invested through 3i Networks Finland LP, a partnership in which they have taken 87% and 13% stakes respectively.

GVK Energy Limited

The 3i India Infrastructure Fund drew £8.2 million from the Company to finance the second tranche of its investment in GVK Energy Limited. The Fund initially committed US$172.6 million in a substantial minority in GVK Energy in December 2010. 3i Infrastructure's share of this investment was US$36.1 million, of which US$23.3 million was drawn by the Fund on announcement, while the balance (US$12.8 million, £8.2 million) was drawn in February 2012.

Chart 7 – Reconciliation of the movement in portfolio value on an investment basis (£m)



Divestment

The Company generated realisation proceeds of £132.5 million (cost divested of £137.2 million) in the year to 31 March 2012 (2011: £43.2 million).

Junior debt portfolio

A significant proportion of these proceeds (£85.5 million) was generated from the exits from the three remaining holdings in the junior debt portfolio: NGW Arqiva, Thames Water and Télédiffusion de France. These exits were profitable against the investment cost and provided some protection for the Company's NAV in light of the subsequent volatility in junior debt markets.

In April 2011 the Thames Water junior debt tranche was repaid before its full term by the borrower, generating proceeds of £21.3 million. This represented an uplift over the value at 31 March 2011 of £0.2 million. The NGW Arqiva junior debt tranche was sold in April 2011 for £34.2 million, generating a profit over the value at 31 March 2011 of £1.9 million. Finally, in October 2011, the Company contracted to sell the entirety of its holding in Télédiffusion de France junior debt, for £30.0 million, an amount equivalent to the carrying value at the end of September, but representing a loss compared to the March 2011 value of £6.8 million.

Other capital proceeds

The balance of realisation proceeds of £47.0 million was substantially attributable to the partial repayment of the Eversholt Rail Group ("Eversholt") shareholder loan and the early repayment of the full balance of the I² vendor loan notes.

Eversholt repaid a portion of its shareholder loan (£14.7 million to the Company) in two stages, in August 2011 and March 2012. The structure of the investment in Eversholt includes both equity and shareholder loans. Eversholt is performing well and generating strong operating cash flows, and as a result was able to repay a small portion of the shareholder loan in addition to making its regular interest payments and distributing a dividend in the financial year under review.

The I² vendor loan notes were also repaid in full to 3i Infrastructure in two stages by Barclays Integrated Infrastructure Fund LP. The first tranche of the repayment, of £26.4 million, was received in August 2011, and the balance of £5.8 million was repaid in November 2011. These outstanding vendor loan notes related to the sale of I² in January 2009, which is now complete and generated a total IRR of 23.8%.

Unrealised value movement

As shown in Chart 7, overall the portfolio generated a total unrealised value gain of £7.0 million (2011: £36.5 million). Despite the strong returns achieved from the European portfolio, the unrealised value gain was lower than last year, principally due to the mark-to-market losses on the valuation of Adani Power Limited, held in the 3i India Infrastructure Fund.

PFI portfolio

The PFI portfolio achieved unrealised value growth of £4.9 million in the year to 31 March 2012. This growth was driven by the robust operational performance of the assets, offset by the income generated in the year. The PFI portfolio also benefited from higher than expected inflation during the year.

Core portfolio

The core portfolio generated the largest uplift with unrealised value growth of £32.1 million, driven by the strong operational performance of the underlying portfolio companies, and, similarly to the PFI portfolio, partly offset in most cases by strong income receipts.

The valuation of AWG (£209.4 million at the end of March 2012, compared to £195.9 million a year earlier) benefited from higher than expected inflation in the UK, but was impacted negatively by poor trading conditions at a subsidiary, Morrison Facilities Services. The discount rate used to value the Company's holding in AWG was reduced from September 2011, as described on page 21.

Eversholt was valued at £154.2 million (after the loan repayment of £14.7 million), compared to £160.7 million one year ago, reflecting its continued strong operational performance since acquisition.

The valuation of Oystercatcher (£118.2 million, compared to £119.6 million a year earlier) benefited from the strong operational performance of its three storage terminals, but this was offset by an increase in the discount rate used to value the asset, as described on page 21.

LNI was valued at £201.0 million, compared to a total consideration for the acquisition of £194.8 million, reflecting principally the roll-forward of the DCF valuation model since acquisition.

3i India Infrastructure Fund

The valuation of the 3i India Infrastructure Fund declined from £134.7 million at the start of the year to £114.2 million. This movement, which includes new investment of £8.2 million, was principally driven by a £24.9 million reduction in the valuation of Adani Power (including foreign exchange losses) following a 39% fall in its share price. This share price decline was mainly a consequence of an increase in global coal prices and coal shortages in India, as well as of volatility in merchant power prices. The valuation of the other assets fell marginally by £3.8 million, as unrealised value increases, underpinned by steady advances in the build out of their facilities, were offset by foreign exchange losses.

Foreign exchange impact

Foreign exchange rates were volatile throughout the year. As set out in Table 2, the reported foreign exchange loss on the portfolio of £4.3 million (also set out in Chart 7) increased to a net loss of £16.3 million (2011: £4.3 million loss) after the impact of other foreign exchange related movements. The most significant of these was the loss arising from the US$/rupee exchange rate movements which formed part of the unrealised value movement of the US dollar-denominated 3i India Infrastructure Fund.

Sterling appreciated by 14% against the Indian rupee in the year, resulting in net foreign exchange losses of £16.0 million for the Company, as its exposure to the Indian rupee through the 3i India Infrastructure Fund remains unhedged. The Board monitors both the rupee exposure and the cost/benefit of hedging that exposure on a regular basis. The foreign exchange losses incurred within the US dollar-denominated 3i India Infrastructure Fund had a significant impact on the valuation of the Fund and on overall returns in the year.

During the period, sterling also appreciated by 6% against the euro, but the resulting losses were offset by foreign exchange hedging entered into to provide mitigation from movements in the sterling/euro exchange rate, resulting in a small negative net impact of £0.3 million.

Underlying asset performance

The fully operational assets in which the Company holds an equity stake delivered a solid performance during the year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") for these assets increased by 4.5% on a like-for-like basis relative to the prior year.

This figure is calculated on a weighted average basis and the assets included in this analysis are those that have been operational and held by the Company for one year or more: AWG, Eversholt, Oystercatcher, Elgin (underlying project companies), Octagon and Alpha Schools and, within the 3i India Infrastructure Fund, Adani Power, Soma Enterprise and Krishnapatnam Port.

Specifically, Eversholt saw an EBITDA growth of 11.4% over the prior comparable year, while Oystercatcher's EBITDA remained flat and AWG's declined by 1.3%. However, the EBITDA of AWG's core regulated water business, Anglian Water, was up 1.3% year-on-year. The decline in AWG's overall EBITDA was driven mainly by the weaker performance of Morrison Facilities Services, one of its non-core subsidiaries, due to challenging trading conditions in the social housing sector.

As shown in Chart 4 on page 14, this was the fourth consecutive year of EBITDA increases, demonstrating the robustness in the performance of the portfolio across a period of volatile market conditions.

In India, the growth rates in earnings are considerably higher than for the European portfolio, as investments are at an earlier stage of development.

T2C is still not yet fully operational and remains valued at nil.

Table 2 – Impact of foreign exchange movements on returns (£m)

	Sterling/Rupee	Sterling/Euro	Net impact
Translation of assets £/US$	1.3		1.3
Translation of assets £/€		(5.6)	(5.6)
Reported foreign exchange losses on investments			**(4.3)**
Asset valuation US$/rupee[1]	(17.3)		(17.3)
Movement in fair value of derivative financial instruments (£/€ hedging)		5.3	5.3
Other foreign exchange movements			**(12.0)**
Net foreign exchange losses	**(16.0)**	**(0.3)**	**(16.3)**

(1) Contained within Unrealised profits on revaluation of investments in Table 3 on page 35.

Summary of valuation methodology

Investment valuations are calculated at the half year and at the financial year end by the Investment Adviser and then reviewed and approved by the Board. Investments are reported at the Directors' estimate of fair value at the reporting date.

The valuation principles used are based on International Private Equity and Venture Capital valuation guidelines, generally using a discounted cash flow ("DCF") methodology (except where a market quote is available), which the Board considers to be the most appropriate valuation methodology for unquoted infrastructure equity investments.

Where the DCF methodology is used, the resulting valuation is checked against other valuation benchmarks relevant to the particular investment, including for example:

- earnings multiples
- recent transactions
- quoted market comparables
- regulated asset base multiples

Discounted cash flow and discount rates

Around 96% of the portfolio was valued on a DCF basis at 31 March 2012. The weighted average discount rate applied was 12.6% (2011: 13.2%), deriving from a range of 8.2% (an operational PFI asset) and 19.0% (a project within the 3i India Infrastructure Fund). The main reason for the year-on-year decrease in the weighted average discount rate was the addition of LNI to the portfolio, which was valued using a discount rate lower than the previous weighted average.

Chart 8 shows the movement in the weighted average discount rate applied to the portfolio in each six-month period since inception.

The discount rate applied to each investment is reviewed at each valuation date. The rate selected reflects the risk inherent in the business, taking into account sustained movements in the "risk-free" rates of return in the relevant country and appropriate risk premia.

Risk-free rates (equating to 10/30-year government bond yields) have declined over the year. In light of current market conditions, and particularly in light of increasing uncertainty across markets reflected in our assessment of risk premia and of current market pricing, the decline in risk-free rates did not result in a reduction of the discount rates used to value the portfolio, other than for AWG, for which it formed part of the overall rationale for the reduction in the discount rate, as described below.

Changes to the discount rates used to value the assets are as follows.

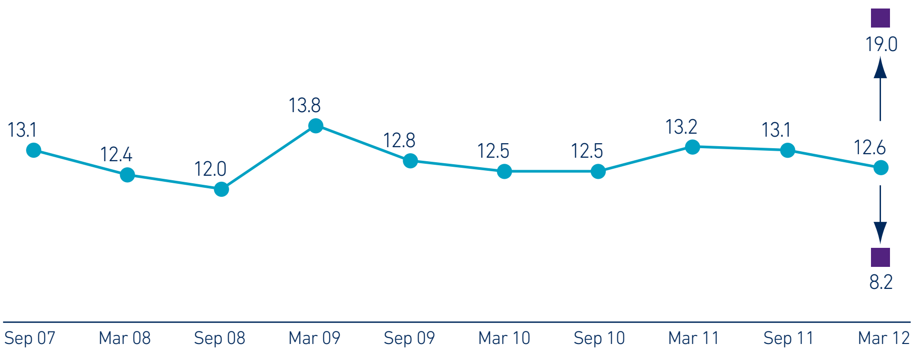
AWG The discount rate used to value the Company's holding in AWG was reduced, reflecting: (i) the valuations achieved in recent transactions in the UK water sector; (ii) AWG's strong track record of operational performance and its good progress against its opex and capex targets set out in the regulatory settlement; (iii) the decline in risk-free rates; and (iv) the company's continued ability to refinance its debt in the market at attractive rates, as reflected in the continued reduction in AWG bond yields.

Oystercatcher The discount rate used to value Oystercatcher was increased to reflect a higher refinancing risk and greater sensitivity to interest rates and exchange rates, as the maturity of the acquisition debt facility and of associated interest and exchange rate hedging instruments approaches. This increase is not a reflection of the operating performance of the underlying companies, which remains robust.

Elgin The discount rate used to value the Elgin portfolio was reduced slightly to reflect the track record of good operational performance achieved by the assets, and aligning it to the discount rate used to value the rest of the PFI portfolio.

India The discount rates applied to value projects across the Fund's portfolio, based on their stage of development, have remained broadly unchanged. The discount rates used to value a few individual projects held within GVK Energy and KMC Roads were reduced, as construction milestones were reached. This had no material impact on the overall discount rate applied across the Fund.

Chart 8 – Portfolio weighted average discount rate (%)



3i India Infrastructure Fund

The Company's investment in the 3i India Infrastructure Fund was valued as its share of net assets held by the Fund. Within the Fund valuation, Adani Power, which has been a listed company since August 2009, was valued on a mark-to-market basis using closing bid prices. All other assets were valued on a DCF basis, with the exception of a portion of Soma Enterprise's valuation, which was calculated using earnings multiples, and a small element of the Krishnapatnam Port valuation, derived from value attributable to a put option, which provides downside valuation protection.

Profile of senior members of the investment advisory team

Cressida Hogg
Managing Partner, Infrastructure
Cressida co-founded 3i Group's Infrastructure business with Michael Queen in 2005. She took over the role of Managing Partner from Michael in January 2009 following his appointment as CEO of 3i Group. Cressida is responsible for managing the investment advisory team and leads the advisory relationship with the independent Board of 3i Infrastructure. Cressida oversees all aspects of 3i Group's infrastructure investment business, including investment appraisal, portfolio management and investor relations activities. She also represents the Company's interests by sitting on the board of AWG. Cressida has 17 years' investment experience with 3i Group, having previously worked in 3i Group's UK growth and buyout businesses.

Neil King
Partner, Infrastructure
Neil has responsibility for the investment advisory team's investment origination and appraisal activities in Europe. He was involved in advising on most of the Company's investments, and has had a leading role in ensuring a consistent approach to infrastructure investment. He led the Company's investments into Eversholt and Elgin. Neil joined 3i Group in 2005, bringing with him more than 15 years of experience in the infrastructure market, including roles at Innisfree, WestLB and Barclays Capital.

Phil White
Partner, Infrastructure
Phil has overall responsibility for the Investment Adviser's portfolio management activity. In this role he works closely with the management teams of the businesses in which 3i Infrastructure invests. He sits on the boards of several portfolio companies including LNI Verkko, Eversholt and Oystercatcher's oil storage companies. Phil joined in 2007, bringing 20 years of investment, advisory and financing experience to this role, including from roles at Macquarie, WestLB and Barclays.

Stephen Halliwell
CFO, Infrastructure
Stephen is CFO for 3i Group's infrastructure investment business. He manages the operational, financial and reporting requirements for the infrastructure business within 3i Group. Stephen was previously Head of Financial Planning and Analysis in 3i Group's Finance Team. During 2009–2010, Stephen managed certain responsibilities of 3i Group's Finance Director, who was on maternity leave.

Andrew Cox
Director, Infrastructure
Andrew joined 3i Group in 2006 and leads origination in a number of sectors, including ports, renewables and midstream energy. He is also increasingly involved in portfolio management, sitting on the board of LNI Lämpö. Andrew has over 15 years of experience in the infrastructure market, gained at 3i and previously in both debt and advisory roles at Ambac and Schroders/Citigroup.

Scott Moseley
Director, Infrastructure
Scott joined 3i Group in 2007 and has responsibility for origination in several sectors, including regulated networks and rail. His deals include the investments in LNI, Eversholt and the junior debt portfolio, and he is a director on the board of LNI Verkko. Scott has 12 years of experience in the Infrastructure sector, gained at 3i Group and previously at WestLB.

India team
The infrastructure team in India is based in offices in Delhi and Mumbai, and is fully dedicated to making and managing investments for the 3i India Infrastructure Fund.

Anil Ahuja, Head of India and South East Asia, is responsible for the strategic development of 3i Group's Indian business, and has been closely involved in all the team's investments. Prior to joining 3i Group in 2005, Anil worked at JPMorgan Partners Asia, focused on private equity, and at Citibank. He currently serves on the boards of several of 3i Group's investments in India.

Girish Baliga joined 3i Group in 2005, following extensive investment experience from previous roles at Chryscapital and JPMorgan Partners. Girish led the Fund's investment in Adani Power, and having completed the investments now serves on the boards of several companies in which the Fund is invested, including GVK Energy, Soma Enterprise and Krishnapatnam Port.

Samir Palod joined 3i Group in 2005. He led the investments in KMC Roads and Ind-Barath Utkal and serves on those companies' boards. Prior to joining 3i Group, Samir worked for over nine years with Citigroup in India after experience with Asian Capital Partners and Arthur Andersen.

Deepak Bagla has overall responsibility for 3i Group's office in Delhi. He represents 3i Group on several Government committees and business forums. He joined in 2007, bringing with him over two decades of financial and operational experience from his time at the World Bank, RPG Enterprises (an Indian business conglomerate) and Citigroup.

Saurabh Shah joined 3i Group in May 2007, after 11 years at Citigroup Investment Banking where he led the origination and completion of several M&A, capital markets and investment transactions. He joined the Infrastructure team in 2011.

Review of investments

Review of investments
Anglian Water Group

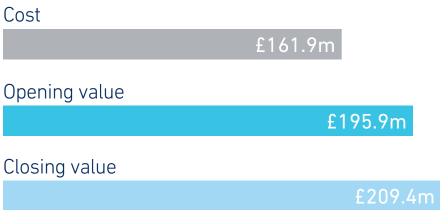
Description

Anglian Water Group Limited ("AWG") is the parent company of Anglian Water, the fourth-largest water supply and wastewater company in England and Wales as measured by regulatory capital value. The majority of the group's revenue is earned through tariffs regulated by Ofwat and linked to RPI. The group also includes Morrison Facilities Services, a support services business focused on the local authority and social housing sectors, and a small property business.

The investment is held through 3i Osprey LP, an intermediary limited partnership whose partners comprise other third parties (including 3i Group, which has a small interest) and which is separately managed by 3i Investments.

Note: the review of the investment in LNI is covered on page 10.

Performance in the year



Equity interest	10.3%
Income in the year	£20.2m
Asset total return in the year	£33.7m
Valuation basis	DCF

Investment rationale

AWG was taken private in 2006 by a group of investors, including Colonial First State, Canada Pension Plan, Industry Funds Management and 3i Group, which "seeded" part of its AWG holding in 3i Infrastructure when it was set up in 2007. The business has strong infrastructure characteristics:

- a **regulated near-monopoly position** in its geographical area for the provision of water supply and wastewater treatment;
- **stable and predictable earnings and cash flows** through RPI-linked tariffs; and
- largely **predictable operating costs.**

In addition, AWG had attractive fundamentals:

- a **strong management team;**
- a relatively **modern asset base;** and
- operations in a geographic region with **high population growth** and **low industrial exposure**, limiting cyclical correlation.

What has been achieved in the period of ownership

AWG has flourished under private ownership. It has refocused on its core business, selling Morrison Utilities Services and most of its property portfolio. The company has been able to adopt a more efficient capital structure compared to listed peers, and to distribute a higher proportion of cash flows to shareholders, resulting in a strong yield. The Regulated Capital Value ("RCV") has grown steadily, underpinned by a comprehensive capital expenditure programme, which has been maintained for the 2010–2015 regulatory period.

A new management incentive scheme was put in place post investment, aligning compensation with long-term value growth rather than short-term share price performance. The management now balances long-term planning, for example to respond to the challenges of climate change, with focus on operational efficiency.

Developments in the year

AWG continues to perform robustly and to generate a strong level of yield for 3i Infrastructure. Anglian Water is implementing its regulatory settlement, with a strong focus on its wide-ranging efficiency programme.

In October 2011, Anglian Water took over the operation and maintenance of private sewers within its catchment area, adding c.60% to its sewer network. This was well managed, with minimal operational impact.

The key issue currently facing Anglian Water is the drought. Following two unusually dry winters, much of its region was declared officially "in drought" by Defra (Department for Environment, Food and Rural Affairs) and the Environment Agency last June. This extended period of dry weather has led to low water levels in key reservoirs and groundwater sources. The company has responded to this challenge by obtaining drought permits from the Environment Agency to allow increased abstraction from waterways, by implementing a capex plan to allow more water to be moved to dry areas, by continuing to focus on leakage, and by intensifying communication to its customers on water conservation, most notably through its "Love Every Drop" campaign. In March, Anglian Water, along with other water companies in the South East of England, announced it would put in place a hosepipe ban from April 2012.

During the year, Ofwat issued several consultation papers on future regulation, and the Government published "Water for Life", setting out a vision for future water management which will lead to legislative change in due course. Anglian Water has been pro-active across the broad range of issues covered by these publications, and will continue to engage widely to ensure that it influences, and is well placed to respond to, the changes that will ensue.

Anglian Water has consistently improved its ranking in Ofwat's Service Incentive Mechanism ("SIM") survey of customer satisfaction, and expects to be in a good position among combined water and sewerage companies in the full year's SIM result (which combines survey results with quantitative data and replaces Ofwat's Overall Performance Assessment).

