3i Infrastructure plc

Annual report and accounts 2013

Contents

The Directors' report for 3i Infrastructure plc ("3i Infrastructure" or "the Company") for the year to 31 March 2013 has been drawn up in reliance upon applicable English and Jersey law and the liabilities of the Company in connection with that report shall be subject to the limitations and restrictions provided by such law. This report may contain certain statements about the future outlook for 3i Infrastructure. Although the Directors believe their expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Performance highlights

For the year to 31 March 2013

Improved total return
Total return of £89.1 million, or 8.6% on opening shareholders' equity (2012: 5.6%)

8.6%

Progressive dividend
Total dividend of 6.49p, or 5.5% on opening shareholders' equity

5.5%

Strong portfolio income generation
Portfolio income generation in line with last year

£73m

Steady underlying asset performance
Growth in EBITDA of underlying investments over the prior year

2.8%

The numbers above are presented according to the investment basis of preparation and are not presented in accordance with International Financial Reporting Standards.

Our business

Our strategy

Our strategy is to invest in infrastructure businesses, making equity and junior or mezzanine debt investments. We invest in companies with strong market positions that deliver 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

Our objective is to provide shareholders with a total return of 10% per annum, to be achieved by building and managing a balanced portfolio of infrastructure investments. Within this overall objective we target an annual distribution yield of 5.5% of opening net asset value.

Following the Board's annual strategic update, the total return objective was revised to 10% per annum (from 12% when fully invested) and the dividend objective to 5.5% (from 5%) per annum. This reflects the changing strategy of the Company as it focuses more on core and social infrastructure and reduces its portfolio in India.

More on our strategic update
Chairman's statement, page 6
Strategic update, page 8

Our market focus

Our market focus is on core infrastructure in Europe, principally in the utilities and transportation sectors, investing in operational assets which generate long-term yield and can provide capital growth. We also have investments in social infrastructure, as well as in hybrid infrastructure through our commitment to the 3i India Infrastructure Fund.

As the 3i India Infrastructure Fund has reached the end of its investment period, we intend to focus future investment activity on core infrastructure and to build our primary PPP portfolio.

The infrastructure asset class offers the opportunity to diversify investments across the risk/return spectrum.

Social infrastructure/ PPP

Typically **government-backed concessions**, mainly in education, healthcare and accommodation. These investments tend to provide returns between 7%–12%, mostly through income, as well as high inflation correlation.

10%

£89m portfolio value at 31 March 2013

Core infrastructure

These investments typically provide returns between 8%–15%. Key characteristics include low volatility across economic cycles and strong market positions. **These tend to be dynamic businesses that own their asset base in perpetuity, not concessions with a finite life.**

79%

£731m portfolio value at 31 March 2013

Hybrid infrastructure

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

11%

£99m portfolio value at 31 March 2013

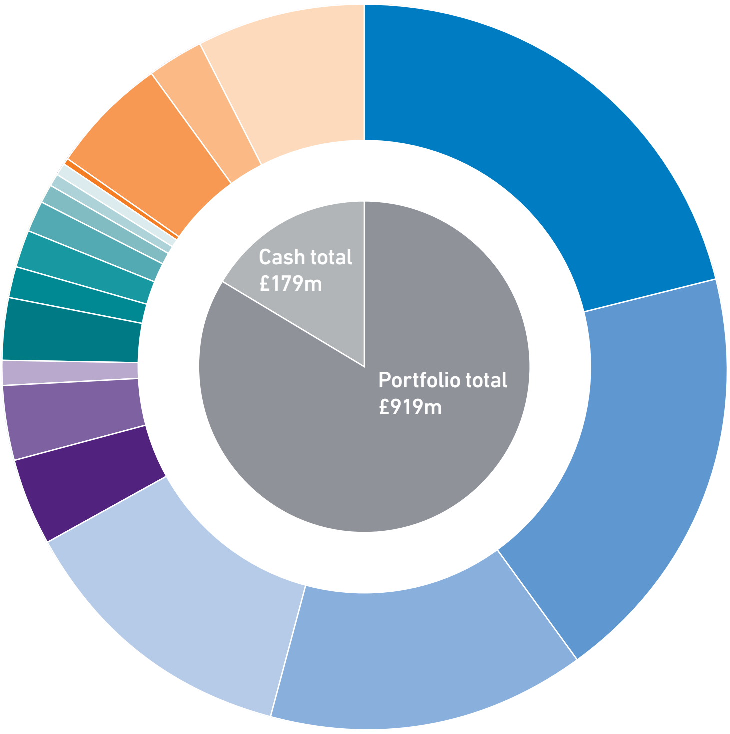
More on the investment strategy
Investment Adviser's review, page 11