Morrison Facilities Services, a subsidiary of AWG active principally in the provision of repairs and maintenance services to the social housing sector, has seen poor trading conditions, due mainly to spending cuts implemented by local authorities throughout the UK. Management has implemented a restructuring of the business to improve efficiency and reduce cost, and profitability is improving.

Review of investments continued

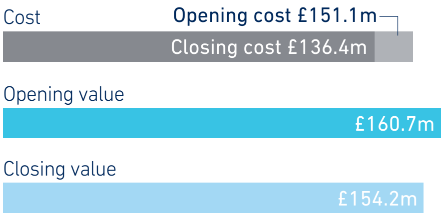
Eversholt Rail Group

Description

Eversholt Rail Group ("Eversholt") is one of the three leading rail rolling stock companies in the UK, and owns approximately 28% of the current British passenger train fleet. Its 19 fleets, predominantly weighted towards electric trains, are leased to 11 Train Operating Companies ("TOCs"). Although its primary revenue stream consists of lease payments from TOCs, it also owns a freight fleet, which accounts for under 10% of its total value.

The rolling stock companies are not directly regulated, and have instead entered into codes of practice, monitored by the Office of Rail Regulation, under which they agree to work fairly and reasonably with their customers.

Performance in the year



Equity interest	33.3%
Income in the year	£33.1m
Proceeds received in the year	£14.7m
Asset total return in the year	£41.3m
Valuation basis	DCF

Investment rationale

3i Infrastructure, in consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners, acquired 100% of Eversholt in December 2010.

Eversholt is a well established infrastructure business and fits well with 3i Infrastructure's investment mandate:

- it has **strong market fundamentals**, with its fully utilised fleets likely to retain value in the long term, due to strong passenger demand and the high cost of new trains;
- it has **high quality cash flows** contracted for the medium term through lease agreements with the TOCs; and
- it has a **defensive fleet portfolio**, weighted towards electric trains, with a good operational history, leased to a diversified customer base.

What has been achieved in the period of ownership

The consortium has strengthened Eversholt's governance through the appointment of several highly experienced non-executive directors to the Irish and UK boards and the establishment of audit and remuneration committees with investor representation. Recruitment of several suitably experienced people to the Irish and UK businesses has bolstered Eversholt's technical, legal and financial resources to address the significant increase in workload during the next two to three years of rail franchise tendering.

Eversholt's capital structure was de-risked through the issuance of three long-dated public bonds for a total of £1.1 billion, attracting strong demand from public market investors and priced on attractive terms, significantly reducing the ongoing debt servicing costs and refinancing risks.

The consortium has engaged closely with the management team to assess a range of capital investment opportunities, both to add further trains to the overall fleet and to invest in upgrading existing assets to provide better passenger experience and improved reliability, at good value for money for operators.

Developments in the year

During the year, Eversholt completed acceptance of the new Siemens 380 fleet for deployment to First Scotrail, a £187 million investment in new trains for routes to Ayrshire, Inverclyde and Renfrewshire.

The first refranchising since the completion of the investment took place during the year, when Abellio was awarded a contract to run the Greater Anglia franchise for three years, following which a 15-year franchise is expected to be awarded. Eversholt successfully negotiated the re-leasing of all of its vehicles for this franchise, in line with the investment case plan.

Eversholt performed strongly in the year, helped by the expansion of the fleet, with its EBITDA increasing by 11.4% compared to the prior year. This strong performance has resulted in dividends and interest of £33.1 million in the year (representing a yield of over 20% on opening portfolio value), and allowed Eversholt to repay £14.7 million of its shareholder loan as described in more detail on page 19. These proceeds account for the difference between opening and closing cost in the chart on this page.

Review of investments continued

Oystercatcher

Description

Oystercatcher Luxco 2 S.àr.l. ("Oystercatcher") is the holding company through which 3i Infrastructure invested in 45% stakes in three subsidiaries of Oiltanking GmbH ("Oiltanking"), located in the Netherlands, Malta and Singapore. These businesses provide over 3.6 million cubic metres of oil, petroleum and other oil-related storage facilities and associated services to a broad range of clients, including private and state oil companies, refiners, petrochemical companies and traders.

Oiltanking is one of the world's leading independent storage partners for oils, chemicals and gases, operating 72 terminals in 22 countries with a total storage capacity of 19.6 million cubic metres.

Performance in the year

Cost
£84.5m

Opening value
£119.6m

Closing value
£118.2m

Equity interest	45.0%
Income in the year	£9.5m
Asset total return in the year(1)	£8.1m
Valuation basis	DCF

(1) Includes foreign exchange losses of £7.2 million.

Investment rationale

The investment was completed in August 2007. The key elements of the investment case were:

- **strong projected demand for oil and oil-related products**;
- **storage capacity is scarce**, and a key component of the oil and oil product supply chain, resulting in low customer turnover;
- the three terminals are **defensively located in key trading hubs** in Amsterdam, Malta and Singapore, and have a **strong market position**;
- contracts are let on a use-or-pay basis with fixed terms of up to 10 years, often with tariffs linked to local inflation rates, resulting in **reliable cash flows**; and
- the transaction allowed 3i Infrastructure to partner with a **dominant player in the oil storage market**, with a **strong operational reputation**.

What has been achieved in the period of ownership

The 2007 investment case has largely been confirmed, with the investment performing well. All storage capacity has been fully let throughout the period of investment, and throughput levels have been high. All three terminals have been largely unaffected by the global economic slowdown, even though the "flattening" of the forward curve in recent years has squeezed oil trading margins and increased traders' focus on storage costs during contract renewal negotiations. However, global trade in petroleum products continues to increase, leading to further growth in demand for oil storage.

The Investment Adviser has been actively involved in the assessment of a range of capital expenditure project proposals that have delivered long-term value accretion.

In Singapore, a 160,000 cubic metre expansion project was approved in 2008 to accommodate increasing demand from adjacent refineries and petrochemical industries. This was completed in June 2009, with the capacity let on a use-or-pay basis under a long-term contract to an existing customer.

In Amsterdam, a 42,000 cubic metre expansion project was approved in 2009 to provide dedicated storage for biodiesel products for a new production facility adjacent to the site. The project completed in June 2011. This capacity was pre-let on a use-or-pay basis. Several smaller investments were approved to upgrade throughput and customer service.

In Malta, investment in a new 13,000 cubic metre tank was approved in 2011, let on a use-or-pay basis to an existing customer from February 2012.

Since investment, total capacity at the three terminals increased by 23%, while annual throughput increased by 22%.

Developments in the year

All three terminals performed in line with, or ahead of expectations during the year.

Market conditions for traders have not been as favourable as in the past, with trading margins squeezed by a shallower forward curve, as well as by lower volatility in oil prices. Despite this, all storage capacity has continued to be fully let throughout the year, with strong contract renewal rates, and throughput levels have been high.

The 42,000 cubic metre bio-diesel storage expansion project in Amsterdam and the new 13,000 cubic metre storage tank in Malta were completed on schedule and within budget.

The discount rate used to value the Company's holding in Oystercatcher was increased during the year, to reflect an increase in the refinancing risk and greater sensitivity to interest rate and exchange rate movements, as the acquisition facility and associated hedging instruments approach maturity in 2014. The increase in the discount rate is not a reflection of the operating performance of the underlying companies, which remains strong, with good long-term prospects.

Review of investments continued

PFI portfolio

Description

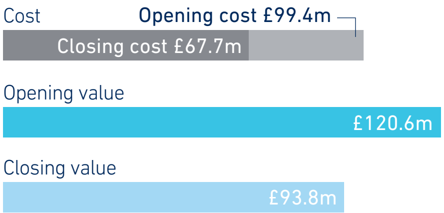
3i Infrastructure's PFI portfolio comprises holdings in three entities:

Elgin Infrastructure Limited ("Elgin"), a portfolio of PFI project investments, comprising five schools projects and 11 community healthcare schemes, all of which are fully operational, under concessions of up to 32 years. The portfolio companies receive inflation-linked payments to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Facilities services are subcontracted to Robertson Facilities Management (in 15 projects) and Carillion Facilities Management (in one project).

Octagon Healthcare Limited ("Octagon"), a concession company under a 35-year PFI contract to build, operate and maintain the Norfolk and Norwich University Hospital. Construction of the hospital was completed in August 2001. Octagon receives RPI-linked payments from the NHS Trust to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Octagon subcontracts the provision of facilities services to Serco.

Alpha Schools (Highland) Limited ("Alpha Schools"), a concession company under a 30-year PFI contract to build, operate and maintain 11 new schools on 10 sites in the Highland region of Scotland. All schools are operational. Alpha receives RPIX-linked payments from the Highland Council to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Alpha Schools subcontracts the provision of facilities services to Morrison Facilities Services.

Performance in the year



Equity interest	
Elgin	49.9%
Octagon	36.8%
Alpha Schools	50.0%
Proceeds received in the year	£32.3m
Income in the year	£8.5m
Asset total return in the year	£13.4m
Valuation basis	DCF

Investment rationale

Exposure to social infrastructure through PFI projects is helpful in providing the Company's portfolio with **lower risk, index-linked cash flows**. All assets in the Company's PFI portfolio are fully operational, and deliver a robust yield.

What has been achieved in the period of ownership

All assets in the PFI portfolio have performed well through their period of ownership, in line with or ahead of expectations, providing a good return to the Company since inception. This has been due to engaged portfolio management on the part of the Investment Adviser and other shareholders, as well as to more general factors, including higher than expected inflation.

The Investment Adviser generated significant value through the sale of Alma Mater and I^2, which were sold at significant uplifts over cost in 2008 and 2009 respectively. The exit from I^2, which was completed this year, generated an IRR of 23.8%.

Developments in the year

All assets in the PFI portfolio performed well operationally during the year, delivering good levels of income, and with valuations benefiting from relatively high levels of inflation and strong cost management.

All 16 projects in the **Elgin** portfolio are performing in line with the investment case. All service providers are performing well, with no significant operational issues arising at any of the projects during the year.

Octagon continues to perform well financially and operationally and has maintained its strong working relationship with the NHS Trust and with Serco. Serco continues to provide a good level of service to the Trust. In February, an unannounced inspection of the hospital by the Care Quality Commission concluded that the hospital meets all the essential quality and safety standards inspected. In December, the hospital and Serco won an award for cleaning from the Health Business Awards 2011, which recognise excellence in the provision of NHS and healthcare facilities.

All schools in the **Alpha Schools** portfolio are operating well and are providing high standard facilities to primary and secondary school pupils in the Highland Council region. Financial performance has been in line with expectations. Performance deductions were levied in the year, relating mostly to a number of construction snagging items which remained outstanding. These deductions were passed through to the contractors. Alpha Schools has worked closely with the Council, the facilities services provider and the building contractor to ensure that these snagging items are resolved promptly.

Review of investments continued

3i India Infrastructure Fund

Description

The 3i India Infrastructure Fund (the "Fund") is a US$1.2 billion fund closed in 2008 to invest in a diversified portfolio of equity (or equivalent) investments in India, focusing on the port, airport, road and power sectors. 3i Infrastructure committed US$250 million to the Fund. As at 31 March 2012, the Fund was 70% invested in a portfolio of six assets:

Krishnapatnam Port Company Limited ("Krishnapatnam Port") has a concession to develop, operate and maintain the port of Krishnapatnam in the state of Andhra Pradesh.

Adani Power Limited ("Adani Power") focuses on the development and operation of power plants and the sale of power generated. With operational capacity of 4,620MW and a further 4,620MW under construction, it is currently the largest independent private power producer in India in terms of operating capacity. Adani Power achieved a successful IPO in August 2009.

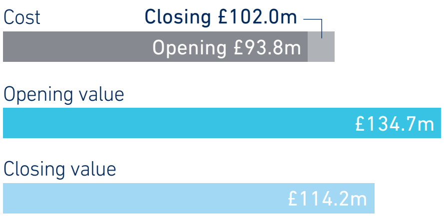
GVK Energy is developing a portfolio of power generation projects (4,047MW), diversified by fuel type, stage of development and geography. In addition, GVK Energy is developing two mining projects to supply coal to its own thermal power plants.

KMC Infratech ("KMC Roads") is developing a c.1,000 kilometres portfolio of 10 "build-operate-transfer" ("BOT") road projects, one of the largest such portfolios in India.

Soma Enterprise Limited ("Soma") is one of the fastest growing infrastructure developers in India. Its order book, valued at over US$2.6 billion, focuses mainly on BOT road projects, but comprises projects in the hydro power, irrigation, railways, power transmission and urban infrastructure sectors.

Ind-Barath Utkal is building a 700MW coal-fired power plant based in the state of Orissa.

Performance in the year



Partnership interest	20.9%
Investment in the year	£8.2m
Asset total return in the year(1)	£(28.7)m
Valuation basis	LP share of funds

(1) Includes a net foreign exchange loss of £16.0 million (sterling/US$ gain of £1.3 million and US$/rupee loss of £17.3 million).

Investment rationale

The investment case can be summarised as follows:

- the fundamentals for infrastructure investment in India are attractive, with the current **infrastructure deficit in the country** providing much opportunity for private investment;
- the Indian **government actively seeks and encourages private investment** in infrastructure development and is working to mitigate some of the issues which have affected the sector in recent months;
- the investment in the Fund offers 3i Infrastructure **exposure to a diversified pool of assets** and larger investments than the Company could access on its own account, at no additional cost to the Company; and
- the Fund is well positioned, with an **established presence in its market** and the investment team's broad network of contacts.

What has been achieved in the period of ownership

The Fund is nearing the end of its investment period, and has now built a diversified portfolio including assets in the power, ports and roads sectors, in line with its mandate.

The construction of all projects continues to progress. Several of the projects, including Adani Power and Krishnapatnam Port, have increased significantly in size since the Fund's investment. Despite this, the financial performance and valuation of the Fund's assets has been affected by a number of market and other external factors.

Overall, the Board is satisfied that the Fund's assets are progressing, and that appropriate management action is being taken to manage performance within the constraints of the macroeconomic and market challenges.

Developments in the year

The performance of the assets in the power sector has been negatively affected by a number of factors, including most notably: (i) a country-wide coal shortage, which has affected supply to power generators, as well as coal prices, and; (ii) the sustainability of merchant power prices, as well as the availability of long-term power purchase agreements ("PPAs") with State Electricity Boards ("SEBs"), attributable in large part to the strained financial position of SEBs.

In February 2011, the Indian government responded to the issues arising from coal shortages by directing Coal India (the main supplier of coal in the country) to sign fuel supply agreements with power plants that have a majority of their offtake tied up in long-term PPAs, with a minimum commitment of 80% of the annual fuel requirements of the plant. This would cover Adani Power and GVK Energy's coal-fired plants, given that a majority or entirety of their offtake is already tied up in long-term PPAs. Ind-Barath Utkal is currently working to tie up a larger proportion of capacity under long-term PPAs.

The Fund's port asset, Krishnapatnam Port, has continued to be affected by an iron ore export ban, which remains in place. However, non-iron ore cargo volumes handled by the port have continued to grow over the year as it changes its cargo mix.

The Fund's road assets are making steady progress. During the year, 517km of road projects began tolling in aggregate at Soma and KMC Roads, taking the total of tolling roads to over 1,000km. Both companies are making advances in the construction of other projects, and won contract awards for an aggregate of 455km of new roads.

During the year, macroeconomic and political risk factors increased, as the Indian government manages high inflation, high interest rates and a growing fiscal deficit. Combined with increasing political uncertainty, and some tightening of policy towards foreign investors, these factors are currently impacting the outlook for growth and the value of the rupee.

Returns and Risk

Financial review

Key performance indicators

Total return

Objective
To provide shareholders with a total return of 12% per annum, to be achieved over the long term.

Measurement
Total return over the period as a percentage of opening shareholders' equity[1].

Status
5.6% total return for the year to 31 March 2012.

Dividend

Objective
To target an annual distribution yield of 5% of the opening NAV[1].

Measurement
Dividend for the financial year, expressed as a percentage of opening shareholders' equity[1].

Status
Total dividend of 5.94p equates to a 5.1% distribution on opening shareholders' equity.

(1) Opening NAV and opening shareholders' equity are net of the final dividend paid in the prior year and adjusted to take into account further equity issued in the year.

Table 3 – Summary of total return on an investment basis (£m)

	Year to 31 March 2012	Year to 31 March 2011	Consolidated IFRS basis Year to 31 March 2012
Realised (losses)/profits over fair value on the disposal of investments	**(4.7)**	3.6	**(4.7)**
Unrealised profits on the revaluation of investments	**7.0**	36.5	**8.5**
Foreign exchange losses on investments	**(4.3)**	(7.2)	**–**
Capital (loss)/return	**(2.0)**	32.9	**3.8**
Portfolio income			
Dividends	**41.0**	39.4	**68.3**
Income from loans and receivables	**30.3**	18.1	**32.5**
Income from quoted debt investments	**1.8**	6.3	**1.8**
Fees payable on investment activities	**(1.3)**	(1.3)	**(1.3)**
Fees receivable on investment activities	**–**	6.8	**–**
Interest receivable	**1.5**	1.5	**1.5**
Investment return	**71.3**	103.7	**106.6**
Advisory, performance and management fees payable	**(15.3)**	(15.4)	**(16.2)**
Operating expenses	**(2.4)**	(2.4)	**(2.4)**
Finance costs	**(2.9)**	(2.2)	**(13.5)**
Movements in the fair value of derivative financial instruments	**5.3**	2.1	**0.7**
Other net income	**0.3**	–	**0.4**
Profit before tax	**56.3**	85.8	**75.6**
Income taxes	**(0.3)**	(0.3)	**(0.3)**
Profit after tax and profit for the year	**56.0**	85.5	**75.3**
Exchange difference on translation of foreign operations	**–**	–	**(4.4)**
Profit attributable to non-controlling interests for the year	**–**	–	**(15.9)**
Total comprehensive income ("Total Return")	**56.0**	85.5	**55.0**

Financial review continued

Returns

The commentary in this section analyses the key drivers of the Company's returns according to the investment basis of preparation, as shown in Table 3. The basis of preparation for the investment basis is described on page 42, along with an analysis of the key differences in accounting treatment to information prepared in accordance with IFRS.

3i Infrastructure generated a total return for the year to 31 March 2012 of £56.0 million, representing a 5.6% return on average shareholders' equity (2011: £85.5 million, 9.2%). The return was driven principally by strong income generation (including interest receivable) of £74.6 million and by the strong performance of the core assets in the portfolio, but was impacted negatively by mark-to-market losses on Adani Power, held within the 3i India Infrastructure Fund, and by foreign exchange losses.

Capital returns

Unrealised capital returns represent the change in valuation of the portfolio during the reported period, measured against the valuation of an asset at the beginning of the year, or its purchase cost (if acquired during the year). Movements in valuation are influenced by changes in the underlying performance of individual assets and the resulting estimates of future cash flows, the discount rates applied to those cash flows and the level of income distributed from assets. They also incorporate the impact to valuation resulting from exchange rate movements.

Where assets are sold in the period, the realised capital return represents proceeds received, measured against the carrying value of the asset at the beginning of the year, to derive the profit or loss on disposal.

Realised capital returns

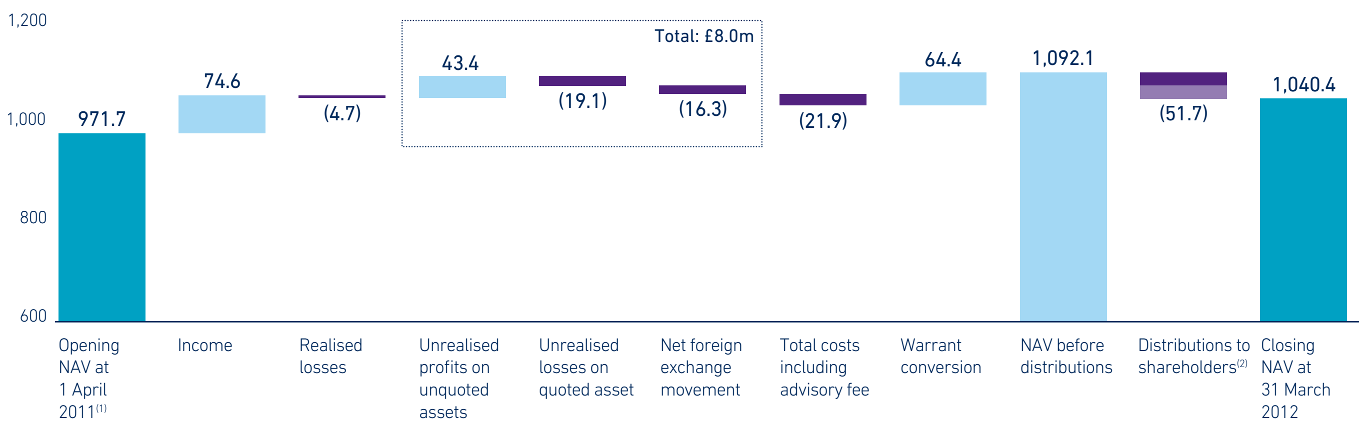
There was a realised capital loss of £4.7 million (2011: £3.6 million capital gain), arising from the divestment of the Company's remaining holdings in the junior debt portfolio. A capital gain of £2.1 million was generated in the first half of the year from the sale of the NGW Arqiva and Thames Water junior debt holdings. In October 2011, as debt valuations came under pressure, the final asset in the junior debt portfolio, Télédiffusion de France, was sold for proceeds of £30.0 million. This was lower than the £36.8 million carrying value at 31 March 2011 and therefore generated a reported £6.8 million capital loss in this financial year.