Our portfolio

14
Investments

£919m
Portfolio value

£179m
Cash balances



Investments	£m
Core portfolio	
AWG	231
Elenia	205
Eversholt Rail Group	154
Oystercatcher	141
PFI portfolio	
Elgin	43
Octagon	34
Dalmore	12
3i India Infrastructure Fund	
Krishnapatnam Port	31
KMC Roads	17
Adani Power	17
GVK Energy	15
Soma Enterprise	7
Ind-Barath Utkal	6
Supreme Roads	6
Total portfolio value	**919**

Cash	
Cash committed to new investment in Dalmore	3
Expected investment in Thameslink	60
Cash committed to final dividend	31
Free cash[1]	85
Total cash	**179**

1 Includes £25 million committed to the 3i India Infrastructure Fund. The remaining commitment is limited to 15% of the original US$250 million commitment, or US$37.5 million. This amount is unlikely to be drawn in full.

The information above is presented according to the investment basis of preparation and not according to IFRS.

Financial highlights

	Investment basis[1]		Consolidated IFRS basis[2]	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
Total return	**£89.1m**	£56.0m	**£92.3m**	£55.0m
Total return on shareholders' equity	**8.6%**	5.6%	**8.8%**	5.5%
Total dividend per share	**6.49p**	5.94p	**6.49p**	5.94p
Net asset value ("NAV")/share	**125.2p**	121.0p	**125.9p**	121.4p
NAV after deducting proposed final dividend	**121.7p**	118.0p	**122.4p**	118.4p
Portfolio value	**£918.7m**	£890.8m	**£1,222.6m**	£1,182.2m
Cash balances	**£179.2m**	£173.4m	**£185.3m**	£183.6m

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 2013 was £111.8 million (2012: £70.9 million).

Chairman's statement

Peter Sedgwick, Chairman
8 May 2013

> **"This was a successful year for 3i Infrastructure, which delivered a total return of 8.6% on shareholders' equity and strong portfolio income. Our investments in the European portfolio continued to perform in line with, or above, our expectations. The performance of the India Fund, however, continued to be affected by challenging conditions.**
>
> **In its annual strategic update, the Board assessed the Company's investment strategy in light of the likely evolution of the portfolio in the current market. As a result of this review, we updated our return and dividend objectives to 10% and 5.5% respectively. We are confident that we have a strategy in place to deliver these objectives."**

This was a successful year for the Company. Growth in Net Asset Value ('NAV') was strong and the portfolio continued to generate good levels of income which covered our dividend. We also delivered a realisation from the portfolio at a good uplift to carrying value. The Company faced some difficulties too. In my outlook statement last year I said that conditions for investment were challenging and markets were volatile. Those conditions persisted throughout this financial year, which led to a difficult environment for investment and continued volatility in returns from the portfolio in India.

In its annual review of strategy this year the Board focused on the outlook for the infrastructure market, on opportunities to build on the existing strengths of the business and portfolio and reflected upon the changes to the market since the Company's financial targets were set back in 2007. As a result, we are rebalancing our investment strategy in favour of less volatile investments, reducing our exposure to higher risk hybrid investments in India over time, and therefore updating our return objective to an annual measure of 10% total return per annum. We are also increasing our dividend objective to 5.5% of opening NAV. We believe these objectives reflect the continuing opportunity to develop further our diversified portfolio of infrastructure investments, which deliver long-term yield with the potential for capital growth.

Performance

Looking at the financial performance in more detail, the total comprehensive income attributable to the equity holders of the parent (the "total return") on a consolidated IFRS basis was £92 million in the year to 31 March 2013. On an investment basis, which the Board also uses to monitor performance, the total return was £89 million, or 8.6% on shareholders' equity. This return was delivered through the strong performance of the Company's European portfolio, which generated both good income and value growth in the year. The European portfolio's strong returns were partly offset by the weaker performance of the investments in the 3i India Infrastructure Fund, which continued to be negatively affected by adverse macroeconomic and market conditions.

Dividend

Reflecting the strong income generation, the Board proposes a final dividend of 3.52p per share which, added to the interim dividend of 2.97p per share, exceeds the 5% dividend objective for this year and represents 5.5% of opening NAV, in line with our new objective for future years.

Investment activity

Investment levels were low this year, with 3i Infrastructure completing two new investments, totalling £17 million. The Company invested £12 million in the Dalmore Capital Fund, which is building a portfolio of secondary PFI investments in the UK. In addition, £5 million was invested in Supreme Roads, a portfolio of road BOT projects in India, through the 3i India Infrastructure Fund (the "India Fund"). In addition to our new investments, significant progress has been made on the Thameslink XLT transaction, which is approaching financial close.

As outlined in the Investment Adviser's review, there continues to be competition for infrastructure assets, as investors are attracted to investments that can provide stable income in a low interest rate environment. Price points, as a result, have remained high. Against this backdrop, the Board and Investment Adviser have retained their investment and pricing discipline.

In keeping with our strategy of selling investments at attractive prices relative to our valuations and of crystallising value for shareholders, the Company sold its investment in Alpha Schools in March to a wholly-owned subsidiary of HICL Infrastructure Company Limited. The sale generated gross proceeds of £21.2 million and the Board was pleased to deliver a strong premium to the opening value of £18.5 million through the sale. There is a detailed case study on page 13. 3i Infrastructure also received proceeds of £6.9 million as a result of loan repayments from Eversholt and Elgin.

Strategic update

In its annual strategic update, the Board assessed the Company's investment strategy and objectives in the context of developments in the infrastructure investment market, as well as of the performance of its portfolio. It concluded that the Company would make no new investments in India and would focus its future investment activity in core infrastructure and PPP in developed markets, in particular in the UK and continental Europe. Over time, as the investments in the India Fund are gradually realised, the portfolio will rebalance in favour of less volatile investments in core infrastructure and primary social infrastructure in Europe.

As a result of the review of our strategy and the rebalancing of risk and reward across the portfolio, the Board has decided to update the Company's return objective to an annual measure of 10% NAV growth, of which 5.5% is to be delivered through an annual dividend. The move to an annual total return target, rather than a long-term target based on full investment, recognises that 3i Infrastructure is a mature company, whose performance target should be an annual measure against an absolute return objective incorporating its funding requirements, rather than a long-term objective based on full investment.

The review validated the investment strategy and approach adopted thus far, which has delivered a strong performance across the Company's core and social infrastructure portfolios. The European portfolio has consistently delivered capital and income returns in line with or, more often, ahead of expectations, confirming the benefits of diversification within the portfolio. This portfolio provides a solid bedrock for the future. Core infrastructure markets will offer significant opportunity for skilled investors, which we believe the Investment Adviser is well placed to access.

We also believe that the PPP market will offer attractive investment opportunities, strategically aligned to our principles of delivering income and potential for capital growth. Investment in social and energy infrastructure is at the heart of the Europe-wide political agenda to stimulate economic growth. Private sector funding is a key element in determining the success of these ambitions, as resource-constrained governments seek to open up essential infrastructure through PPP-style transactions.