As reported in the Half-yearly report and in the case study on page 13, the junior debt portfolio was a successful strategic investment for the Company and as a whole generated an IRR of 11.6% across the four-year holding period.

Unrealised capital returns, including foreign exchange movements

As shown in Chart 9, the combined unrealised value movement across the portfolio, including foreign exchange impact, totalled £8.0 million. The value of the unquoted element of the portfolio increased by £43.4 million during the year (2011: £27.2 million), but the overall return was impacted by the decline in the mark-to-market valuation of the quoted asset, Adani Power. Shares in Adani Power were highly volatile throughout the year and, at 31 March 2012, closed at 68.3 rupees per share (2011: 112.8 rupees per share), generating a loss of £19.1 million for the year.

Chart 9 – Reconciliation of the movements in NAV on an investment basis (£m)



[1] Net of prior year final dividend.
[2] Includes rounding.

The PFI and core portfolio investments generated the highest capital returns, increasing in value by £37.0 million, reflecting their continued track record of good performance and a high level of income distribution.

Excluding Adani Power's unrealised loss, the remaining five assets in the 3i India Infrastructure Fund increased in value by £6.4 million, supported by their steady operational progress in a challenging macroeconomic environment.

The valuation movements are described in more detail in the Movements in portfolio value section on pages 18 to 20.

Movements in foreign exchange generated overall net losses of £16.3 million on non-sterling assets (2011: £4.3 million loss), attributable almost entirely to the losses incurred on the rupee exposure through the 3i India Infrastructure Fund. The foreign exchange losses incurred on the euro exposure were almost entirely offset by the euro hedging programme. This is set out in more detail in Table 2 on page 20.

Investment return

Portfolio income

Chart 10 below shows how, over the past two years, the increase in core assets has continued to strengthen income generation from the portfolio.

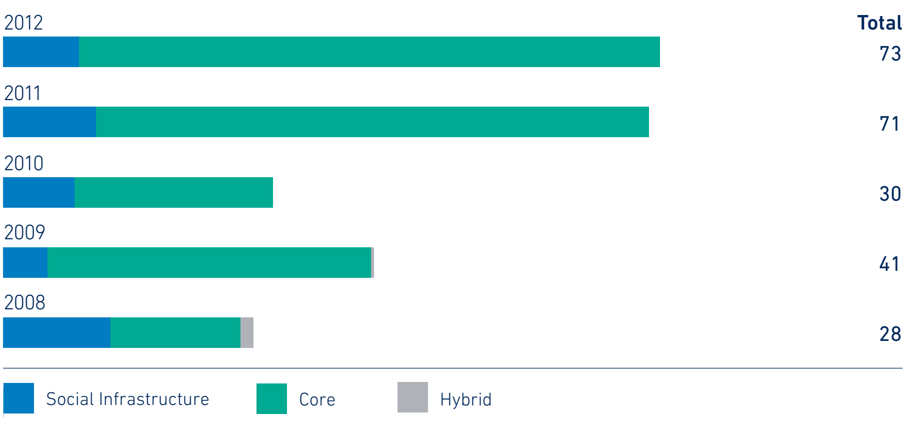
In the year to 31 March 2012, the portfolio generated income of £73.1 million (2011: £70.6 million), of which £41.0 million through dividends (2011: £39.4 million) and £32.1 million through interest on shareholder loans and quoted debt investments (2011: £24.4 million). This represents a 4% increase from last year, however this figure does not benefit yet from the addition of LNI to the portfolio, for which no income was accrued. LNI will contribute to income generation from the next financial year, following the completion of a corporate reorganisation and merger process.

AWG paid a dividend of £15.5 million and interest of £4.7 million in the year (2011: £22.3 million, £4.7 million). The 2011 dividend benefited from an increase following two years of restraint due to low RPI and uncertainty preceding the outcome of the review for the 2010–2015 regulatory period. AWG is performing in line with its regulatory settlement.

Eversholt is performing well operationally and financially, and is generating good cash flows. This has allowed it to pay dividends of £13.0 million and interest of £20.1 million in the year, as well as to repay £14.7 million of its shareholder loan, as described in more detail on page 19. Due to the structure of the investment in Eversholt, the income from this asset is received principally as interest on shareholder loans, which is accrued evenly throughout the year.

Oystercatcher paid a dividend of £9.5 million for the year (2011: £13.7 million). While the operating performance of the three Oiltanking terminals is good and dividends received by Oystercatcher from the underlying operating companies during the year increased, a proportion of those dividends was retained by Oystercatcher in view of the anticipated additional costs of refinancing its debt, expected to take place before maturity in 2014.

Chart 10 – Portfolio income levels by category (£m)



Financial review continued

The income receivable from the assets in the PFI portfolio reduced marginally compared to last year, following the repayment of the residual I² vendor loan notes. Together, they generated dividends of £3.0 million and interest of £5.5 million (2011: £3.4 million, £6.9 million).

Fees payable for transaction costs in relation to deals which did not reach, or have yet to reach final completion, totalled £1.3 million (2011: £1.3 million).

Interest receivable

Interest income from cash and cash equivalents totalled £1.5 million (2011: £1.5 million). The amount was flat year-on-year, as the average cash balances held throughout the year were broadly equivalent. The LNI investment achieved financial completion in January 2012, reducing the interest earned in the latter part of the financial year.

Advisory fees, performance fees and other operating and finance costs

During the year, the Company incurred advisory fees totalling £15.3 million (2011: advisory and performance fees of £15.4 million). No performance fees were accrued for the year, as the total return did not exceed the required 8% hurdle.

The advisory fee, payable to 3i plc, is calculated as 1.5% of the Gross Investment Value, which is based on the opening portfolio value and the cost of any new investments made during the year. The advisory fee rate reduces to 1.25% for any proportion of an asset held for more than five years. This has had a small impact on the level of fee charged this year, as the original portfolio of seed assets was acquired in March 2007. The impact of this rate reduction will be greater in the next financial year. For a more detailed explanation of how fees are calculated, please refer to Note 19 on page 77.

Operating expenses comprise Directors' fees, service provider costs and other professional fees and totalled £2.4 million for the year (2011: £2.4 million).

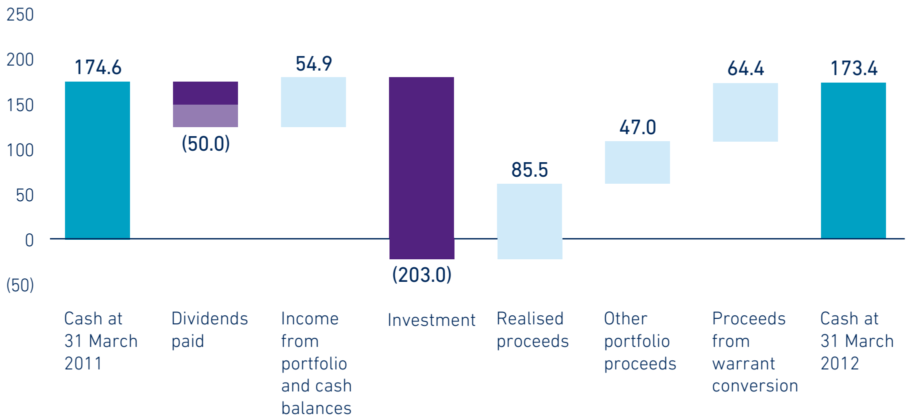
Finance costs of £2.9 million (2011: £2.2 million) comprise the arrangement and commitment fees for the Company's £200 million revolving credit facility, with the year-on-year increase attributable to the agreement of the new facility in November 2010.

Movements in the fair value of derivatives of £5.3 million (2011: £2.1 million) represent the fair value movements of the euro hedging programme, and included a £1.7 million gain on the settlement of derivatives at their maturity.

Dividend cover

As outlined previously, 3i Infrastructure generated income from the portfolio and interest from cash balances of £74.6 million during the year to 31 March 2012. This more than covers the total dividend payable for the year of £51.7 million, as well as all net costs and fees incurred by the Company in the year, of £21.9 million.

Chart 11 – Cash flows in the year to 31 March 2012 (£m)



Balance sheet and cash flows

At 31 March 2012, the Company's net assets totalled £1,066.6 million, or £1,040.4 million after the deduction of the proposed final dividend (2011: £971.7 million). This comprises the asset portfolio, valued at £890.8 million (2011: £821.7 million), cash and cash equivalents of £173.4 million (2011: £174.6 million) and other net assets of £2.4 million (2011: net liabilities of £0.2 million), primarily relating to accrued income from portfolio investments and prepayments, offset by accrued operating and financing costs, as well as the fair value of derivative hedging contracts.

A summary balance sheet is included in Table 4 and Chart 11 shows the movement between the opening and closing cash balances for the year.

Cash on deposit was managed actively by the Investment Adviser, including regular reviews of counterparties and their limits, and is principally held in AAA rated money market funds, as well as in short-term bank deposits.

There were no external borrowings on a recourse basis to the Company.

Revolving credit facility

At 31 March 2012, and at the time of reporting, the £200 million revolving credit facility held by the Company had not been drawn.

Net asset value per share

The total NAV per share at 31 March 2012 was 121.0p (2011: diluted NAV of 120.3p). This reduces to 118.0p after the payment of the proposed 2.97p final dividend.

The NAV as at 31 March 2011 was reported as a diluted NAV to take into account the warrants that were outstanding at that date. During the year, 64.4 million warrants were converted, increasing the number of shares from 816.9 million to 881.3 million. The warrants expired on 13 March 2012. Substantially all of the 70.6 million warrants issued at IPO were converted, with only 281,491 left unsubscribed at expiry.

There are no further dilutive securities in issue.

Table 4 – Summary balance sheet on an investment basis (£m)

	As at 31 March 2012	As at 31 March 2011	Consolidated IFRS basis as at 31 March 2012
Assets			
Non-current assets			
Investment portfolio	**890.8**	821.7	**1,182.2**
Derivative financial instruments	**1.8**	–	**1.8**
Total non-current assets	**892.6**	821.7	**1,184.0**
Current assets			
Other current assets, including derivative financial instruments	**5.3**	11.7	**8.0**
Cash and cash equivalents	**173.4**	174.6	**183.6**
Total current assets	**178.7**	186.3	**191.6**
Total assets	**1,071.3**	1,008.0	**1,375.6**
Non-current liabilities			
Borrowings	**–**	–	**(158.3)**
Derivative financial instruments	**(0.6)**	(2.2)	**(15.8)**
Total non-current liabilities	**(0.6)**	(2.2)	**(174.1)**
Current liabilities			
Trade and other payables	**(3.4)**	(6.2)	**(2.4)**
Derivative financial instruments	**(0.7)**	(3.5)	**(1.8)**
Total current liabilities	**(4.1)**	(9.7)	**(4.2)**
Total liabilities	**(4.7)**	(11.9)	**(178.3)**
Net assets	**1,066.6**	996.1	**1,197.3**
Equity			
Stated capital account	**181.6**	117.2	**181.6**
Retained reserves	**885.0**	878.9	**855.0**
Translation reserve	**–**	–	**33.5**
Total shareholders' equity	**1,066.6**	996.1	**1,070.1**
Non-controlling interests	**–**	–	**127.2**
Total equity	**1,066.6**	996.1	**1,197.3**

Risk

The Board is ultimately responsible for the risk management of the Company and has a risk management framework (outlined in the table below) which provides a structured and consistent process for identifying, assessing and responding to risks in relation to its strategy and business objectives. Due to the structure of the Company, it is reliant on the risk management framework of the Investment Adviser and other key service providers, as well as on the risk management operations of each portfolio company. The Company manages these risks through updates from the Investment Adviser and other service providers and, where possible, through representation on portfolio companies' boards.

Risk type	Risk description	Risk mitigation
External	**Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Company's operations**	
Macroeconomic risk	■ The performance of underlying investments is influenced by macroeconomic conditions/variables in Europe and India, where the Company currently has exposure ■ M&A and IPO activity and the availability of debt finance affect the ability to make investments and the performance of underlying investments	■ Diversification of the portfolio across a range of infrastructure sectors with different economic cycles and across different geographies ■ Modelling of sensitivity of each investment to macroeconomic variables ■ Regular reviews of hedging, which is undertaken where appropriate
Geopolitical risk	■ The Company's investment strategy involves investing in some less mature or emerging markets ■ Legal and regulatory frameworks and capital markets in these countries may be less developed than in Europe	■ Periodic legal and regulatory updates on the Company's markets and in depth market and sector research ■ Extensive research and due diligence on any proposed investment into new geographical markets
Government policy and regulation risk	■ The Company is regulated under the provisions of the Collective Investment Funds (Jersey) Law 1988 ■ The Investment Adviser is regulated by the Financial Services Authority and is an authorised person under the Financial Services and Markets Act 2000 ■ Breach of these regulations could affect the Company's operations and financial position	■ Changes to applicable legal and regulatory frameworks are closely monitored ■ Rigorous processes to minimise risk of breach are in place ■ Regular monitoring of compliance with the relevant regulations is undertaken by the Company and the Investment Adviser
Investment	**Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across the portfolio**	
Investment decisions risk	■ The ability to source and execute good quality investments in changing markets is dependent primarily on the Investment Adviser's expertise and relationships	■ Each investment is subject to a complete review process by the Investment Adviser, including an Investment Committee chaired by an authorised member of 3i Group's Leadership Team ■ A thorough review is then undertaken by the Board prior to the final investment decision
Investment performance risk	■ The performance of the portfolio is dependent on: i) The quality of the initial investment ii) The ability to execute on business strategy iii) Favourable outcomes relative to assumptions in the investment model	■ Portfolio asset reviews, which include the assessment of environmental, social and governance risks, are undertaken regularly and reviewed bi-annually by the Board ■ Representation by the Investment Adviser on the board of underlying investments where equity stakes are held
Investment concentration risk	■ Overexposure to a particular sector or geography could expose the Company to any adverse developments in that sector or geography ■ Any increase in the average size of investments over time could increase exposure to a small number of large investments	■ Portfolio concentration measures are periodically reviewed by the Board ■ The Investment Adviser undertakes a concentration review for each new investment

Risk type	Risk description	Risk mitigation
Strategic	Risks arising from the analysis, design and implementation of the Company's business model and key decisions on investment growth rates and financing	
Business strategy risk	■ Deviations from assumptions factored in the Company's strategy and business model could affect its performance and financial position	■ KPIs and forecasts are monitored on an ongoing basis and the Board undertakes regular strategic reviews, including the review of KPIs ■ Plans and underlying assumptions for the Company and portfolio assets are updated continuously
Competition risk	■ Increasing levels of competition as the asset class becomes more widely recognised	■ Building on the strong track record of the Investment Adviser and the 3i Infrastructure brand
Financial risks	Risks in relation to changes in market prices and rates; access to capital markets and the appropriate capital structure	
Credit risk	■ The Company's financial assets are principally unsecured investments in unquoted companies ■ Increases in portfolio concentration could impact credit risk ■ Variations in interest rates, or variations in the availability of credit for refinancing, could increase credit risk ■ Debt availability is fundamental to completing new deals and financing capital expenditure in several portfolio assets	■ Regular asset reviews provide early indications of increased credit risk ■ The Company's financial assets are held in AAA-rated money market funds or short-term deposits with banks with a minimum A rating ■ Reviews of counterparties are undertaken regularly and counterparty limits are monitored and revised on a regular basis
Financing and interest rate risk	■ Changes in interest rates affect: i) The costs of servicing the Company's debt ii) The ability to generate attractive returns from investments iii) The ability to invest in competition with buyers with a lower cost of debt iv) The debt financing capability of portfolio companies v) The rate of return on the Company's liquid assets	■ The level of debt, refinancing risk and hedging requirement in the portfolio companies are monitored regularly ■ The financing strategy limits the Company's borrowings to 50% of gross assets. Currently the Company has no recourse borrowings ■ The use of a combination of fixed and floating rate debt in portfolio companies reduces interest rate risk ■ Hedging is undertaken where appropriate to manage the risk exposure
Currency risk	■ A portion of underlying investments is denominated in euro, US dollar and (indirectly) Indian rupee and Singapore dollar ■ Fluctuations in foreign exchange may adversely impact returns	■ The euro and Singapore dollar exposure is broadly hedged to stabilise returns ■ The hedging strategy is monitored regularly by the Board. Hedging involves the use of foreign exchange swaps or forward contracts
Liquidity risk	■ The Company's investments require a long-term commitment of capital and are relatively illiquid ■ The investment rate could exceed current liquidity levels, requiring short-term funding measures to be put in place ■ The ability to meet financial liabilities as they fall due	■ The Board regularly analyses cash resources against the investment pipeline and the repayment of existing financial liabilities or other payables ■ The committed £200 million revolving credit facility ensures the availability of resources in the event of a liquidity shortfall
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these	
	■ Operational risks can arise from inadequate processes, people, systems, or external providers ■ External factors, including changes in the senior investment team at the Investment Adviser, also pose a risk to operations	■ A framework of core values, standards and controls is operated by the Company ■ The Board monitors the performance of the Investment Adviser through the Management Engagement Committee ■ The Board monitors the operations of key service providers, and receives reports of any significant internal control breaches ■ The Company receives regular updates on legal, tax and regulatory matters from its advisers

Basis of preparation

Throughout the Investment Adviser's review, the Returns and Review of investments sections, the Investment Adviser has presented the Company's net asset value and financial results to show the return on a pro forma investment basis. This information is in addition to the consolidated financial statements as shown on pages 58 to 61, as required under International Financial Reporting Standards ("IFRS"). The pro forma investment basis presentation provides an alternative representation of the Company's net asset value, shows the Company's cash utilisation for investment and differentiates between non-recourse borrowings held within asset specific acquisition companies and borrowings which may be made at the Company level. The investment basis accounts for majority investments and subsidiaries formed specifically for investment purposes in the same way as minority investments, by determining a fair value for the investment, and therefore does not consolidate these entities line-by-line as is required under IFRS.

Several adjustments to the consolidated financial statements required under IFRS were made, in order to show returns on an investment basis. The main adjustments are set out below.

3i Infrastructure holds 68.5% of 3i Osprey LP and 87.3% of 3i Networks Finland LP, the vehicles through which it holds its investments in AWG and LNI respectively. The remaining portions of these entities are held by 3i Group and other third parties. 3i Infrastructure is required under IFRS to consolidate the results and balance sheet of these limited partnerships into its financial statements on a line-by-line basis. In the investment basis presentation, 3i Infrastructure has recognised only its share of the income and balance sheet of 3i Osprey LP and 3i Networks Finland LP. This adjustment has the effect of eliminating the minority interest entitlement shown on the statement of comprehensive income and the balance sheet on an IFRS basis.

One subsidiary of the Company, 3i Primary Infrastructure 2005–06 LP, which holds the investment in Alpha Schools, has investing partners which are entitled to a 8.75% share of profits, once certain cash hurdle criteria are met. Amounts due to this limited partnership are treated as a minority interest on a consolidated basis but are accrued as an expense in the investment basis.

3i Infrastructure holds two wholly-owned subsidiaries, Oystercatcher Luxco 1 S.àr.l. and Oystercatcher Luxco 2 S.àr.l., ("Oystercatcher Luxco 1" and "Oystercatcher") to fund the minority investment into three subsidiaries of Oiltanking GmbH. External borrowings were made by Oystercatcher to partly fund the investments. These borrowings are non-recourse to 3i Infrastructure. Under IFRS, the results and balance sheet of the Oystercatcher Luxco 1 and Oystercatcher subsidiaries are required to be consolidated into 3i Infrastructure's financial statements on a line-by-line basis. In the investment basis presentation Oystercatcher is not consolidated but is accounted for as a portfolio asset held for investment purposes and is fair valued accordingly.

The Company invests in 3i India Infrastructure Holdings Limited through 3i India Infrastructure Fund A LP, a limited partnership in which the Company is the sole investor. This limited partnership has not been consolidated under the investment basis and is treated as an investment, and is fair valued accordingly.

Review report

Review report to the Company's members as a body of 3i Infrastructure plc

Introduction

We have been engaged by the Directors to review the accompanying Summary of total return (see Table 3) for the year ended 31 March 2012 and the Summary balance sheet (see Table 4) as at 31 March 2012 of 3i Infrastructure plc ('the Company'), which are prepared on the basis of preparation set out above.

This report is made solely to the Company's members, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Summary of total return and the Summary balance sheet are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing these statements in accordance with the basis of preparation set out above.

Our responsibility

Our responsibility is to provide a conclusion on the Summary of total return and the Summary balance sheet based on our review.

Scope of our review

We conducted our work in accordance with the guidance contained in International Standard on Assurance Engagements ('ISAE') 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' issued by the International Federation of Accountants. Our review work has been undertaken so that we might state to the Directors those matters we are required to state to them in a review report and for no other purpose.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland). Accordingly, we do not express an audit opinion.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Summary of total return and the Summary balance sheet set out above are not prepared, in all material respects, in accordance with the basis of preparation set out above.

Ernst & Young LLP
Jersey, Channel Islands
8 May 2012

Governance

Corporate responsibility report

The Board's aim is to invest responsibly. The Board is responsible for the definition and implementation of the Company's corporate responsibility policy, however in practice it relies heavily on the relevant policies and procedures put in place by 3i Group that apply to the Investment Adviser to the Company. For more information on 3i Group's corporate responsibility policies, please refer to its website: http://www.3igroup.com/corporate-responsibility.html

The Board considers that these policies meet the Company's objectives in this area.

Responsible Investment policies

The Investment Adviser's philosophy on Responsible Investment ("RI") can be summarised as follows:

- the effective assessment and management of environmental, social, business integrity and corporate governance matters has a positive effect on the value of portfolio companies, and hence on 3i Infrastructure itself;
- compliance with local laws and regulations may not be enough to meet global expectations, deliver value and enhance reputation and licence to operate; and
- it is vital that the Investment Adviser seeks to identify all material environmental, social and governance ("ESG") risks and opportunities through its due diligence and effectively manage them during the period of investment.

During the year, the Investment Adviser initiated a project to review and improve its approach to RI. The result was a refreshed policy supported by "on the ground" tools, resources and procedures to embed it into the investment process.

The Investment Adviser's policy makes clear that it aims to use its influence to promote a commitment in portfolio companies to:

- comply, as a minimum, with applicable local and international laws;
- mitigate adverse environmental and social impacts and enhance positive effects on the environment, workers and relevant stakeholders; and
- uphold high standards of business integrity and good corporate governance.

The main features of the policy include:

- clear statements of the commitment to mitigate adverse environmental and social impacts and uphold high standards of business integrity and good corporate governance;
- an exclusion list of businesses and activities in which investment is precluded;
- a referral list of businesses and activities which may be particularly sensitive and may require additional scrutiny; and
- a set of minimum ESG standards that will be implemented during the term of investment.

Bribery Act

The Company has its own policy in relation to the UK Bribery Act, which was approved by the Board in June 2011. The Company is now fully compliant with the provisions of this Act.

Environment

As an investment company with no employees, governed by a non-executive Board of Directors, 3i Infrastructure has no material direct impact on the environment.

Procurement

3i Infrastructure has developed policies and procedures in relation to services with third-party providers. As far as possible, the Company will work only with suppliers who support its aim to source products responsibly. 3i Infrastructure aims to have a collaborative relationship with its service providers and, wherever possible, will work with them when problems or issues arise to help them meet its requirements.

Summary of Responsible Investment policy

The Board's aim is to invest responsibly and it relies on the reputation and policies of its Investment Adviser to achieve this goal. The key features of the Investment Adviser's policies are set out below.

1. The Investment Adviser will only invest in businesses committed to:

- a cautious and responsible approach to environmental management of their business operations;
- respecting the human rights of their workers;
- maintaining safe and healthy working conditions;
- treating their employees fairly;
- upholding the right to freedom of association and collective bargaining;
- respecting the health, safety and wellbeing of those adversely affected by their business activities;
- upholding high standards of business integrity, avoiding corruption in all its forms and complying with applicable anti-bribery, anti-fraud and anti-money laundering laws and regulations; and
- establishing clearly defined responsibilities, procedures and controls with appropriate checks and balances in company management structures.

2. The Investment Adviser will implement this policy by:

- screening all new investment opportunities against its Exclusion and Referral lists (refer to website for further information);
- carrying out an initial assessment of all new investment opportunities to identify potential ESG risks and opportunities;
- where potential ESG risks are identified, evaluating management's commitment, capacity and track record in addressing ESG issues;
- where due diligence identifies material ESG risks, requiring the potential investee company to commit to implementing appropriate measures to mitigate those risks;
- encouraging and supporting portfolio companies to pursue continuous improvement in relation to managing ESG matters throughout the ownership period as best practice continues to evolve;
- monitoring and recording the portfolio company's performance against agreed action plans, targets and timetables as part of bi-annual portfolio review processes; and
- monitoring and recording serious incidents involving portfolio companies which result in loss of life, serious injury, material effect on the environment or material breach of law and by promoting corrective actions.

3. The Investment Adviser's responsible investment approach requires it to:

- promote consistent practice and adherence to this policy;
- provide sufficient information, instruction, training and resources to ensure that its employees can identify and effectively manage ESG matters;
- pursue continuous improvement with respect to ESG matters, through management systems which effectively identify and address related risks and opportunities; and
- monitor and audit the implementation of this policy.

Board of Directors

Peter Sedgwick
Non-executive Chairman
Between 2000 and 2006, Peter was a member of the management committee and a Vice President of the European Investment Bank ("EIB"), one of the largest multinational lending institutions in the world. He was also a director of the European Investment Fund from 2002 to 2006. Before joining the EIB, he was a career HM Treasury civil servant in the UK. He also sits on the boards of two of 3i Infrastructure plc's Luxembourg subsidiaries, 3i Infrastructure (Luxembourg) Holdings S.àr.l. and 3i Infrastructure (Luxembourg) S.àr.l. He was a trustee and director of Dyslexia Institute Limited (trading as Dyslexia Action) between 2007 and 2011. Resident in the UK.

Philip Austin Non-executive Director,
Senior Independent Director
Philip spent most of his career in banking with HSBC in the UK and Jersey and, from 1997 to 2001, was Deputy Chief Executive of the bank's business in the Offshore Islands. In 2001, he became the founding CEO of Jersey Finance Ltd, the body set up as a joint venture between the Government of Jersey and its Finance Industry, to represent and promote the Industry in Jersey and internationally. Between 2006 and 2009, he was at Equity Trust where he had direct responsibility for Jersey, Guernsey and Switzerland as well as being a Member of the Group Executive Committee. He has since taken a number of directorships in companies in the financial services sector. He is a Fellow of the Chartered Institute of Bankers and a Fellow of the Institute of Management. Resident in Jersey.

Sir John Collins
Non-executive Director
Sir John Collins was previously Chairman of DSG International plc, National Power Limited, and Shell UK plc. He was a non executive director of Rothschild Continuation Holdings AG, and The Peninsular and Oriental Steam Navigation Company plc. He has also served as Chairman of the Advisory Committee on Business and the Environment, Chairman of the DTI's Energy Advisory Panel, Chairman of the DTI/DEFRA's Sustainable Energy Policy Advisory Board, President of the Energy Institute and as a Governor of Wellington College. Resident in Guernsey.

Florence Pierre
Non-executive Director
Florence is an independent consultant with her own consultancy firm, Financière Action. She previously held several executive positions, including Founder Director and Chief Operating Officer of the Corporate Finance subsidiary of La Compagnie Financière Edmond de Rothschild in Paris and Founder and Chief Executive of Financière Concorde, an independent M&A advisory boutique firm. She was subsequently named Chief Executive of the French branch of Degroof Corporate Finance, a subsidiary of Bank Degroof, and a Director of Degroof Corporate Finance in Belgium. She has taught economics and finance at Institut d'Etudes Politiques in Paris and has published several books and articles on corporate valuation. French national, resident in France.

Charlotte Valeur
Non-executive Director
Charlotte is Managing Director of Brook Street Partners, an alternative investment consultancy which she founded in 2003. Through Global Governance Group, founded in 2009, Brook Street Partners also advises on governance best practice and conducts board evaluations for the boards of investment funds. She was previously a director in Capital Markets, Fixed Income at SG Warburg, BNP Paribas, Société Générale and Commerzbank. Charlotte also serves as Chairman of listed hedge fund Brevan Howard Credit Catalyst and as a non-executive director on the board of AIM listed Renewable Energy Generation. Danish national, resident in Jersey.

Paul Waller
Non-executive Director
Paul is a Managing Partner at 3i Group, with specific responsibility for fundraising and managing 3i Group's global relationships with the fund investor community. He is a member of the 3i Group Leadership Team, director of 3i Investments and is a member of the 3i Group investment committee. He was previously a director and chairman of the European Private Equity & Venture Capital Association and chairman of the Investor Relations Committee. Paul is a 3i Group nominee. Resident in the UK.

Steven Wilderspin Non-executive Director,
Chairman of Audit Committee
Steven has been the Principal of Wilderspin Independent Governance, which provides independent directorship services, since April 2007. He was previously a director of fund administrator Maples Finance Jersey Limited. He has served on a number of private equity, property and hedge fund boards as well as the boards of special purpose companies engaged in structured finance transactions. Before that, from 1997, he acted as Head of Accounting at Perpetual Fund Management (Jersey) Limited. Qualified Chartered Accountant. Resident in Jersey.

Directors' report

The Directors' report contains statutory and corporate governance information for the year to 31 March 2012 ("the year").

Principal activity

3i Infrastructure is a closed-ended investment company that invests in infrastructure businesses and assets. The Directors do not anticipate any change in the principal activity of the Company in the foreseeable future. The Company's investment policy is set out on page 79 and the Company's principal subsidiaries are shown on page 78.

Regulation

3i Infrastructure is incorporated in Jersey and is regulated as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988. It has a Premium Listing on the London Stock Exchange.

Results and dividends

The financial statements of the Company and its subsidiaries (together referred to as the "Group") for the year appear on pages 58 to 61. Total comprehensive income for the year attributable to equity holders of the parent was £55.0 million (2011: £86.8 million). An interim dividend of 2.97p (2011: 2.86p) per share in respect of the year to 31 March 2012 was paid on 11 January 2012. The Directors recommend a final dividend of 2.97p (2011: 2.86p) per share be paid in respect of the year to 31 March 2012 to shareholders on the register at the close of business on 22 June 2012.

The distribution of the dividend payments between interim and final dividends is evaluated by the Board each year, according to the Company's performance and portfolio income generation.

Operations

The Company has a non-executive Board of Directors and no employees. The Board acts as the Company's investment committee and is responsible for the determination and supervision of the investment policy and for the approval of investment opportunities sourced by the Investment Adviser. The Board also supervises the monitoring of existing investments and approves divestments and further financing of portfolio assets.

Advisory arrangements

3i Investments plc ("3i Investments"), a wholly-owned subsidiary of 3i Group plc ("3i Group"), acts as Investment Adviser to 3i Infrastructure through its infrastructure investment team. The investment advisory team provides advice to the Company on the origination and completion of new investments, on the realisation of investments, on funding requirements, as well as on the management of the investment portfolio. It provides its services under an Investment Advisory Agreement which includes an investment exclusivity arrangement. Under this agreement, the appointment of the Investment Adviser may, inter alia, be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing to expire no earlier than 13 March 2015 (provided that either party may terminate the agreement on 12 months' notice at any time, in the event that the Investment Adviser ceases to be a member of 3i Group), or with immediate effect by either party in the event of the insolvency or material or persistent breach of the agreement's terms by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

The investment exclusivity granted to the Company under the Investment Advisory Agreement initially lasted for an investment period ending on the earlier of March 2012 or the full investment of the IPO proceeds (the "Relevant Investment Amount"). As part of the Company's Placing and Open Offer of new shares in July 2008, the terms of the agreement were amended so that the Relevant Investment Amount covered the IPO proceeds and the equity proceeds raised through the Placing and Open Offer, and also included the original cost of any disposal proceeds from the investment portfolio realised up to 12 months from the admission of new shares issued pursuant to the Placing and Open Offer. The most recent amendment, dated December 2010, increased the Relevant Investment Amount by £200 million and extended the investment period to the earlier of (i) the full investment of the increased Relevant Investment Amount; and (ii) 13 March 2015, the date of expiry of the Investment Advisory Agreement.

3i Group was among the subscribers to 3i Infrastructure's IPO and to the subsequent Placing and Open Offer and owns 34% of the equity in the Company. Fee arrangements and the amount payable to 3i plc (a wholly-owned subsidiary of 3i Group) for the year are set out in Note 19 "Related parties" on page 77. For information on the performance evaluation of the Investment Adviser, please see page 51.

Other significant service arrangements

In addition to the arrangements described above, 3i plc and 3i Investments, in relation to certain regulatory services, have been appointed by the Company to provide support services to the Group, including treasury and accounting services, investor relations and other back office support services. The amounts payable under these arrangements are described in more detail in Note 19 on page 77. State Street Secretaries (Jersey) Limited (formerly Mourant & Co. Secretaries Limited) has been appointed as the Administrator and Company Secretary to the Company.

Business review

Observing the FSA's Disclosure and Transparency Rules requires the Company to set out in this report a fair review of the business of the Company during the financial year ended 31 March 2012, including a description of the principal risks and uncertainties facing the Company and an analysis of the position of the Company's business at the end of the financial year, known as a "Business review".

The information that fulfils the current Business review requirements can be found on the following pages of this document which are incorporated into this report by reference:

- a fair review of the Company's business, see pages 2 to 5;
- a description of the principal risks facing the Company, see page 40;
- the development and performance of the Company's business during the year, see page 36;
- the position of the Company's business at the end of the year, see page 39;
- financial key performance indicators, see page 35;
- other key indicators, see page 4;
- main trends and factors likely to affect the future development, performance and position of the Company, see page 15;
- environmental matters and policy, including the impact of the Company's business on the environment, see page 44;
- references to, and additional explanations of, amounts included in the Company's annual financial statements, see page 35.

Risk management objectives

A description of the risk management objectives and policies is included in Note 10 to the financial statements and in the Returns and Risk section on pages 40 to 41.

Share capital

Ordinary shares

The issued share capital of the Company as at 31 March 2012 was 881,349,570 ordinary shares (2011: 816,911,161). The increase in the number of ordinary shares outstanding is attributable to the exercise of 64,438,409 warrants in the year to 31 March 2012. The warrants have now expired, and therefore no further conversions will take place (see "Warrants" below).

Warrants

Under the IPO, for every 10 shares purchased, one warrant was issued. Each warrant entitled the holder to subscribe for one ordinary share at £1.00 at any time from 13 September 2007 to 13 March 2012. During the year, 64,438,409 (2011: 5,828,580) warrants were converted into shares. Of the 70,640,980 warrants issued at IPO, 281,491 were left unsubscribed at expiry.

No additional warrants were issued during the year and there are no further dilutive securities in issue.

Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital as at 31 March 2012 and 30 April 2012, which are disclosable in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, are as follows:

Interests in ordinary shares	%	**Number of ordinary shares[1] as at 31 March 2012 and 30 April 2012**
3i Group plc (and subsidiaries)	34.14	**300,922,661**

(1) Each ordinary share carries the right to one vote.

Directors' interests

Directors' interests in the shares of the Company as at 31 March 2012 are shown below:

Directors' interests and beneficial interests[1]	**Ordinary shares at 31 March 2012**	Ordinary shares at 1 April 2011
Peter Sedgwick	**89,653**	49,653
Philip Austin	**10,000**	10,000
Sir John Collins	**19,215**	19,215
Florence Pierre	**–**	–
Charlotte Valeur	**3,500**	–
Paul Waller	**244,639**	244,639
Steven Wilderspin	**10,000**	10,000

(1) No options have ever been granted since the inception of the Company.
Note: no Directors had any interests or beneficial interests in the Company's warrants throughout the year.

In the period from 1 April 2012 to 30 April 2012, there were no changes in the interests of each Director.

Directors' authority to buy back shares

The Company did not purchase any shares during the year. The current authority of the Company to make market purchases of up to 14.99% of the issued ordinary share capital expires on 10 July 2012. The Company will seek to renew such authority until the end of the Annual General Meeting ("AGM") in 2013 specifying the maximum and minimum price at which shares can be bought back. Any buyback of ordinary shares will be made subject to Jersey law and the making and timing of any buybacks will be at the absolute discretion of the Directors. Such purchases will also only be made in accordance with the Listing Rules of the FSA which provide that the price paid must not be more than the higher of: (i) 5% above the average middle market quotations for the ordinary shares for the five business days before the shares are purchased; and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange at such time.

Directors' re-election

The Company's Articles of Association provide for:

(a) Directors to retire at the first AGM after their appointment by the Board and for the number nearest to, but not exceeding, one-third of the remaining Directors to retire by rotation at each AGM; and

(b) all Directors to retire at least every three years.

Paul Waller, as a non-independent Director, is required to retire each year. Subject to the Articles of Association, retiring Directors are eligible for reappointment.

Under the UK Corporate Governance Code (the "Code"), however, all directors of FTSE 350 companies should be subject to annual election by shareholders. The Board voluntarily decided to adopt this procedure at the 2011 AGM, in advance of an obligation to do so. All Directors will voluntarily retire and stand for re-election at the AGM to be held on 10 July 2012 and at all subsequent AGMs.

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association enable Directors to approve conflicts of interest and include other conflict of interest provisions. The Company has implemented processes to identify potential and actual conflicts of interest. Such conflicts are then considered for approval by the Board, subject, if necessary, to appropriate conditions.

Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Statutes, every Director of the Company shall be indemnified out of the assets of the Company against all liabilities and expenses incurred by him in the actual or purported execution or discharge of his duties. "Statutes" here refers to the Companies (Jersey) Law 1991 and every other statute, regulation or order for the time being in force concerning companies registered under the Companies (Jersey) Law 1991. In addition, the Company has entered into indemnity agreements for the benefit of its Directors and these remain in force at the date of this report. The Company also had Directors' and officers' liability insurance in place in the year.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

As a company listed on the London Stock Exchange, 3i Infrastructure is subject to the FSA's Listing Rules and Disclosure and Transparency Rules, as well as to all applicable laws and regulations of Jersey, where it is incorporated.

Jersey Company law requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended.

In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements comply with International Financial Reporting Standards and reasonable and prudent judgments and estimates have been used in their preparation.

In accordance with the FSA's Disclosure and Transparency Rules, the Directors confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group taken as a whole; and

(b) the Directors' report includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties faced by the Company.

The Directors of the Company and their functions are listed on page 46.

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 Investment Adviser's review on pages 8 to 21, in the Returns and Risk section on pages 35 to 41, and in the financial statements and related notes on pages 58 to 78. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial statements and related notes on pages 58 to 78. In addition, Note 10 to the financial statements 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 Company has liquid financial resources and a strong investment portfolio providing a stable and robust income yield and an expectation of medium-term capital growth. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the Board
Authorised signatory

State Street Secretaries (Jersey) Limited
Company Secretary
8 May 2012
Registered Office:
22 Grenville Street, St Helier, Jersey
Channel Islands JE4 8PX

Corporate governance statement

The Company's approach to corporate governance

The Company is committed to upholding the highest standards of corporate governance. It observes the requirements of the UK Corporate Governance Code (published by the UK Financial Reporting Council in June 2010 (the "Code"), a copy of which is available from the Financial Reporting Council website (www.frc.org.uk)), subject to Listing Rule 15.6.6(2), and to the extent applicable to the Company, given that it has no Executive Directors. The Code applies to all companies with a premium listing on the London Stock Exchange, irrespective of their country of incorporation.