The Company, through the Investment Adviser, is well positioned to access opportunities across these markets with its leading track record of returns from core and PPP/PFI infrastructure investments, including primary projects such as Alpha Schools and Alma Mater.

Macroeconomic, market and regulatory conditions in India have been more challenging than initially expected when the Company committed to the India Fund in 2007. This investment has not, to date, delivered the premium risk adjusted returns that were expected and has brought unwelcome volatility to overall portfolio performance. On this basis, the Board has decided that the Company will make no further new investment in India or emerging markets, lowering overall portfolio return volatility.

The key elements of our strategic update are outlined on pages 8 and 9.

Cash balances and liquidity

As at 31 March 2013, 3i Infrastructure had cash balances of £179 million, of which £31 million will be used for the payment of the proposed final dividend, £3 million to new investment in Dalmore, £60 million to the Thameslink transaction and £25 million for any residual cash calls by the 3i India Infrastructure Fund, although it is unlikely that this amount will be drawn down in full.

With a significant portion of the cash balances invested or committed, the Board looked to secure the Company's liquidity in the medium term. On 2 May 2013, the Company entered into a new, £200 million, three-year revolving credit facility with a syndicate of five major banks. This new facility replaces the £200 million facility entered into in November 2010, which was due to expire in November 2013, on improved terms. As with the previous facility, the Board intends to use this liquidity as a bridge to equity, to be refinanced through equity issuance in due course.

Corporate governance and Board

There were a number of changes to the Board during the year. Charlotte Valeur served on the Board until 31 March 2013. Paul Masterton was appointed as a non-executive Director with effect from 4 April 2013. I would like to express my gratitude to Charlotte for her valuable contribution as a Director, and welcome Paul to the Board. Paul, a Jersey resident, has spent the majority of his career in the printing and communications industry, holding various appointments in the UK, the US and Asia.

In May, Florence Pierre and Paul Waller indicated that they wished to resign from the Board at the Company's AGM, to be held on 9 July 2013. I would like to thank them also for their valuable contribution. Paul Waller will be replaced by Ben Loomes as the 3i Group nominated Director of the Company. Ben will stand for election at the Company's AGM in July 2013.

The Board aims to uphold the highest standards of corporate governance and, in the year under review, complied with all applicable provisions of the UK Corporate Governance Code. At the last Annual General Meeting, held on 10 July 2012, shareholders approved the re-election of all Directors to the Board.

Investment Adviser and exclusivity arrangements

The Board has a Management Engagement Committee (comprising all independent Board members), which is tasked with managing the Company's relations with the Investment Adviser, including carrying out the annual evaluation of the Investment Adviser. This evaluation concluded that, based on good performance, the continued appointment of the Investment Adviser is in the interest of shareholders.

In November 2012, the Company and the Investment Adviser agreed an amendment to the Investment Advisory Agreement. This further extended the amount covered by the Agreement by £47 million, to cover the cash balances available for investment at 30 September 2012.

Outlook

Looking forward, the Board is confident that the Company has a strategy in place to deliver a 10% annual return and a dividend of 5.5% of opening NAV in the current climate, with reduced volatility. As the investments in the India Fund are gradually realised, we will redeploy our capital in core infrastructure and PPP, our key areas of strength, where we have built a market-leading track record of performance.

Strategic update

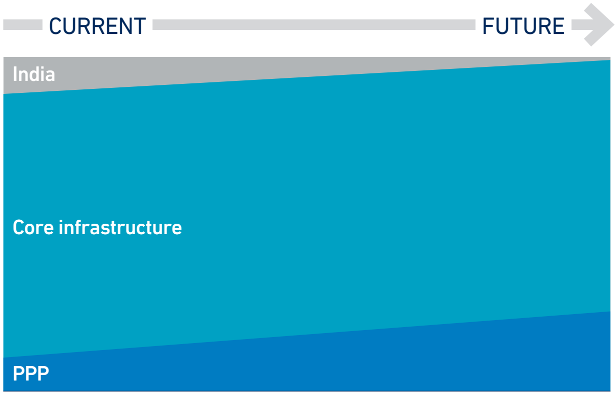
Key elements

Our investment strategy and approach, as well as our return objectives, dated back to our IPO in 2007. Since then, our portfolio has developed, as have the markets in which we operate.