The Company has complied with all the applicable provisions of the Code for the financial year ending 31 March 2012.

The Board has adopted a code of Directors' dealings in ordinary shares, which is based on the Model Code for Directors' dealings contained in the Listing Rules (the "Model Code"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the Directors.

The Board's responsibilities and processes

The Board is responsible to shareholders for the overall management of the Company. It determines matters including financial strategy and planning and takes all investment decisions, taking into account the advice it receives from the Investment Adviser. The Board has put in place an organisational structure to ensure the efficient performance of its responsibilities. This is further described under the heading "Internal control".

The Board has approved a formal schedule of matters reserved to it and the Audit Committee for decision. These include:

- approval of the Company's overall strategy, plans and annual operating budget;
- approval of the Company's half-yearly and annual financial statements and changes in the Company's accounting policies or practices;
- approval of changes relating to the capital structure of the Company or its regulated status;
- approval of the appointment and removal of the Investment Adviser and annual review and continued approval of key agreements with service providers, including the Investment Advisory Agreement with 3i Investments plc;
- approval of major changes in the nature of business operations or investment policy;
- approval of investments and divestments;
- approval of portfolio company valuations and review of the performance and plans for each portfolio company;
- review of the adequacy of internal control systems including those operated by independent service providers; and
- appointments to the Board and determination of terms of appointment of Directors.

Meetings of the Board

The Board is required to meet a minimum of four times a year. A calendar of seven scheduled main Board meetings was agreed at the start of the year. Due to the nature of the Board's close involvement in the operation of the Company and in making investment related decisions, a number of further meetings are arranged at shorter notice. During the year, there were seven main meetings of the Board of Directors. In addition to these meetings, there were five full Board meetings arranged at short notice and two meetings of specifically formed committees to execute decisions arising from full Board meetings. The Directors' attendance at main Board meetings is set out in the table below:

Directors' attendance year to 31 March 2012	Number of meetings while a Director	Attendance
Peter Sedgwick	7	7
Philip Austin	7	7
Sir John Collins	7	7
Florence Pierre	7	7
Charlotte Valeur	7	7
Paul Waller	7	4
Steven Wilderspin	7	7

The principal matters considered by the Board during the year included:

- the Company's strategy, including market positioning and investment strategy;
- approval of the Company's budget and review of financial resources;
- the Company's capital structure, balance sheet efficiency and taxation arrangements;
- approval of investment and divestment decisions;
- review of portfolio asset performance;
- review of Board's committee structure and decision to establish a Management Engagement Committee;
- review of counterparty exposure and limits;
- review of the Company's foreign exchange hedging strategy;
- review of regular reports from the Investment Adviser relating to the infrastructure market and early stage work-in-progress;
- review of the recommendations of the Investment Adviser on the valuation of investments;
- review of the Company's Investor Relations programme, share price performance and shareholder perceptions following the release of financial information;
- review of the risk management arrangements, internal controls and the investment approval process;
- review of the performance of the Investment Adviser and of key service providers to the Company;
- review of the independence of Directors;
- review of any updates to the UK Corporate Governance Code and the requirements for the Company, including a review of Board diversity policy; and
- updates to UK and Jersey law and their impact on the Company, including the Company's policy in relation to the UK Bribery Act.

Information

Reports and papers are circulated to the Directors in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

Performance evaluation

Board

During the year, an independent external review was conducted to evaluate the performance and effectiveness of the Board and that of its committees. The review was undertaken by Dr Tracy Long of Boardroom Review, a specialist consultancy, which is fully independent from the Board, the Company and any other related party. As part of that process, Dr Tracy Long led the review, which explored the Board's definition of its role and its approach, the culture and composition of the Board, and the optimisation of the Board's effectiveness and governance. Dr Tracy Long also facilitated the following:

- a review of the performance of the Board and its committees, as well as of individual Directors, led by the Chairman;
- a review of the Chairman, led by the Senior Independent Director;
- a review of the Audit Committee, led by the chairman of the Audit Committee.

The results of the processes were formally reported to the Board and Audit Committee respectively. All Board members and members of the Investment Adviser gave personal views and feedback was presented to the Board.

Following the completion of the above process, the Board noted that the results of the exercise showed a high overall degree of satisfaction with the Board's: (i) consensual view of strategy; (ii) time commitment to performance management, risk and control; (iii) focus on, and continual improvement of, financial information; and (iv) collegiate approach and interaction with the Investment Adviser.

The following recommendations were also made:

- to broaden the information provided on the external market landscape and peers in the sector; and
- to continue to address the future composition and succession requirements for the Board.

Investment Adviser

During the year, the Board constituted a Management Engagement Committee (comprising all Board members, with the exception of Paul Waller) to carry out the annual evaluation of the Investment Adviser required under the Listing Rules, and generally to manage the relationship with the Investment Adviser on behalf of the Company. This assessment had been undertaken by all independent non-executive Directors (eg all Directors with the exception of Paul Waller) in previous years. The Directors believe that the continued appointment of the Investment Adviser on the terms set out on page 78 is in the interest of shareholders, based on the performance of the Investment Adviser in the past year.

The Chairman

The Chairman, Peter Sedgwick, leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman also acts as a manager (the equivalent of a director) of 3i Infrastructure (Luxembourg) Holdings S.àr.l. and 3i Infrastructure (Luxembourg) S.àr.l., which are subsidiaries of the Company, and is the Company's appointed member to the Advisory Board for the 3i India Infrastructure Fund. He receives no additional remuneration for these roles. The Chairman facilitates the effective contribution of all the Directors and constructive relations between the Company's advisers, including the Investment Adviser, and the Directors. The Chairman maintains direct links with the Company's advisers and ensures that regular reports from them are circulated to the Directors to enable the Directors to remain aware of shareholders' views. The Chairman ensures, with the cooperation of the Investment Adviser, that a programme of effective communications is available for shareholders, including with the Chairman and Senior Independent Director, when shareholders so wish.

Senior Independent Director

Philip Austin is the Senior Independent Director. In accordance with the Code, any concerns can be conveyed to the Senior Independent Director. The contact details of the Senior Independent Director are freely available on the Company's website, or through the Company Secretary.

Directors

The Board comprises the Chairman and six non-executive Directors. Biographical details for each of the Directors are set out on page 46. All Directors have served throughout the year under review.

No Director has a service contract with the Company, nor are any such contracts proposed. The Directors were appointed as non-executive Directors by the subscribers to the Memorandum of Association of the Company or at subsequent Board meetings. Their appointment was confirmed by letters dated 29 January 2007 in the case of Peter Sedgwick and Philip Austin, 27 March 2007 in the case of Paul Waller, 20 September 2007 in the case of Steven Wilderspin, 27 November 2008 in the case of Sir John Collins, 28 September 2009 in the case of Charlotte Valeur and 15 July 2010 in the case of Florence Pierre. All Directors were elected or re-elected at the 2011 AGM.

Appointment letters for Directors were refreshed following the Company's Annual General Meeting in July 2011 in order to bring them into line with the requirements of the UK Corporate Governance Code, incorporating the annual re-election of Directors, a fixed term appointment of three years and a three-month notice period. The new letters are dated 28 September 2011 in the case of Peter Sedgwick, Philip Austin, Florence Pierre, Charlotte Valeur and Steven Wilderspin, and 7 December 2011 in the case of Sir John Collins. Following the formal appraisal process of Directors, and in accordance with Section B.7.2 of the Code, the Chairman will propose their re-election at the forthcoming AGM.

Appointment letters are available from the Company Secretary upon request.

The Directors' appointment can be terminated, without compensation for loss of office, in accordance with the Articles of Association. Under the Articles, their appointments can (inter alia) be terminated on notice from the other members of the Board, and also on ceasing to be a Director if they fail to be re-elected at any Annual General Meeting. In accordance with the UK Corporate Governance Code, all Directors will retire and seek re-election at the AGM taking place on 10 July 2012.

In addition to fulfilling their legal responsibilities as Directors, the Directors are expected to bring an independent judgment to bear on issues of strategy, performance, investment appraisal and standards of conduct. They are also expected to ensure high standards of financial probity on the part of the Company. As well as papers for Board meetings, the Directors receive monthly management accounts, reports and information which enable them to scrutinise the Company's performance against agreed objectives.

Diversity

3i Infrastructure currently has two women on its Board of seven non-executive Directors, thus exceeding the 25% benchmark for FTSE 100 companies set by Lord Davies of Abersoch in a review of women on boards, commissioned by the government and published in February 2011.

The Company's policy is to have a Board with a diverse range of skills and professional backgrounds. To that end it will continue to ensure that in making appointments to the Board it, and any executive search firm that assists it, will consider a wide range of candidates from different backgrounds while making appointments solely on merit.

Directors' independence

All the Directors, with the exception of Paul Waller, who has been a 3i Group nominee to the Board since the Company's IPO in March 2007, are considered by the Board to be independent for the purposes of the Code. The Board assesses and reviews the independence of each of the Directors at least annually, having regard to the potential relevance and materiality of a Director's interests and relationships. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial year in relation to the business of the Company.

As a non-independent Director, and not being a member of the Management Engagement Committee, Paul Waller did not participate in the Board's evaluation of the performance of the Investment Adviser.

Training and development

The Company has developed a framework within which training for Directors is planned, with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company and the business environment of the Company. All Directors are required to continually update their skills and maintain their familiarity with the Company and its business. Presentations on different aspects of the Company's business are made regularly to the Board, usually by the Investment Adviser.

On appointment, all Directors have discussions with the Chairman and Company Secretary, following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures and, where appropriate, briefings on the infrastructure market are arranged. The Company provides opportunities for Directors to obtain a thorough understanding of the Company's business and the industry it operates in by meeting senior members of the investment advisory team who in turn can arrange, as required, visits to portfolio investments or support teams.

During the year, the Directors met with the CEO of a portfolio company to gain an insight into that company's industry dynamics and challenges, as well as to understand how that company's management team is responding to those challenges. The Board also received briefings on legal updates in relation to changes to laws and regulations in Jersey and the UK.

The Directors, and specifically members of the Audit Committee, attended a number of seminars, meetings and conferences on governance and regulation, including the introduction of the Codes of Practice for Certified Funds of the Jersey Financial Services Commission, and also received presentations on specific aspects of the infrastructure market and the Company's business. The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

The Board's committees

The Board is assisted by various standing committees which report regularly to the Board. The membership of these committees is reviewed regularly by the Board.

These committees all have clearly defined terms of reference which are available at www.3i-infrastructure.com. The terms of reference of the Audit Committee, of the Nominations Committee and of the Remuneration Committee provide that no one other than the particular committee chairman and members may attend meetings, unless invited to attend by the relevant committee.

Remuneration Committee

The Remuneration Committee, chaired by Philip Austin, is charged with reviewing the scale and structure of the non-executive Directors' remuneration, and is constituted by all the independent non-executive Directors (Peter Sedgwick, Philip Austin, Steven Wilderspin, Sir John Collins, Charlotte Valeur and Florence Pierre). All members served throughout the year. The Remuneration Committee has had two meetings in the year to 31 March 2012, attended by all members.

Nominations Committee

The Nominations Committee, chaired by Peter Sedgwick, also comprises Philip Austin and Sir John Collins. All members served throughout the year. The Committee has held two meetings in the year to 31 March 2012, attended by all members.

The Committee is charged with interviewing potential candidates for the Board, but final decisions on nominations will be taken by the entire Board. The Nominations Committee can avail itself of the services of external search consultancies. No new appointments were made or assessed during the year.

As well as seeking an appropriate balance of expertise and experience, especially in finance and infrastructure, the nominations process has to take account of the residence of Directors, as the majority of Directors have to be non-resident in the UK and – for practical reasons relating to the conduct of the Company's affairs – most are resident in the Channel Islands.

The Committee has been reviewing succession planning to ensure that processes and plans are in place with regards to Board appointments dealing with succession.

Audit Committee

The Audit Committee, chaired by Steven Wilderspin, also comprises Philip Austin, Sir John Collins and Charlotte Valeur. All members served throughout the year. The qualifications of the members of the Audit Committee are set out in the biographical details of the Directors on page 46. All the members of the Audit Committee are independent non-executive Directors. The Board is satisfied that the Audit Committee chairman, Steven Wilderspin, has recent and relevant financial experience.

During the year, there were six meetings of the Audit Committee, attended by all members.

During the year, the Audit Committee:

- reviewed the effectiveness of the internal control environment of the Company and the Company's compliance with its regulatory requirements;
- reviewed and recommended to the Board the accounting disclosures comprised in the half yearly and annual financial statements of the Company;
- reviewed the scope of the annual external audit plan and the external audit findings;
- received relevant reports from internal audit, control and compliance functions of key service providers;
- oversaw the Company's relations with its external auditors, including assessing the conduct and effectiveness of the audit process and the auditors' independence and objectivity, recommending the auditors' reappointment and approving the auditors' fees;
- reviewed the calculation of the advisory and performance fees of the Investment Adviser with advice from the auditors, in line with the policy of the Audit Committee concerning conflicts of interest and the payment of fees for non-audit services;
- reviewed the Company's compliance with its regulatory obligations in Jersey, including a report on the proposed Codes of Practice for Certified Funds from the Company's Compliance Officer, and their impact on the Company. These Codes of Practice subsequently came into force on 2 April 2012;
- conducted a review of the Financial Reporting Council's report, Guidance on Audit Committees, with reference to the Committee's terms of reference, and updated the Committee's responsibilities and processes where necessary;
- conducted a review of the risk assessment process in the Company; and
- met with the external auditors in the absence of the Investment Adviser.

The Audit Committee has reviewed auditor performance during the year, considering performance, objectivity, independence and relevant experience, and concluded that Ernst & Young LLP's appointment as the Company's auditors should be continued. Ernst & Young LLP have been the Company's auditors since inception in 2007 and the audit has not been re-tendered.

The Audit Committee monitors the Company's policy for non-audit services to ensure that the provision of such services by the external auditor does not impair the auditors' independence or objectivity. In order to safeguard auditor objectivity and independence, the chairman of the Audit Committee is required to approve all non-audit work undertaken, for the Company and its subsidiaries, by the auditors, in advance and as a general rule the auditor will not be engaged on investment-related work. However, exceptions to this may be permitted if (i) the Company is acting in a consortium, (ii) the audit firm is considered a specialist in the sector, or (iii) the auditor is best placed to undertake the work through its knowledge of the Company's financial systems, procedures and internal controls.

The auditor, Ernst & Young LLP, provided non-audit services for fees totalling £17,000 for the year to March 2012 (2011: £14,500). In previous years, and in line with the Company's policy, Ernst & Young LLP also provided non-audit services to support the transaction activity conducted by the Group during the year in relation to certain portfolio companies. The fees for these services are generally borne by the underlying portfolio companies, and therefore are not included in the expenses of the Group. No such fees were paid to Ernst & Young this year.

Investment Committee

As outlined on page 50, the Board as a whole acts as the Investment Committee.

Management Engagement Committee

The Board formally constituted a Management Engagement Committee in September 2011 to carry out the annual evaluation of the Investment Adviser which, in previous years, had been undertaken by all independent non-executive Directors (ie all Directors with the exception of the 3i Group nominee, Paul Waller). The Committee is chaired by Peter Sedgwick and also comprises Philip Austin, Sir John Collins, Steven Wilderspin, Charlotte Valeur and Florence Pierre, all of whom were appointed upon the constitution of the Committee.

While the remit of the Committee is to manage all aspects of the relationship with the Investment Adviser, its principal function is to consider annually, and recommend to the Board, whether the continued appointment of the Investment Adviser is in the best interest of the Company and shareholders, and to give reasons for its recommendation. The Committee also reviews the terms of the Investment Advisory Agreement.

During the year, there were four meetings of the Management Engagement Committee, attended by all members. During the year, the Committee monitored the overall relationship and among specific topics it:

- reviewed reports from industry analysts, comparing the performance of listed infrastructure investment companies, including an analysis of the terms of their advisory agreements and fees charged;
- monitored and reviewed the Investment Adviser's performance against the Company's targets and general market conditions;
- reviewed the quality, timeliness, accuracy and relevance of the information provided to the Board, including reviews of portfolio company performance; and
- reviewed non-investment services provided by the Investment Adviser.

The Company Secretary

The Company has appointed State Street Secretaries (Jersey) Limited (formerly Mourant & Co. Secretaries Limited) as Company Secretary.

All Directors have access to the advice and services of the Company Secretary and legal advisers to the Company, who advise the Board, through the Chairman, on governance matters. The Company's Articles of Association and the schedule of matters reserved for the Board or its duly authorised committees for decision provide that the appointment and removal of the Company Secretary would be a matter for the full Board.

The Board reviewed the Company Secretary's performance during the year.

Relations with shareholders

The Board recognises the importance of maintaining a good relationship with the Company's shareholders. The Chairman maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required. Shareholders are offered the opportunity to meet with the Chairman and with the Senior Independent Director.

Senior members of the investment advisory team also meet with the Company's principal institutional shareholders to discuss the Company's performance.

The Board receives reports from the Company's brokers and other advisers on shareholder issues.

The Company also uses its AGM to communicate with its shareholders. At the AGM, business presentations are made by the Chairman and senior members of the investment advisory team. The chairman of the Audit Committee is also available to answer shareholders' questions. The Notice of AGM for 2011 was dispatched to shareholders not less than 20 working days before the meeting. At that meeting, voting on each resolution was taken on a poll and the results were made available on the Company's website.

Portfolio management and voting policy

In relation to unquoted investments, the Company's approach is to seek to add value to the businesses in which it invests through the extensive experience, resources and contacts of the investment advisory team. In relation to quoted equity investments, the Company's policy is to exercise voting rights on matters affecting the interests of the Company.

Internal control

The Board is ultimately responsible for the Group's own system of internal control. The Audit Committee reviewed the system's effectiveness this year and reported its conclusions to the Board. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. In assessing the effectiveness of the Group's internal controls for the year, the Board made reference to the requirements of the Turnbull Guidance.

The Board has contractually delegated investment advisory and support services to its key service providers and their contractual obligations encompass the implementation of systems of internal control, including financial, operational and compliance controls and risk management. The Audit Committee of the Company receives reports on the control systems and their operation from its main service providers, and is responsible for reviewing these reports for determining the effectiveness of internal controls.

Key procedures designed to provide effective internal control for the year under review and up to the date of this Report include:

- the Investment Advisory and UK Support Services agreements specifically define the roles and responsibilities of the Investment Adviser and the service providers. These agreements set out information and reporting systems for monitoring the Company's investments and their performance;
- the Board considers and approves Company strategy and approves a budget on an annual basis;
- reports on the planning, forecasting and controlling of expenditure and the making of investments are regularly submitted to the Board and reviewed in detail;
- the Investment Adviser's procedures for evaluating investments include detailed appraisals and due diligence;
- the Investment Adviser and the service providers prepare valuations and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Investment Adviser's compliance and internal audit departments continually review the Investment Adviser's operations;
- the Investment Adviser and the service providers prepare the half-yearly and annual accounts of the Group and monitor all associated financial reporting processes; and
- the Investment Adviser and the service providers notify the Board of any changes in accounting standards which may impact the Company's significant accounting policies or any other statutory requirements which may subsequently impact the financial statements.

The Company does not have a separate internal audit function as it is not deemed appropriate given the structure of the Company, although this is reviewed annually by the Audit Committee.

Principles and processes

The Company adopts a set of core values and controls, which include:

- a planning framework which incorporates a Board approved medium-term strategy;
- formal business and operating risk reviews which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas;
- the setting of control, mitigation and monitoring procedures and the review of actual occurrences, identifying lessons to be learnt;
- a comprehensive system of financial reporting to the Board, based on an annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance measures and regular reforecasting;
- regular treasury reports to the Board, which analyse the funding requirements, track the generation and use of capital and the volume of liquidity and record the level of compliance with the Company's funding objectives;
- well defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures, incorporating appropriate levels of authority and regular post-investment reviews; and
- an Audit Committee which considers significant control matters and receives relevant reports from key service providers' compliance, control or internal audit functions.

Remuneration Committee report on the Directors' remuneration

Remuneration Committee

The Remuneration Committee, chaired by Philip Austin, is charged with reviewing the scale and structure of the non-executive Directors' remuneration, and is constituted by all the independent non-executive Directors (Peter Sedgwick, Philip Austin, Steven Wilderspin, Sir John Collins, Charlotte Valeur and Florence Pierre). All members served throughout the year. The Remuneration Committee has had two meetings in the year to 31 March 2012, both attended by all members.