In its strategic update this year, the Board assessed the Company's strategy and objectives in light of these changes. The review took a number of factors into consideration.

1	Core portfolio bedrock	Our portfolio has developed and diversified since our IPO. We have invested well and have crystallised value growth through a number of realisations. Our core European portfolio has consistently delivered returns in line with, or ahead of, our expectations. These returns have been supported by the steady value growth and robust income generation of our investments. **This portfolio provides a solid bedrock for future development.**
2	Target investment opportunities	We have been disciplined investors, maintaining our focus on core infrastructure, which has delivered the portfolio income and capital growth we expected. **There are good opportunities for skilled investors in the core infrastructure market**, which will remain our key area of focus. As market conditions evolve, we also see **other attractive areas to develop our business**, most notably primary PPP investments. Investment in social and energy infrastructure is at the heart of the Europe-wide agenda to stimulate growth and private sector funding is key to the implementation of these ambitions. This will result in investment opportunities, as resource-constrained governments across Europe seek to privatise or open up essential infrastructure through PPP-style transactions.
3	Return volatility	While the case for infrastructure development in India remains unaltered, private infrastructure investment in India has faced more political, market and macroeconomic challenges than we expected when we initially made our commitment to the India Fund in 2007. Our investment in the India Fund has not been immune to those challenges and, as a result, has suffered significant valuation volatility and has not delivered the premium returns we anticipated. In turn, this has introduced an **element of volatility to the total return**. The India Fund reached the end of its investment period in November 2012 and the Board decided that, as the Fund's assets are gradually realised, the Company **will not redeploy the proceeds in India**.
4	Portfolio balance	The Company will focus its future investment activity in the core infrastructure and PPP markets, where the Investment Adviser sees the best opportunities to invest. Over time, as the investments in the India Fund are gradually realised, the **portfolio will rebalance in favour of less volatile core and PPP investments** in our focus European market, which **can deliver a substantial portion of their return through income and an element of capital growth.**
5	Specialist advisory skills	The Board believes that **the Investment Adviser is well placed to access the target investment opportunities**, with its strong track record in core infrastructure and PPP/PFI investing. In light of the complexity and the long-term nature of infrastructure investing, **portfolio management is a key area of focus for the Investment Adviser** and is an important tool in achieving our return objectives.

Illustrative portfolio composition



The portfolio composition will evolve over time:

- 75%–80% invested in core infrastructure
- 20%–25% invested in PPP, with an emphasis on primary investments
- The India Fund portfolio will be gradually realised

This evolution will reduce the volatility of the overall portfolio return and increase the income generation from the portfolio.

Updating our financial objectives

As a result of this strategic review and of the rebalancing of risk and reward across the portfolio, we updated our financial objectives. This also reflects the composition of our existing portfolio and the market environment in which we operate.

Total return objective of **12%**, to be achieved over the long term

Annual distribution yield of **5%** of opening NAV

Annual total return objective of **10%** of opening NAV

Annual distribution yield of **5.5%** of opening NAV

Our updated objectives assume:

- A blended portfolio return, which reflects the returns from our existing European portfolio and a re-balancing of the portfolio away from India, in favour of core infrastructure and PPP in developed markets;
- An evolution of the market environment in which we operate, where projected returns from new infrastructure investments are lower than in 2007, as are interest rates; and
- Greater portfolio income generation, as the non-yielding India Fund investments are sold and proceeds re-deployed in core infrastructure and PPP projects.