Remuneration policy

The remuneration of each of the Directors is subject to fixed fee arrangements, and none of the Directors received any additional remuneration or incentives in respect of his or her services as a Director of the Company. During the financial year to 31 March 2012, the Directors were due the following:

Directors' fees	**Amount paid (£) in the year ending 31 March 2012**	Amount paid (£) in the year ending 31 March 2011
Peter Sedgwick	**135,000**	130,000
Philip Austin	**51,500**	50,000
Sir John Collins	**45,000**	45,000
Florence Pierre[1]	**55,000**	30,274
Charlotte Valeur	**46,500**	45,000
Paul Waller[2]	**42,000**	42,000
Steven Wilderspin	**53,500**	49,500

(1) Appointed on 1 September 2010.
(2) Paul Waller's remuneration was paid directly to 3i Group plc for making available his services.

Directors' fees are calculated on the following basis:

Directors' fees	**Annual fee (£) (from 1 October 2011)**	Annual fee (£) (prior to 1 October 2011)
Chairman's fee	**140,000**	130,000
Non-executive Director base fee	**42,000**	42,000
Additional fee for the Senior Independent Director	**5,000**	5,000
Additional fee for the Audit Committee Chairman	**10,000**	10,000
Additional fee for Audit Committee members	**3,000**	3,000
Additional fee for Directors resident in Jersey	**3,000**	–

Note: The Company pays an additional £10,000 to its non-UK and non-Channel Islands Director to reflect the additional time spent travelling to Board meetings.

Following a review conducted last year, facilitated by Kepler Associates Partnership LLP, the Remuneration Committee proposed that, from October 2011, an additional fee of £10,000 be paid to the Chairman, reflecting increased time dedicated to the fulfilment of his duties. In addition, the Remuneration Committee has also proposed that, from October 2011, the Directors resident in Jersey receive an additional fee of £3,000, in relation to their requirement to attend additional meetings in respect of investment implementation, emergency and standing committees. These changes were subject to prior approval by shareholders at the AGM held on 5 July 2011, and were implemented in the year under review. There have been no further changes in fees proposed or implemented since then.

Any future proposed changes will be voluntarily submitted to shareholders for approval prior to implementation.

Financials and other information

Independent auditor's report to the members of 3i infrastructure plc

We have audited the financial statements of 3i Infrastructure plc for the year ended 31 March 2012 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated balance sheet, the Consolidated cash flow statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Geraint Davies
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
8 May 2012

Notes:

1. The maintenance and integrity of the 3i Infrastructure plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income

For the year to 31 March

	Notes	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Realised (losses)/gains over fair value on the disposal of investments		**(4.7)**	3.6
Unrealised gains on the revaluation of investments	2	**8.5**	31.8
Unrealised foreign exchange losses on investments		**–**	(0.3)
		3.8	35.1
Portfolio income			
Dividends receivable		**68.3**	62.3
Income from loans and receivables		**32.5**	20.4
Income from quoted debt investments		**1.8**	6.3
Fees payable on investment activities		**(1.3)**	(1.3)
Fees receivable on investment activities		**–**	6.8
Interest receivable		**1.5**	1.5
Investment return		**106.6**	131.1
Advisory, performance and management fees payable	3	**(16.2)**	(16.5)
Operating expenses	4	**(2.4)**	(2.4)
Finance costs	5	**(13.5)**	(13.2)
Unrealised (losses)/gains in the fair value of derivative financial instruments	6	**(0.6)**	6.0
Net realised gains over fair value on the settlement of derivative financial instruments	6	**1.3**	1.3
Other net income		**0.4**	0.3
Profit before tax		**75.6**	106.6
Income taxes	7	**(0.3)**	(0.3)
Profit after tax and profit for the year		**75.3**	106.3
Other comprehensive income			
Exchange losses on translation of foreign operations		**(4.4)**	(6.8)
Total comprehensive income for the year		**70.9**	99.5
Profit after tax and profit for the year attributable to:			
Equity holders of the parent		**59.6**	93.6
Non-controlling interests		**15.7**	12.7
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**55.0**	86.8
Non-controlling interests		**15.9**	12.7
Earnings per share			
Basic earnings per share attributable to equity holders of the parent (pence)	15	**7.0**	11.5
Diluted earnings per share attributable to equity holders of the parent (pence)	15	**7.0**	11.4

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2012	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
Opening balance	**117.2**	**845.4**	**38.1**	**1,000.7**	**91.3**	**1,092.0**
Total comprehensive income for the year	**–**	**59.6**	**(4.6)**	**55.0**	**15.9**	**70.9**
Non-controlling interest share of investment purchased during the year	**–**	**–**	**–**	**–**	**28.4**	**28.4**
Net capital returned to non-controlling interests	**–**	**–**	**–**	**–**	**(8.4)**	**(8.4)**
Conversion of warrants into ordinary shares	**64.4**	**–**	**–**	**64.4**	**–**	**64.4**
Dividends paid to shareholders of the Company during the year	**–**	**(50.0)**	**–**	**(50.0)**	**–**	**(50.0)**
Closing balance	**181.6**	**855.0**	**33.5**	**1,070.1**	**127.2**	**1,197.3**

For the year to 31 March 2011	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
Opening balance	111.4	801.8	44.9	958.1	90.2	1,048.3
Total comprehensive income for the year	–	93.6	(6.8)	86.8	12.7	99.5
Net capital returned to non-controlling interests	–	–	–	–	(11.6)	(11.6)
Conversion of warrants into ordinary shares	5.8	–	–	5.8	–	5.8
Dividends paid to shareholders of the Company during the year	–	(50.0)	–	(50.0)	–	(50.0)
Closing balance	117.2	845.4	38.1	1,000.7	91.3	1,092.0

Consolidated balance sheet

As at 31 March

	Notes	2012 £m	2011 £m
Assets			
Non-current assets			
Investments			
Unquoted investments	8	**949.1**	723.6
Debt investments held at fair value through profit and loss	8	**–**	90.2
Loans and receivables	8	**233.1**	279.5
Investment portfolio		**1,182.2**	1,093.3
Derivative financial instruments	11	**1.8**	–
Total non-current assets		**1,184.0**	1,093.3
Current assets			
Trade and other receivables	9	**7.1**	15.8
Derivative financial instruments	11	**0.9**	0.7
Cash and cash equivalents		**183.6**	176.3
Total current assets		**191.6**	192.8
Total assets		**1,375.6**	1,286.1
Liabilities			
Non-current liabilities			
Loans and borrowings	12	**(158.3)**	(167.9)
Derivative financial instruments	11	**(15.8)**	(15.7)
Total non-current liabilities		**(174.1)**	(183.6)
Current liabilities			
Trade and other payables	13	**(2.4)**	(6.7)
Derivative financial instruments	11	**(1.8)**	(3.8)
Total current liabilities		**(4.2)**	(10.5)
Total liabilities		**(178.3)**	(194.1)
Net assets		**1,197.3**	1,092.0
Equity			
Stated capital account		**181.6**	117.2
Retained reserves		**855.0**	845.4
Translation reserve		**33.5**	38.1
Total equity attributable to equity holders of the parent		**1,070.1**	1,000.7
Non-controlling interests		**127.2**	91.3
Total equity		**1,197.3**	1,092.0

Directors
8 May 2012

Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Cash flow from operating activities		
Purchase of investments	**(231.3)**	(186.3)
Proceeds from realisations of investments	**132.5**	46.8
Income received from loans and receivables	**38.9**	11.7
Income from quoted debt investments	**2.1**	6.3
Dividends received	**68.2**	62.6
Fees paid on investment activities	**(0.9)**	(1.1)
Fees received on investment activities	**–**	6.8
Operating expenses paid	**(2.8)**	(2.0)
Interest received	**1.5**	1.6
Advisory, performance and management fees paid	**(19.2)**	(15.6)
Carried interest paid	**(1.2)**	–
Income taxes paid	**(0.4)**	(0.3)
Other income received	**0.8**	0.4
Net cash flow from operations	**(11.8)**	(69.1)
Cash flow from financing activities		
Proceeds from the issue of share capital from conversion of warrants	**64.4**	5.8
Interest paid	**(9.7)**	(10.0)
Fees paid on financing activities and the settlement of derivative contracts	**(4.5)**	(3.2)
Dividends paid	**(50.0)**	(50.0)
Capital contributed by non-controlling interests	**28.4**	–
Net capital paid to non-controlling interests	**(8.4)**	(11.6)
Net cash flow from financing activities	**20.2**	(69.0)
Change in cash and cash equivalents	**8.4**	(138.1)
Cash and cash equivalents at the beginning of the year	**176.3**	314.0
Effect of exchange rate movement	**(1.1)**	0.4
Cash and cash equivalents at the end of the year	**183.6**	176.3

Significant accounting policies

3i Infrastructure plc (the "Company") is a company incorporated in Jersey, Channel Islands. The consolidated financial statements for the year to 31 March 2012 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). The Companies (Jersey) Law 1991 does not require the directors of a company to present separate financial statements where consolidated financial statements are presented and therefore the financial results and position of the Company are not presented in the consolidated financial statements of the Group.

The financial statements were authorised for issue by the Directors on 8 May 2012.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations as issued by the International Accounting Standards Board.

These financial statements have also been prepared in accordance with and in compliance with the Companies (Jersey) Law 1991.

Basis of preparation

The financial statements of the Group are presented in sterling, the functional currency of the Company and the Group, rounded to the nearest hundred thousand pounds (£0.1 million) except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the Board to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis to determine carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The presentation of the financial statements has changed from the prior year as, in compliance with Jersey law, the financial results and position of the Company have not been disclosed.

Key estimates and judgments

The preparation of financial statements in accordance with IFRS requires the Directors to exercise judgment in the process of applying the accounting policies defined below. The following policies are areas where a higher degree of judgment has been applied in the preparation of the financial statements.

(i) Basis of consolidation – The Group holds significant stakes in the majority of its investee companies. The Group must exercise judgment in the level of control of the underlying investee company that is obtained and consider the need to classify certain investee companies as associates, joint ventures or subsidiary undertakings.

(ii) Functional currency – The Group has certain subsidiaries that conduct the majority of their business operations in currencies other than sterling. Judgment has been exercised in determining the appropriate functional currency of these subsidiary undertakings.

The adoption of certain accounting policies by the Group also requires the use of certain critical accounting estimates in determining the information to be disclosed in the financial statements.

Areas where assumptions are significant to the consolidated financial statements include:

(i) Valuation of the investment portfolio – The majority of assets in the investment portfolio are valued on a discounted cash flow basis which requires assumptions to be made regarding future cash flows and the discount rate to be applied to these cash flows. Refer to Note 8 and Note 10 for further details of the sensitivity of the carrying value of these investments to the assumptions that have been made.

(ii) Assessment for impairment – The Group must make certain estimates regarding the recoverability of loans and receivables when assessing whether these financial assets meet the criteria for impairment against the current carrying value. Refer to Note 2 and Note 8 for further details of assessments made during the year.

Standards issued but not yet effective

As at 31 March 2012, the following new or amended standards had been issued by the International Accounting Standards Board (IASB).

In 2009, the IASB issued IFRS 9, Financial Instruments – Classification and Measurement, with an expanded and amended version covering additional requirements for financial liabilities issued during 2010. The standard is effective prospectively for accounting periods commencing 1 January 2015 or later and is therefore not applicable for the current accounting period. On adoption, IFRS 9 will require the Group to review the classification of certain financial instruments while allowing the Group to retain the fair value measurement necessary. The Group is in the process of assessing the full impact of these requirements.

During 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IFRS 13, Fair Value Measurement. Each of these standards is applicable for periods commencing on or after 1 January 2013.

On adoption, of IFRS 10, IFRS 11 and IFRS 12, the Group will be required to review the entities that it classifies as subsidiaries, joint ventures and associates, and the related disclosures required in respect of each of these types of investments. The Directors of the Company are currently assessing the changes required to the presentation of the Group's financial statements and disclosures.

The following amendments to the standards below are not expected to have a significant impact on the Group once they become effective:

IAS 27, Separate Financial Statements (effective for accounting periods commencing on or after 1 January 2013) and IAS 28, Investments in Associates and Joint Ventures (effective for accounting periods commencing on or after 1 July 2012).

IAS 1, Presentation of Financial Statements (applicable for accounting periods commencing on or after 1 July 2012) and IAS 19, Employee Benefits (applicable for accounting periods commencing on or after 1 January 2013).

IFRS 1, First Time Adoption of IFRS (applicable prospectively for accounting periods commencing on 1 July 2011).

IFRS 7, Financial Instruments – Disclosures (applicable prospectively for accounting periods commencing on 1 July 2011).

IAS 12, Income Taxes (applicable prospectively for accounting periods commencing on 1 January 2012).

Interpretations issued but not yet effective

The following new and amended interpretation has been issued by International Financial Reporting Interpretation Committee. The following interpretation is not expected to have a significant impact on the Group.

IFRIC interpretation 20, Stripping Costs in the Production Phase of a Surface Mine, was issued in 2011 but has not yet been endorsed by the EU. It is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period. On adoption, it will not have any impact on the Company's financial reporting.

A Basis of consolidation

(i) Subsidiaries – Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates – Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28, Investment in Associates, which allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the period. The Group has no interests in associates through which it carries out its business.

(iii) Joint ventures – Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value. This treatment is permitted by IAS 31 Interests in Joint Ventures, which allows interests held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the period. The Group has no interests in joint ventures through which it carries out its business.

(iv) Transactions eliminated on consolidation – Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(v) Non-controlling interests – Non-controlling interests reflect the proportion of the capital of subsidiary undertakings of the Group that is not held by entities within the Group. The proportion of the net assets and profit of the Group that is attributable to non-controlling interests is shown as a separate component within the statement of comprehensive income and the balance sheet. Movements in the net assets attributable to non-controlling interests during the year arising from investment activity, distributions payable to non-controlling interests or movements in the proportion of capital held by non-controlling interests are shown directly in equity through the statement of changes in equity.

B Exchange differences

(i) Foreign currency transactions – Transactions in currencies different from the functional currency of the subsidiary of the Group entering into the transaction are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in currencies different to the functional currency of each Group entity at the financial reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation to the functional currency are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency using exchange rates ruling at the date the fair value was determined.

(ii) Financial statements of non-sterling operations – The assets and liabilities of operations whose functional currency is not sterling, including fair value adjustments arising on consolidation, are translated to sterling at exchange rates ruling at the financial reporting date. The revenues and expenses of these operations are translated to sterling at rates approximating to the exchange rates ruling at the date of the transactions. Exchange differences arising on retranslation are recognised directly in a separate component of equity, the translation reserve, and are released upon disposal of the non-sterling operation.

C Investment portfolio

(i) Recognition and measurement – Investments are recognised and derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and obtaining capital appreciation from changes in the fair value of equity investments. Therefore, all quoted investments and unquoted equity investments are designated as at fair value through profit or loss upon initial recognition and subsequently carried in the balance sheet at fair value. Loan investments are classified as loans and receivables and subsequently carried in the balance sheet at amortised cost less impairment. All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying the Group's valuation policy. Acquisition costs are attributed to equity investments and recognised in the statement of comprehensive income.

Significant accounting policies continued

(ii) Income

(a) Realised profits over value on the disposal of investments is the difference between the fair value of the consideration receivable less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its fair value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal; and are recognised in the statement of comprehensive income.

(b) Unrealised profits on the revaluation of investments is the movement in the fair value of investments between the start and end of the accounting period, or the investment acquisition date and the end of the accounting period, converted into sterling using the exchange rates in force at the end of the period; and are recognised in the statement of comprehensive income.

(c) Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be an economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:

– Dividends from equity investments are recognised in the statement of comprehensive income when the shareholders' rights to receive payment have been established with the exception of dividends paid out of pre-acquisition reserves that are recognised by adjusting the fair value of the equity investment upon acquisition;

– Income from loans and receivables and debt held at fair value through profit or loss is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value or principal amount;

– Fees receivable represent amounts earned on completion of underlying investment transactions and are recognised on an accruals basis once entitlement to the revenue has been established.

(iii) Impairment of assets held as loans and receivables – All financial assets held as loans and receivables are assessed for impairment on both an individual and a collective basis. The amount of the impairment is measured as the difference between the carrying value of the asset and the net present value of the expected future cash flows expected to arise from each asset, based on the effective interest rate of each asset. The amount of the resultant loss is recognised in the statement of comprehensive income. If the impairment analysis demonstrates that the conditions giving rise to a previously recognised impairment are no longer prevalent, a reversal of the impairment loss is recognised in the statement of comprehensive income.

D Fees

(i) Fees – Fees payable represent fees incurred in the process of acquiring an investment and are measured on the accruals basis.

(ii) Advisory fee – An annual advisory fee is payable to 3i plc based on the Gross Investment Value of the Company. The fee is payable quarterly in advance and is accrued in the period it is incurred. Further explanations are provided in Note 19.

(iii) Performance fee – 3i plc is entitled to a performance fee based on the Adjusted Total Return per ordinary share generated in the period in excess of a performance hurdle. The fee is payable annually in arrears and is accrued in the period it is incurred. Further explanations are provided in Note 19.

(iv) Finance costs – Finance costs associated with loans and borrowings are recognised on an accruals basis using the effective interest method.

E Treasury assets and liabilities

Short-term treasury assets and short- and long-term treasury liabilities are used to manage cash flows and the overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument.

(i) Cash and cash equivalents – Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above. Interest receivable on cash and cash equivalents is recognised on an accruals basis.

(ii) Bank loans, loan notes and borrowings – Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs associated with the borrowings. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(iii) Derivative financial instruments – Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations of portfolio income, the valuation of the investment portfolio and changes in interest rates on borrowings. This is achieved by the use of forward foreign currency contracts and interest rate swaps. Such instruments are used for the sole purpose of efficient portfolio management. All derivative financial instruments are held at fair value through profit or loss.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. All changes in the fair value of derivative financial instruments are taken to the statement of comprehensive income. The maturity profile of derivative contracts is measured relative to the financial contract settlement date of each contract and the fair value of the derivative contracts is disclosed accordingly. Realised gains over fair value on the settlement of derivative financial instruments are the difference between the fair value of the consideration receivable and the fair value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal; and are recognised in the statement of comprehensive income.

F Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their consideration receivable less impairment losses. The carrying value of such assets or liabilities is considered approximate to their fair value. All assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in levels of impairment is recognised directly in the statement of comprehensive income. An impairment loss is reversed at subsequent financial reporting dates to the extent that the asset's carrying amount does not exceed its carrying value, had no impairment been recognised.

G Other liabilities

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the financial reporting date. The carrying value of other liabilities is considered to be approximate to their fair value.

H Equity and reserves

(i) Share capital – Share capital issued by the Company (including the conversion of warrants) is recognised at the fair value of proceeds received and is credited to the stated capital account. Direct issue costs net of tax are deducted from the fair value of the proceeds received.

(ii) Equity and reserves – The stated capital account of the Company represents the cumulative proceeds recognised from share issues or new equity issued on the conversion of warrants made by the Company net of issue costs and reduced by any amount that has been transferred to distributable reserves in previous years. Share capital is treated as an equity instrument, on the basis that no contractual obligation exists for the Company to deliver cash or other financial assets to the holder of the instrument. The retained reserve represents the distributable reserves of the Company. The retained reserve incorporates the cumulative retained profits of the Company (after the payment of dividends) plus any amount that has been transferred from the stated capital account of the Company.

(iii) Dividends payable – Dividends on ordinary shares are recognised as a deduction from retained reserves in the period in which the Company's obligation to make the dividend payment arises.

I Income taxes

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the statement of comprehensive income except to the extent that it relates to an amount recognised in the statement of changes in equity when it is recognised directly in this statement.

The tax currently payable is based on the taxable profit for the period. This may differ from the profit included in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the financial reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit ("temporary differences"), and is accounted for using the balance sheet liability method.

Notes to the accounts

1 Segmental analysis

The Directors of the Company review the financial performance of the Group on the "investment basis". However, the Directors also review information on a regular basis that is analysed by geography and is consistent with the consolidated accounting basis. In accordance with IFRS 8, the segmental information provided below uses this geographic analysis of results as it is the most closely aligned with IFRS reporting requirements. The Group only operates in one service line, being that of an investment holding company. Therefore, no segmental analysis by service line has been produced. The Group is an investment holding company and does not consider itself to have any customers.