The revised total return objective also accommodates costs and incorporates our funding strategy, with an element of dilution from holding cash balances for future investment.

Building on the bedrock of our portfolio and through the rigorous focus on core infrastructure and PPP, we can deliver these objectives with reduced volatility in the years to come.

Investment Adviser's review

Investment Adviser's review

Cressida Hogg Managing Partner, Infrastructure, 3i Investments plc

"Last year we continued to grow the value of our portfolio, crystallising some of this through the profitable sale of Alpha Schools. We are developing our investment pipeline, assessing a number of opportunities in our target areas of core infrastructure and PPP."

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 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:

- strong market position underpinning revenues (eg long-term contracts, quasi monopolies);
- capital-intensive;
- some degree of inflation linkage;
- low volatility through economic cycles;
- predictable, income-oriented returns when 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.

Social infrastructure/PPP

7%–12% TARGET RETURN

- High inflation correlation
- Mainly government-backed revenue streams
- Lower risk/return profile
- Strong yield when fully operational

Core infrastructure

8%–15% TARGET RETURN

- 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

Hybrid infrastructure

>15% TARGET RETURN

- Higher risk characteristics
  - country risk
  - market/volume risk
  - GDP correlation
- Operational expertise in building out the assets and running the business is more important

More on the strategic update
Chairman's statement: page 6
Strategic update: page 8

Investment Adviser's review

Investment strategy

To achieve 3i Infrastructure's return objectives, the Investment Adviser aims to build a portfolio that delivers a balance of both yield and an element of capital growth, by focusing on the PPP and core infrastructure markets.

The infrastructure asset class offers the opportunity to diversify investments across the risk/return spectrum. As shown in the diagram on page 11, we believe it can be sub-divided into three main categories: social, core and hybrid infrastructure.

Returns and yields from these categories typically range between 7% and 15% or more, depending, among other things, on the risks associated with the investments and on their state of development (eg under construction versus fully operational).

Core infrastructure investing

Core infrastructure companies are dynamic businesses which own their asset base.

Investing in core infrastructure businesses is therefore more complex and requires a broader set of skills, including:

- a **sound operational understanding** of the business and of 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**.

An engaged portfolio management approach is key in driving value from core infrastructure investments over the long term. Before committing to any investment, we develop a comprehensive understanding of the company, of the markets in which it operates, its competitive dynamics and the relevant regulatory environment.

3i Infrastructure has permanent capital and intends to drive value from its investments over long-term hold periods. Therefore, after making each investment, we engage with the management team at board level, as well as more informally, to develop strategies that support:

- investment in the asset base to promote **growth over the long term**;
- **continued improvements in operational performance**;
- **disciplined cash management** to drive yield for shareholders;
- **efficient capital structures** that can evolve according to market contingencies and business needs; and
- **alignment of interest** between management and shareholders, ensuring management focus on the long-term development of the business, rather than on short-term goals.

The Investment Adviser has a strong track record in core infrastructure investing, having delivered robust returns from the Company's investments in Anglian Water Group, Oystercatcher, Eversholt Rail Group and, most recently, Elenia.

PPP investing

Primary PPP investing involves investing in projects at the start of the concession rather than secondary acquisitions in operational projects. This usually requires a financial investor to:

- **form a consortium** with a primary developer to put together a bid;
- **support the consortium through a bidding process**, drawing on relevant financial, legal and commercial advice;
- **underpin a share of the bid costs**;
- **shape the funding plans** required for the project;
- **negotiate the contractual structure** with the procuring authority; and
- **oversee the construction** of the facilities or assets to be provided under the contract within the timescale and to the standards agreed with the procuring authority, taking construction and ramp-up risk.

Primary investing involves higher risks than secondary investing, where financial investors buy stakes in projects that have completed their construction phase, are operational and with contractual and financing structures already agreed. In return for accepting these risks and providing the necessary resources, **investment returns from primary projects are generally higher than secondary returns** and can be quantified towards the upper end of the 7%–12% return bracket for social infrastructure shown in the diagram on page 11.