The Group received 70% (2011: 70%) of its portfolio income in the year from investments held in the UK and 30% (2011: 30%) of portfolio income from investments held in Europe. During the year, the Group received income from its investment in Oystercatcher of £29.8 million (2011: £26.4 million), AWG of £29.6 million (2011: £39.5 million) and Eversholt of £33.0 million (2011: £6.5 million), which represents 28% (2011: 20%), 28% (2011: 30%) and 31% (2011: 5%) respectively of the investment return. There was no other income entitlement during the year (or in the comparative year) that represented more than 10% of investment return. Given the nature of the Group's operations, the Group is not considered to be exposed to any operational seasonality or cyclicality that would impact the financial results of the Group during the year or the financial position of the Group at 31 March 2012.

For the year to 31 March 2012	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains/(losses) over fair value on the disposal of investments	2.1	(6.8)	–	(4.7)
Unrealised gains/(losses) on the revaluation of investments	32.7	5.8	(30.0)	8.5
Portfolio income	70.6	30.7	–	101.3
Interest receivable	1.5	–	–	1.5
Investment return	106.9	29.7	(30.0)	106.6
Interest payable	–	(9.7)	–	(9.7)
Other net expenses	(15.7)	(5.6)	–	(21.3)
Profit before tax	91.2	14.4	(30.0)	75.6
As at 31 March 2012				
Balance sheet				
Fair value of investment portfolio	553.6	514.4	114.2	1,182.2
Cash and cash equivalents	171.6	12.0	–	183.6
Other assets	7.6	2.1	0.1	9.8
Assets	732.8	528.5	114.3	1,375.6
Loans and borrowings	–	(158.3)	–	(158.3)
Derivative financial instruments	(1.3)	(16.3)	–	(17.6)
Other liabilities	(2.3)	(0.1)	–	(2.4)
Liabilities	(3.6)	(174.7)	–	(178.3)
Net assets	729.2	353.8	114.3	1,197.3

(1) Including Channel Islands.
(2) Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investment in Oystercatcher, including those derived from its underlying business in Singapore.

1 Segmental analysis continued

For the year to 31 March 2011	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains over fair value on the disposal of investments	3.6	–	–	3.6
Unrealised gains/(losses) on the revaluation of investments	24.6	(0.3)	7.5	31.8
Unrealised foreign exchange losses on investments	–	(0.3)	–	(0.3)
Portfolio income	66.3	28.2	–	94.5
Interest receivable	1.5	–	–	1.5
Investment return	96.0	27.6	7.5	131.1
Interest payable	–	(10.0)	–	(10.0)
Other net expenses	(18.7)	4.2	–	(14.5)
Profit before tax	77.3	21.8	7.5	106.6
As at 31 March 2011				
Balance sheet				
Fair value of investment portfolio	620.6	338.0	134.7	1,093.3
Cash and cash equivalents	170.2	5.2	0.9	176.3
Other assets	12.7	3.8	–	16.5
Assets	803.5	347.0	135.6	1,286.1
Loans and borrowings	–	(167.9)	–	(167.9)
Derivative financial instruments	(5.3)	(14.2)	–	(19.5)
Other liabilities	(6.3)	(0.2)	(0.2)	(6.7)
Liabilities	(11.6)	(182.3)	(0.2)	(194.1)
Net assets	791.9	164.7	135.4	1,092.0

(1) Including Channel Islands.
(2) Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investment in Oystercatcher, including those derived from its underlying business in Singapore.

2 Unrealised gains on the revaluation of investments

	Year to 31 March 2012			
	Unquoted investments £m	**Debt investments £m**	**Loans and receivables £m**	**Total £m**
Movement in assets held at fair value through profit or loss	**8.5**	**–**	**–**	**8.5**

	Year to 31 March 2011			
	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
Movement in assets held at fair value through profit or loss	21.8	10.0	–	31.8

3 Advisory, performance and management fees payable

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Advisory fee	**(15.3)**	(12.5)
Performance fee	**–**	(2.9)
Management fee	**(0.9)**	(1.1)
	(16.2)	(16.5)

Note 19 provides further details on the calculation of the advisory fee, management fee and the performance fee.

Notes to the accounts continued

4 Operating expenses

Operating expenses include the following amounts:

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Audit fees	**0.2**	0.2
Directors' fees and expenses	**0.5**	0.4

Services provided by the Group's auditors

During the year the Group obtained the following services from the Group's auditors, Ernst & Young LLP.

		Year to 31 March 2012 £m	Year to 31 March 2011 £m
Audit services			
Statutory audit	Group	**0.15**	0.14
	UK subsidiaries	**0.05**	0.05
	Overseas subsidiaries	**0.04**	0.02
		0.24	0.21

Non-audit services

Ernst & Young LLP provided non-audit services for fees totalling £17,000 for the year to 31 March 2012 (2011: £14,500). In previous years, and in line with the Company's policy, Ernst & Young LLP provided non-audit services to support the transaction activity conducted by the Group during the year in relation to certain investee companies. The fees for these services are generally borne by the underlying investee companies, and therefore are not included in the expenses of the Group. No such fees were paid to Ernst & Young this year. The Company's policy for engaging the auditor for non-audit services is set out on page 52.

5 Finance costs

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Interest payable on loans and borrowings	**(9.7)**	(10.0)
Professional fees payable associated with the arrangement of debt financing	**(3.8)**	(3.2)
	(13.5)	(13.2)

6 Movements in the fair value of derivative instruments

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Unrealised gains in the fair value of forward foreign exchange contracts	**1.9**	2.3
Unrealised (losses)/gains in the fair value of interest rate swaps	**(2.5)**	3.7
	(0.6)	6.0
Net realised gains over fair value on the settlement of forward foreign exchange contracts	**1.3**	1.3

7 Income taxes

	2012 £m	2011 £m
Current year charge	**0.1**	0.2
Prior year under provision	**0.2**	0.1
	0.3	0.3

Profits arising from the operations of the Company are subject to tax at the standard rate in Jersey of 0% (2011: 0%).

Subsidiaries of the Company have provided for taxation at the appropriate rates that are applicable in the countries in which each subsidiary operates. As the returns of these subsidiaries are largely not subject to tax, in each of these relevant countries, the total tax provided is minimal.

Reconciliation of income taxes in the statement of comprehensive income
The tax charge for the period differs from the standard rate of corporation tax in Jersey, currently 0% (2011: 0%) and the differences are explained below:

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Profit before tax	**75.6**	106.6
Profit before tax multiplied by rate of corporation tax in Jersey of 0% (2011: 0%)	**–**	–
Effects of:		
Foreign taxes for the current period	**0.1**	0.2
Foreign taxes underprovided for prior periods	**0.2**	0.1
Total income taxes in the statement of comprehensive income	**0.3**	0.3

8 Investment portfolio

	As at 31 March 2012			
	Unquoted investments £m	**Debt investments £m**	**Loans and receivables £m**	**Total £m**
Opening fair value	**723.6**	**90.2**	**279.5**	**1,093.3**
Additions	**231.4**	**–**	**0.6**	**232.0**
Disposals and repayments	**–**	**(90.2)**	**(47.0)**	**(137.2)**
Unrealised gains on investments	**8.5**	**–**	**–**	**8.5**
Unrealised foreign exchange losses	**(14.4)**	**–**	**–**	**(14.4)**
Closing fair value	**949.1**	**–**	**233.1**	**1,182.2**

	As at 31 March 2011			
	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
Opening fair value	668.7	123.7	134.1	926.5
Additions	42.1	–	145.4	187.5
Disposals and repayments	–	(43.2)	–	(43.2)
Unrealised gains on investments	21.8	10.0	–	31.8
Unrealised foreign exchange losses	(9.0)	(0.3)	–	(9.3)
Closing fair value	723.6	90.2	279.5	1,093.3

The holding period of investments in the portfolio is expected to be greater than one year. For this reason, the Directors have classified the portfolio as non-current. It is not possible to identify with certainty where any investments may be sold within one year.

The fair value of loans and receivables approximates to the carrying value. All debt investments were held at fair value through profit or loss.

The Group invested in Elgin Infrastructure Limited in December 2009. It has been treated as a joint venture and under IAS 31 it has been held at fair value through profit and loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income.

Elgin Infrastructure Limited was incorporated as a Special Purpose Entity in October 2009, to hold the underlying portfolio of PFI projects. As at 31 March 2012 there were no outstanding commitments from the Group, or from the Company to Elgin Infrastructure Limited, or to the underlying assets of Elgin Infrastructure Limited (2011: £nil).

Notes to the accounts continued

8 Investment portfolio continued

Fair value hierarchy

The Group classifies financial instruments measured at fair value in the investment portfolio according to the following hierarchy:

Level	Fair value input description	Financial instruments
Level 1	Quoted prices (unadjusted and in active markets)	Quoted equity investments
Level 2	Inputs other than quoted prices included in Level 1 that are observable in the market either directly (ie as prices) or indirectly (ie derived from prices)	Debt investments held at fair value
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments

Unquoted equity instruments are measured in accordance with the International Private Equity Valuation guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments can be found in the section called Portfolio valuation methodology.

The debt investments held at fair value through profit and loss had a carrying value of £nil (2011: £90.2 million). In accordance with the fair value hierarchy the debt instruments held at fair value are classified as Level 2 with reference to observable market information.

The Group's investment portfolio for equity instruments and the debt investments held at fair value are classified in accordance with the fair value hierarchy as follows:

	As at 31 March 2012			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Unquoted equity	**–**	**–**	**949.1**	**949.1**
Debt investments held at fair value	**–**	**–**	**–**	**–**
	–	**–**	**949.1**	**949.1**

	As at 31 March 2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unquoted equity	–	–	723.6	723.6
Debt investments held at fair value	–	90.2	–	90.2
	–	90.2	723.6	813.8

	As at 31 March 2012		
Level 3 fair value reconciliation	**Unquoted investments £m**	**Debt investments £m**	**Total £m**
Opening fair value	**723.6**	**–**	**723.6**
Additions	**231.4**	**–**	**231.4**
Disposals	**–**	**–**	**–**
Unrealised gains on investments	**8.5**	**–**	**8.5**
Foreign exchange loss	**(14.4)**	**–**	**(14.4)**
Closing fair value	**949.1**	**–**	**949.1**

	As at 31 March 2011		
Level 3 fair value reconciliation	Unquoted investments £m	Debt investments £m	Total £m
Opening fair value	668.7	–	668.7
Additions	42.1	–	42.1
Disposals	–	–	–
Unrealised gains on investments	21.8	–	21.8
Foreign exchange loss	(9.0)	–	(9.0)
Closing fair value	723.6	–	723.6

There have been no reclassifications for assets that have been transferred in or out of Level 2 or Level 3 during the year (2011: £nil).

This disclosure only relates to the investment portfolio, however the fair value hierarchy also applies to derivative financial instruments. Please refer to Note 11 for further details.

8 Investment portfolio continued

All unrealised movements on investments and foreign exchange movements are recognised in the statement of comprehensive income during the year. The foreign exchange loss of £14.4 million (2011: £9.0 million) in the Level 3 fair value reconciliation table on page 70 includes a foreign exchange loss of £14.4 million (2011: £8.7 million) relating to assets that are held by intermediary holding companies of the Group, for which sterling is not the functional currency. As a result, this exchange loss of £14.4 million (2011: £8.7 million) is recognised within Other Comprehensive Income as part of the overall loss of £4.4 million (2011: £6.8 million) arising on re-translation of foreign currency subsidiaries. All other movements are recognised within the total Investment Return of £106.6 million (2011: £131.1 million).

The majority of the assets held within Level 3 are valued on a discounted cash flow basis, hence, the valuations above are sensitive to the discount rate assumed in the valuation of each asset. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £72.5 million (2011: £50.5 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £82.5 million (2011: £57.7 million).

9 Trade and other receivables

	As at 31 March 2012 £m	As at 31 March 2011 £m
Prepayments and accrued income	**3.7**	10.3
Other receivables	**3.4**	5.5
	7.1	15.8

The carrying value of the Trade and other receivables equates to fair value and all balances are expected to be settled within one year.

10 Financial risk management

A full review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Returns and risk section. This note provides further detail on financial risk management, cross-referring to the Returns and risk section where applicable, and providing further quantitative data on specific financial risks.

Each investment made by the Group is subject to a full risk assessment through a standardised investment approval process. The Board's Investment Committee and the Investment Adviser's investment process are part of the overall risk management framework.

The funding objective of the Group is that each category of investment ought to be broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets, and that funding needs ought to be met ahead of planned investment.

Capital structure

The Group has a continuing commitment to capital efficiency. The capital structure of the Group consists of cash held on deposit, borrowings and shareholders' equity. The Company's Articles require its outstanding borrowings, including any financial guarantees to support subsequent obligations, to be limited to 50% of the gross assets of the Group. The type and maturity of the Group's borrowings are analysed in Note 12 and the Group's equity is analysed into its various components in the statement of changes in equity. Capital is managed so as to maximise the return to shareholders, while maintaining a strong capital base that ensures that the Group can operate effectively in the marketplace and sustain future development of the business. The Board is responsible for regularly monitoring capital requirements to ensure that the Company is maintaining sufficient capital to meet its future investment needs.

The Company is regulated under the provisions of the Collective Investment Funds (Jersey) Law 1988 as a closed-ended collective investment fund and is not required as a result of such regulation to maintain a minimum level of capital.

Capital is allocated for investment in Utilities, Transportation and Social Infrastructure across the UK, continental Europe and Asia. As set out in the Group's investment policy, the maximum exposure to any one investment is 20% of gross assets (including cash holdings) at the time of investment.

Credit risk

The Group is subject to credit risk on its loans and receivables, debt investments, cash, deposits, derivative contracts and receivables. The maximum exposure to credit risk as a result of counterparty default equates to the current carrying value of these financial assets. Through the year, the Group's cash and deposits were held with a variety of counterparties principally in AAA-rated money market funds, as well as in short-term bank deposits with a minimum of a single A credit rating. The counterparties selected for the derivative financial instruments were all banks with a minimum of a single A credit rating. The credit quality of loans and receivables and debt instruments within the investment portfolio is based on the financial performance of the individual portfolio companies. The performance of underlying investments is monitored by the Board to assess future recoverability.

Notes to the accounts continued

10 Financial risk management continued

For those assets and income entitlements that are not past due, it is believed that the risk of default is small and capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the investment. If the portfolio company has failed, or is expected to fail in the next 12 months, the Group's policy is to record a fair value adjustment for the full amount of the loan. Fair value adjustments, or "loan impairments", are made when the net present value of the future cash flows predicted to arise from the asset, discounted using the effective interest rate method, implies non-recovery of all or part of the Group's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall.

As at 31 March 2012, the Group's shareholder loan investment of £3.7 million in T2C was considered to be impaired (2011: £3.7 million impaired). No other assets held by the Group were considered to be impaired. The Company had no other loans or receivables or debt investments considered past due (2011: £nil). There was no movement in the value of this impairment during the year.

3i Infrastructure plc actively manages counterparty risk. Counterparty limits are set and closely monitored by the Board and a regular review of counterparties is undertaken by the Investment Adviser and the Board. As at 31 March 2012, the Group did not consider itself to have exposure to one large counterparty and held deposits and derivative contracts with a number of different counterparties to reduce counterparty risk.

Due to the size and nature of the investment portfolio there is concentration risk due to the size of the investments. This risk is managed by diversifying the portfolio by sector and geography.

Liquidity risk

Further information on how liquidity risk is managed is provided in the Risk section. The table below analyses the maturity of the Group's contractual liabilities.

2012	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due in greater than 5 years £m	Total £m
Liabilities						
Loans and borrowings	**–**	**(11.8)**	**(11.0)**	**(167.8)**	**–**	**(190.6)**
Trade and other payables	**(2.4)**	**–**	**–**	**–**	**–**	**(2.4)**
Forward currency contracts	**–**	**(1.8)**	**(1.3)**	**(0.8)**	**–**	**(3.9)**
Financial commitments	**(46.5)**	**–**	**–**	**–**	**–**	**(46.5)**
Total undiscounted financial liabilities	**(48.9)**	**(13.6)**	**(12.3)**	**(168.6)**	**–**	**(243.4)**

2011	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due in greater than 5 years £m	Total £m
Liabilities						
Loans and borrowings	–	(10.1)	(10.1)	(178.0)	–	(198.2)
Trade and other payables	(6.7)	–	–	–	–	(6.7)
Forward currency contracts	–	(3.8)	(2.0)	(2.7)	–	(8.5)
Financial commitments	(53.8)	–	–	–	–	(53.8)
Total undiscounted financial liabilities	(60.5)	(13.9)	(12.1)	(180.7)	–	(267.2)

All derivatives are settled net. Cash flows upon settlement of interest rate swap contracts are intended to be settled net of the finance costs arising from loans and borrowings and therefore the net cash flows are shown in the table above. The financial commitment relates to the Company's commitments to the 3i India Infrastructure Fund (Note 17) and commitments in respect of financing costs on undrawn credit facilities.

The cash flows from financial assets are not used to manage contractual liquidity risk.

10 Financial risk management continued

Market risk

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio, but the valuation of the portfolio and the carrying value of other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivities to these fluctuations are set out below.

(i) Interest rate risk
Further information on how interest rate risk is managed is provided in the Risk section.

An increase or decrease of 250 basis points in interest rates over 12 months (2011: 250 basis points) would lead to an approximate increase or decrease in net assets and to the net profit of the Group of £5.8 million (2011: £4.6 million). This exposure relates principally to changes in interest payable and receivable on floating rate debt instruments and cash on deposit and changes in the fair value of interest rate derivatives and fixed rate debt instruments held at year end. In addition, the Group has indirect exposure to interest rates through changes to the financial performance of portfolio companies caused by interest rate fluctuations. The Group does not hold any fixed rate debt investments or borrowings and is therefore not exposed to fair value interest rate risk.

(ii) Currency risk
Further information on how currency risk is managed is provided in the Risk section. The currency denominations of the Group's net assets are shown in the table below. The sensitivity analysis demonstrates the exposure of the Group's net assets to movements in foreign currency exchange rates.

	As at 31 March 2012			
	Sterling £m	**Euro £m**	**US dollar £m**	**Total £m**
Net assets	**729.2**	**353.8**	**114.3**	**1,197.3**
Sensitivity analysis				
Assuming a 10% appreciation in sterling:				
Impact of exchange movements on net profit	**31.0**	**–**	**–**	**31.0**
Impact of exchange movements on net assets	**31.0**	**–**	**–**	**31.0**
Impact of the translation of foreign operations in the translation reserve	**–**	**(32.2)**	**(10.4)**	**(42.6)**

	As at 31 March 2011			
	Sterling £m	Euro £m	US dollar £m	Total £m
Net assets	791.9	164.7	135.4	1,092.0
Sensitivity analysis				
Assuming a 10% appreciation in sterling:				
Impact of exchange movements on net profit	12.8	(3.0)	–	9.8
Impact of exchange movements on net assets	12.8	(3.0)	–	9.8
Impact of the translation of foreign operations in the translation reserve	–	(10.7)	(11.6)	(22.3)

The impact of a 10% depreciation in exchange rates against sterling has the inverse impact on net profit, net assets and the translation reserve as shown above. There is an indirect exposure to the rupee through the investment in the 3i India Infrastructure Fund which is denominated in US dollars but it is only the direct exposure that is considered here.

(iii) Market price risk

Further information about the management of price risk, which arises principally from unquoted equity and quoted debt investments, is provided in the Risk section. A 10% increase in the fair value of those investments would have the following direct impact on net profit and net assets.

	As at 31 March 2012			As at 31 March 2011		
	Unquoted investments £m	**Debt investments £m**	**Total £m**	Unquoted investments £m	Debt investments £m	Total £m
Impact on net profit	**94.9**	**–**	**94.9**	72.4	9.0	81.4
Impact on net assets	**94.9**	**–**	**94.9**	72.4	9.0	81.4

By the nature of the Group's activities, it has large exposures to individual assets that are susceptible to movements in price. However, the Directors have a set investment policy that sets predefined limits for the exposure of the Group to an individual asset. These limits have not been exceeded at 31 March 2012 (or at 31 March 2011), and hence the Directors do not consider that any of these investments represents a large exposure.