Contracts are often structured so as to ensure that consortia receive payments from procuring authorities before the facilities or assets are fully operational.

Primary investing therefore requires **specialist skills, a strong understanding of the market and good relationships with primary developers**.

The Investment Adviser has a strong track record in primary investing, as demonstrated by the successful investments in Alma Mater, Alpha Schools and some projects within the I² portfolio, all of which have now been realised successfully. Primary investments of this type have allowed the Investment Adviser to crystallise the benefits of supporting projects through their construction phase and selling them into a very competitive secondary market when fully operational. The divestment of Alpha Schools in March 2013, is described in the case study opposite.

The Company's proposed investment in the Thameslink Rolling Stock Procurement Programme has many of the characteristics of primary PPP. 3i Infrastructure, with Siemens and Innisfree, its Thameslink XLT consortium partners, submitted a bid to the Department for Transport ("DfT") for the delivery, maintenance and financing of around 1,200 vehicles, as part of a broader upgrade programme for the Thameslink line. The consortium was named preferred bidder in June 2011 and has subsequently been negotiating complex contractual and financing structures with the DfT and a group of banks.

Secondary PPP investing involves secondary acquisitions of projects that are already operational. Due to the lower risks involved, returns from this type of investment tend to be lower than returns from primary projects. We have a strong track record of successful investing in secondary projects.

In October 2012, the Company announced that it had made a commitment of £15 million to the Dalmore Capital Fund ("Dalmore"), which specialises in investing in the UK secondary PFI market. Dalmore is managed by Dalmore Capital Limited, which is run by key members of the team that managed I², which generated an IRR for the Company of 23.8% on full exit. The investment in Dalmore builds on our strong track record in secondary PFI and provides us with access to the specialist investment skills of the team at Dalmore Capital in this market.

More on the Investment Adviser's track record
Investment track record: page 16

Divestment – Alpha Schools

About Alpha Schools

Alpha Schools (Highland) Limited ("Alpha Schools") is a concession company under a 30-year PFI contract (commenced in 2006) to build, operate and maintain 11 new schools on 10 sites in the Highland region of Scotland. Alpha Schools receives RPIX-linked payments from the Highlands Council to cover services and building maintenance. The construction of the schools commenced in 2006 and was completed in 2011.

The investment in Alpha Schools was part of the initial portfolio seeded into 3i Infrastructure at its IPO in 2007. The PFI investments in that initial portfolio provided balanced exposure to both early-stage (Alpha Schools, Alma Mater) and operational projects (Octagon, a majority of the projects within I²). As outlined on page 12, investments in early-stage PFI projects typically generate returns that are higher compared to the returns generated by operational PFI projects, reflecting the higher construction and execution risks involved. Both early-stage and operational PFI investments provide portfolios with lower risk, index-linked cash flows and robust yields.

Through the Investment Adviser, the Company managed its investment in Alpha Schools through the construction phase and through ramp-up, **achieving a robust track record of operational performance** when the facilities became fully operational.

The realisation

On 25 March 2013, 3i Infrastructure announced it had sold its 50% holding in Alpha Schools to a wholly-owned subsidiary of HICL Infrastructure Company Limited ("HICL"), which already owned the balance of the investment. The sale of the investment, which 3i Infrastructure held through a subsidiary undertaking, generated gross proceeds of £21.2 million, representing a premium to the opening valuation of £18.5 million and to the cost of £9.1 million.

Cost	£9.1m
Income received in the period of ownership	£6.3m
Sale proceeds	£21.2m
IRR	33.2%
Opening value at 1 April 2012	£18.5m
Profit over value this financial year	£2.7m

Value creation from primary investing

While 3i Infrastructure, with its permanent capital, is set up to hold investments over the long term, it will sell assets where attractive offers crystallise the value created in an investment over the period of ownership, or where there is a strong market for that particular investment.