10 Financial risk management continued

(iv) Fair values

The fair value of the investment portfolio is described in detail in the Portfolio valuation methodology section. The fair values of the remaining financial assets and liabilities approximate to their carrying values.

The sensitivity analysis in respect of the interest rate, currency and market price risks is considered to be representative of the Group's exposure to financial risks throughout the period to which they relate.

11 Derivative financial instruments

	As at 31 March 2012 £m	As at 31 March 2011 £m
Non-current assets		
Forward foreign exchange contracts	**1.8**	–
Current assets		
Forward foreign exchange contracts	**0.9**	0.7
Non-current liabilities		
Forward foreign exchange contracts	**(2.2)**	(4.7)
Interest rate swaps	**(13.6)**	(11.0)
	(15.8)	(15.7)
Current liabilities		
Forward foreign exchange contracts	**(1.8)**	(3.8)

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts to minimise the effect of fluctuations in the investment portfolio from movements in exchange rates and also to fix the value of certain expected future cash flows arising from distributions made by investee companies.

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates. The fair value of these contracts is recorded in the balance sheet. No contracts are designated as hedging instruments and consequently all changes in fair value are taken to the statement of comprehensive income.

As at 31 March 2012, the notional amount of the forward foreign exchange contracts held by the Group was £318.9 million (2011: £177.2 million).

Interest rate swaps

The Group uses variable to fixed interest rate swaps to manage its exposure to interest rate movements on its floating-rate interest-bearing borrowings. The fair value of these contracts is recorded in the balance sheet. No contracts are designated as hedging instruments and consequently all changes in fair value are taken through the statement of comprehensive income.

At 31 March 2012 the notional amount of the interest rate swaps held by the Group was £158.3 million or €190.0 million (2011: £167.9 million, €190.0 million).

Fair value of derivatives

The following table shows the Group's derivatives analysed into the investment hierarchy disclosed in Note 8.

	As at 31 March 2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Forward foreign exchange contracts	–	**(1.3)**	–	**(1.3)**
Interest rate swaps	–	**(13.6)**	–	**(13.6)**
	–	**(14.9)**	–	**(14.9)**

11 Derivative financial instruments continued

	As at 31 March 2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Forward foreign exchange contracts	–	(7.8)	–	(7.8)
Interest rate swaps	–	(11.0)	–	(11.0)
	–	(18.8)	–	(18.8)

Fair value has been determined using valuation techniques, as described on pages 21 and 80. The Group uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The valuations are market observable, internally calculated and verified to externally sourced data and are therefore included within Level 2. There have been no reclassifications for derivatives that have been transferred in or out of Level 2 or Level 3 during the year (2011: £nil).

12 Loans and borrowings

	As at 31 March 2012 £m	As at 31 March 2011 £m
Loans and borrowings are repayable as follows:		
Between 2–5 years	**(158.3)**	(167.9)
	(158.3)	(167.9)

The fair value of the loans and borrowings equates to the carrying value disclosed.

Oystercatcher Luxco 2 S.àr.l., a subsidiary of the Company, has borrowings from Royal Bank of Canada of €190.0 million or £158.3 million (2011: €190.0 million, £167.9 million). This facility has been drawn down in full and is repayable in 2014 in full. The facility has an interest rate at EURIBOR plus a fixed margin.

The loan from Royal Bank of Canada to Oystercatcher Luxco 2 has certain loan covenants including a debt service coverage ratio, an interest cover ratio and a leverage ratio. Royal Bank of Canada has security over the equity investment held by Oystercatcher. The value of this security at 31 March 2012 was £292.8 million (2011: £301.1 million).

Oystercatcher Luxco 2 has an arrangement with Royal Bank of Canada for an additional facility of €11.0 million (2011: €11.0 million). As at 31 March 2012, Oystercatcher Luxco 2 had not drawn down against this facility. There is an annual commitment fee of 0.4375% on the unused amount and an annual agency fee of €75,000 associated with the facility.

In November 2010, the Company signed a three-year unsecured, £200 million revolving credit facility at fixed margin above LIBOR. This replaced a previous £225 million revolving credit facility that was due to expire in March 2011. As at 31 March 2012 and 31 March 2011, the Company had not drawn down against this facility. The facility has standard loan covenants, including a debt service coverage ratio and loan to value ratio. There is an annual agency fee of £15,000 associated with the facility.

13 Trade and other payables

	As at 31 March 2012 £m	As at 31 March 2011 £m
Trade payables	**(0.1)**	(1.7)
Advisory, performance and management fees	**(0.9)**	(3.8)
Accruals	**(1.4)**	(1.2)
	(2.4)	(6.7)

Notes to the accounts continued

14 Issued capital

The Company is authorised to issue an unlimited number of shares with no fixed par value.

	As at 31 March 2012		As at 31 March 2011	
	Number	£m	Number	£m
Issued and fully paid				
Opening balance	**816,911,161**	**823.4**	811,082,581	817.6
Conversion of warrants	**64,438,409**	**64.4**	5,828,580	5.8
Closing balance	**881,349,570**	**887.8**	816,911,161	823.4

Under the Initial Public Offering in March 2007, 702.9 million ordinary shares were issued for £1.00, resulting in proceeds of £702.9 million being received. For every 10 shares issued as part of the IPO, one warrant was issued, resulting in 70 million warrants. A further 640,980 warrants were issued as part of the over-allotment arrangement. Each warrant entitled the holder to subscribe for one ordinary share at £1.00 at any time from 13 September 2007 to 13 March 2012. As at 31 March 2012 the period for conversion of warrants into ordinary shares had elapsed. At the beginning of the year there were 64,721,900 unexercised warrants, 64,438,409 warrants were exercised and issued in the year (2011: 5,828,580 warrants), 2,000 warrants were submitted for exercise but not issued, and the remaining 281,491 warrants were cancelled at 13 March 2012 without being exercised.

On 9 July 2008, 108.1 million ordinary shares were issued as part of the Placing and Open Offer for a price of £1.06, resulting in proceeds of £114.6 million being received. No warrants were attached to these shares.

Following a Court Order in December 2007, the stated capital of the Group was reduced by £693.1 million and transferred to retained reserves. The aggregate proceeds from the issue of share capital of £887.8 million (as shown above) have been further reduced by total issue costs of £13.1 million, resulting in stated capital at 31 March 2012 of £181.6 million.

15 Per share information

	Year to 31 March 2012	Year to 31 March 2011
Earnings per share (pence)		
Basic	**7.0**	11.5
Diluted	**7.0**	11.4
Earnings (£ million)		
Profit after tax for the year attributable to equity holders of the parent	**59.6**	93.6
Number of shares (million)		
Weighted average number of shares in issue	**853.2**	812.7
Effect of dilutive potential ordinary shares – warrants	**–**	8.2
Diluted shares	**853.2**	820.9

	As at 31 March 2012	As at 31 March 2011
Net assets per share (pence)		
Basic	**121.4**	122.5
Diluted	**121.4**	120.9
Net assets (£ million)		
Net assets attributable to equity holders of the parent	**1,070.1**	1,000.7

16 Dividends

	As at 31 March 2012		As at 31 March 2011	
Declared and paid during the year	Pence per share	£m	Pence per share	£m
Interim dividend paid on ordinary shares	**2.97**	**25.6**	2.86	23.2
Prior year final dividend paid on ordinary shares	**2.86**	**24.4**	3.30	26.8
	5.83	**50.0**	6.16	50.0

The Group proposes paying a final dividend of 2.97p per share which will be payable to those shareholders that are on the register on 22 June 2012. On the basis of the shares issued at year end this would equate to a total final dividend of £26.2 million.

17 Commitments

	As at 31 March 2012 £m	As at 31 March 2011 £m
Equity and loan investments	**46.5**	53.8

As at 31 March 2012, the Group was committed to subscribing a further £46.5 million (2011: £53.8 million) to the 3i India Infrastructure Fund. The capital is available on demand by the 3i India Infrastructure Fund.

18 Contingent liabilities

At 31 March 2012, there was no material litigation or other contingent liabilities outstanding against the Company or any of its subsidiary undertakings (2011: £nil).

19 Related parties

The Group has various related parties stemming from relationships with limited partnerships owned by the Group, its investee companies and its Investment Adviser.

Investments

The Group principally takes minority holdings in the equity of unquoted companies. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28 and IAS 31) but are related parties. The total amounts recognised in the statement of comprehensive income and the balance sheet for these investments are as follows:

Statement of comprehensive income	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Unrealised (losses)/profits on the revaluation of investments	**(11.3)**	18.4
Portfolio income	**73.0**	40.7

Balance sheet	As at 31 March 2012 £m	As at 31 March 2011 £m
Unquoted investments	**712.8**	506.9
Loans and receivables	**163.7**	178.5
	876.5	685.4

Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 34.1% (2011: 32.9%) of the ordinary shares of the Company. This classifies 3i Group as a "substantial shareholder" of the Company as defined by the Listing Rules. During the year 3i Group exercised its holding of 32.5 million warrants in full and acquired an additional 32.5 million ordinary shares.

The Group has committed US$250 million to the 3i India Infrastructure Fund ("the Fund") to invest in the Indian infrastructure market. 3i Group has also committed US$250 million of investment capital to this Fund. Commitments of US$11.9 million or £7.4 million were drawn down by the Fund from the Group during the year. In total, commitments of US$175.6 million or £109.7 million re-translated (2011: US$163.7 million, £94.7 million) had been drawn down at 31 March 2012 by the Fund from the Group. At 31 March 2012, the Group's outstanding commitment to the Fund was US$74.4 million or £46.5 million.

During the year the Group entered into an investment in Lakeside Network Investments ("LNI") through an intermediary holding vehicle 3i Networks Finland LP in which 3i Group has a 12.7% stake. 3i Group has contributed £28.4 million alongside the Group's investment of £194.8 million in LNI.

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, a subsidiary of the Company. During the year, £2.9 million (2011: £3.0 million) was payable to 3i Group of which £2.0 million was offset against the advisory fee (2011: £1.9 million). The net amount is shown as management fee of £0.9 million (2011: £1.1 million) in Note 3. As at 31 March 2012, £0.2 million remained outstanding (2011: £0.2 million).

19 Related parties continued

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company. It also acts as the manager for the 3i India Infrastructure Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company.

Under the Investment Advisory Agreement, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of 3i Infrastructure at the end of each financial period. Gross Investment Value is defined as the total aggregate value (including any subscription obligations) of the Investments of the Group as at the start of a financial period plus any investment (excluding cash) made during the period valued at cost (including any subscription obligations). The applicable annual rate is 1.5%, dropping to an annual rate of 1.25% for Investments that have been held by the Group for longer than five years. The advisory fee accrues throughout a financial period and quarterly instalments are payable on account of the advisory fee for that period. The advisory fee is not payable in respect of cash or cash equivalent liquid temporary investments held by the Group throughout a financial period. For the year to 31 March 2012, £15.3 million was payable and £0.1 million remains due to 3i plc. For the year to 31 March 2011, £12.5 million was payable and £0.3 million remained due to 3i plc.

The Investment Advisory Agreement also provides for an annual performance fee to be payable to 3i plc. This becomes payable when the Adjusted Total Return per ordinary share (being mainly closing net asset value per share aggregated with any distributions made in the course of the financial period and any accrued performance fees relating to the financial period) for the period exceeds the Target Total Return per share, being the Net Asset Value per ordinary share equal to the opening Net Asset Value per ordinary share increased at a rate of 8% per annum ("the performance hurdle"). If the performance hurdle is exceeded, the performance fee will be equal to 20% of the Adjusted Total Return per share in excess of the performance hurdle for the relevant financial period, multiplied by the weighted average of the total number of shares in issue over the relevant financial period. The performance hurdle has not been exceeded for the year to 31 March 2012, hence no performance fee is payable (2011: performance fee payable of £2.9 million) and no amounts remain outstanding at 31 March 2012 (2011: £2.8 million).

Under the Investment Advisory Agreement, the Investment Adviser's appointment may be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing (expiring on or after 13 March 2015, unless 3i Investments plc has previously ceased to be a member of 3i Group), or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Pursuant to the UK Support Services Agreement, the Company also pays 3i plc an annual fee for the provision of support services. Such remuneration is payable quarterly in arrears. The cost incurred for the year to 31 March 2012 was £0.8 million (2011: £0.5 million). The outstanding balance payable as at 31 March 2012 was £0.2 million (2011: £0.1 million).

Transaction with a joint venture company

In January 2010, the Group invested £39.1 million to acquire a 49.9% stake in Elgin Infrastructure Limited. This has been treated as a joint venture in accordance with IAS 31 and has been held at fair value through profit and loss and accounted for in accordance with IAS 39. The value of this investment as at 31 March 2012 was £42.0 million (2011: £40.2 million).

During the year, £3.2 million of portfolio income was recognised by the Group from Elgin (2011: £3.3 million) with £0.5 million due to the Group as at 31 March 2012 (2011: £0.5 million).

20 Principal subsidiaries

Name	Country of incorporation	Ownership interest
3i Infrastructure (Luxembourg) S.àr.l.	Luxembourg	100%
3i Infrastructure (Luxembourg) Holdings S.àr.l.	Luxembourg	100%
Oystercatcher Luxco 1 S.àr.l.	Luxembourg	100%
Oystercatcher Luxco 2 S.àr.l.	Luxembourg	100%
3i Networks Finland LP	UK	87%
3i Osprey LP	UK	69%
3i Infrastructure Seed Assets LP	UK	100%
3i India Infrastructure Fund A LP	UK	100%

The list above comprises the principal subsidiary undertakings of the Group as at 31 March 2012. Each of the subsidiary undertakings is included in the consolidated accounts of the Group.

The principal activity of the subsidiaries are intermediary holding vehicles for the Group's investment portfolio.

Investment policy

The Company aims to build a diversified portfolio of equity investments in entities owning infrastructure businesses and assets. The Company seeks investment opportunities globally, but with a focus on Europe, North America and Asia.

The Company's equity investments will often comprise share capital and related shareholder loans (or other financial instruments that are not shares but that, in combination with shares, are similar in substance). The Company may also invest in junior or mezzanine debt in infrastructure businesses or assets.

Most of the Company's investments are in unquoted companies. However, the Company may also invest in entities owning infrastructure businesses and assets whose shares or other instruments are listed on any stock exchange, irrespective of whether they cease to be listed after completion of the investment, if the Directors judge that such an investment is consistent with the Company's investment objectives. The Company will, in any case, invest no more than 15% of its total gross assets in other investment companies or investment trusts which are listed on the Official List.

The Company may also consider investing in other fund structures (in the event that it considers, on receipt of advice from the Investment Adviser, that that is the most appropriate and effective means of investing), which may be advised or managed either by the Investment Adviser or a third party. If the Company invests in another fund advised or managed by 3i Group, the relevant proportion of any advisory or management fees payable by the investee fund to 3i plc will be deducted from the annual advisory fee payable under the Investment Advisory Agreement and the relevant proportion of any performance fee will be deducted from the annual performance fee, if payable, under the Investment Advisory Agreement. For the avoidance of doubt, there will be no similar set-off arrangement where any such fund is advised or managed by a third party.

For most investments, the Company seeks to obtain representation on the board of directors of the investee company (or equivalent governing body) and in cases where it acquires a majority equity interest in a business, that interest may also be a controlling interest.

No investment made by the Company will represent more than 20% of the Company's gross assets, including cash holdings, at the time of the making of the investment. It is expected that most individual investments will exceed £50 million. In some cases, the total amount required for an individual transaction may exceed the maximum amount that the Company is permitted to commit to a single investment. In such circumstances, the Company may consider entering into co-investment arrangements with 3i Group (or other investors who may also be significant shareholders), pursuant to which 3i Group and its subsidiaries (or such other investors) may co-invest on the same financial and economic terms as the Company. The suitability of any such co-investment arrangements will be assessed on a transaction-by-transaction basis and would be subject to both Board and, where applicable, 3i Group and its subsidiaries' approval. Depending on the size of the relevant investment and the identity of the relevant co-investor, such a co-investment arrangement may be subject to the related party transaction provisions contained in the Listing Rules and may therefore require shareholder consent.

The Company's Articles require its outstanding borrowings, including any financial guarantees to support subsequent obligations, to be limited to 50% of the gross assets of the Group (valuing investments on the basis included in the Group's accounts).

In accordance with Listing Rules requirements, the Company will only make a material change to its investment policy with the approval of shareholders.

Portfolio valuation methodology

A description of the methodology used to value the investment portfolio of 3i Infrastructure and its subsidiaries ("the Group") is set out below in order to provide more detailed information than is included within the accounting policies and the Investment Adviser's review for the valuation of the portfolio. The methodology complies in all material aspects with the "International Private Equity and Venture Capital valuation guidelines" which are endorsed by the British Private Equity and Venture Capital Association and the European Private Equity and Venture Capital Association.

Basis of valuation

Investments are reported at the Directors' estimate of fair value at the reporting date. Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

General

In estimating fair value, the Directors seek to use a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the overall portfolio. The methodology that is the most appropriate may consequently include adjustments based on informed and experience-based judgments, and will also consider the nature of the industry and market practice. Methodologies are applied consistently from period to period except where a change would result in a better estimation of fair value. Given the uncertainties inherent in estimating fair value, a degree of caution is applied in exercising judgments and making necessary estimates.

Quoted investments

Quoted equity investments are valued at closing bid price at the reporting date. In accordance with International Financial Reporting Standards, no discount is applied for liquidity of the stock or any dealing restrictions.

Quoted debt investments will be valued using quoted prices provided by third-party broker information where reliable or will be held at cost less fair value adjustments.

Unquoted investments

Unquoted investments are valued using one of the following methodologies:

– Discounted Cash Flow ("DCF")

– Limited Partnership share of fund net assets

– Sales basis: expected sales proceeds

– Cost less any fair value adjustments required

DCF

DCF is the primary basis for valuation. In using the DCF basis, fair value is estimated by deriving the present value of the investment using reasonable assumptions and estimation of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate will be estimated for each investment derived from the market risk-free rate, a risk-adjusted premium and information specific to the investment or market sector.

LP share of fund net assets

Where the Group has made investments into other infrastructure funds, the value of the investment will be derived from the Group's share of net assets of the fund based on the most recent reliable financial information available from the fund. Where the underlying investments within a fund are valued on a DCF basis, the discount rate applied may be adjusted by the Company to reflect its assessment of the most appropriate discount rate for the nature of assets held in the fund.

Sales basis

The expected sale proceeds methodology will be used in cases where offers have been received as part of an investment sales process.

This may either support the value derived from another methodology or may be used as the valuation. A marketability discount is applied to the expected sale proceeds to derive the valuation where appropriate.

Cost less fair value adjustment

Any investment in a company that has failed or, in the view of the Board, is expected to fail within the next 12 months, has the equity shares valued at nil and the fixed income shares and loan instruments valued at the lower of cost and net recoverable amount.

Information for shareholders

Financial calendar

Ex-dividend date for final dividend	20 June 2012
Record date	22 June 2012
Annual General Meeting	10 July 2012
Final dividend expected to be paid	13 July 2012
Half-yearly results	November 2012

Registrars

For shareholder services, including notifying changes of address, the registrar details are as follows:

Capita Registrars (Jersey) Limited
12 Castle Street
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Channel Islands
e-mail: registrars@capita.je
Telephone: +44 (0)1534 632310 or the
Shareholder helpline: +44 (0)871 664 0300

Website

For full up-to-date investor relations information including the latest share price, recent reports, results presentations and financial news, please visit our investor relations website www.3i-infrastructure.com

If you would prefer to receive shareholder communications electronically in future, including your annual and half-yearly reports and notices of meetings, please go to

www.3i-infrastructure.com/e-comms
for details of how to register.

Frequently used registrars' forms may be found on our website at
www.3i-infrastructure.com/e-comms

3i Infrastructure plc

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Warning to shareholders – boiler room scams

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Services Authority (FSA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

Protect yourself

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FSA Register at **www.fsa.gov.uk/fsaregister** to ensure they are authorised.
3. Use the details on the FSA Register to contact the firm.
4. Call the FSA Consumer Helpline on **0845 606 1234** if there are no contact details on the Register or you are told they are out of date.
5. Search our list of unauthorised firms and individuals to avoid doing business with.
6. **Remember:** if it sounds too good to be true, it probably is.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at **www.fsa.gov.uk/scams**, where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0845 606 1234**.

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To receive shareholder communications electronically in future, including your annual and half-yearly reports and notices of meetings, please go to:

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