Both these conditions were met in the case of Alpha Schools. HICL's offer **crystallised the value growth generated over the period of ownership**, at a considerable uplift to the cost and the opening value of the investment, against the backdrop of a competitive market for secondary PFI investments. Having generated good returns from the investment through the construction phase and through ramp-up to successful operation, 3i Infrastructure sold its investment once it had achieved a **track record of stable returns**, which was **reflected in a lower discount rate**.

Investment Adviser's review

Hybrid infrastructure investing

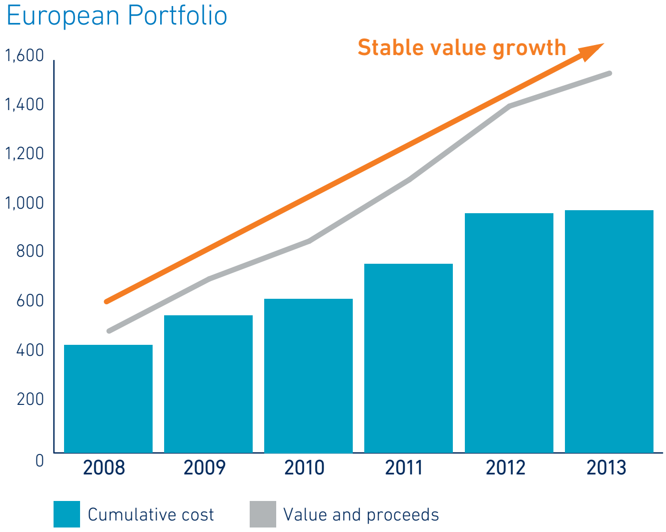
The Company currently invests in hybrid infrastructure through its US$250 million commitment to the US$1.2 billion India Fund, managed by the Investment Adviser through a dedicated team in India. The India Fund reached the end of its investment period in November 2012 and will make no new investments. In this post-investment phase, the India Fund will focus on realising its portfolio over time and this will reduce the Company's exposure to India. The Company's remaining commitment to this fund is limited to 15% of the original US$250 million commitment, or US$37.5 million and is, in practice, unlikely to be drawn in full.

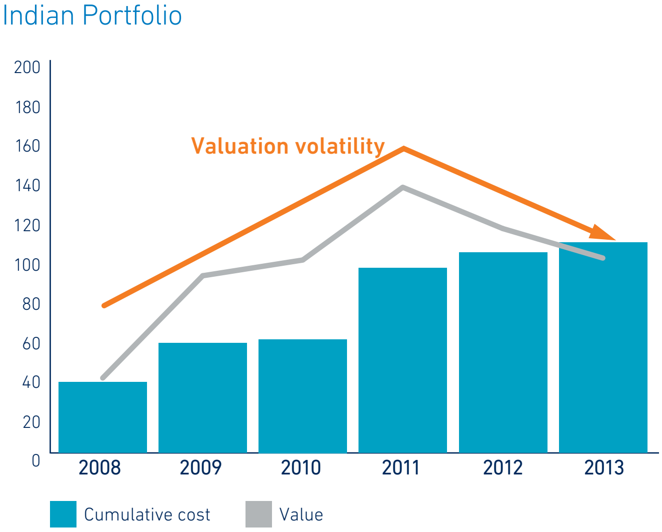
The rationale for this commitment, made in 2007, was that it would provide exposure to a diversified portfolio of early-stage infrastructure investments in India, expected to deliver gross returns of around 20% through the fund's life but with a higher risk profile (construction risk and country/geopolitical risk).

The investment in the India Fund has not delivered the capital growth that the Board and Investment Adviser expected when the commitment was made. While the operational development of the investments in the India Fund has proceeded broadly according to plan, a number of macroeconomic, market and political factors have weighed on their performance. These factors are outlined in the 3i India Infrastructure Fund review on page 36.

At 31 March 2013, the Fund was valued at 0.8x cost in US dollar terms and 1.0x cost in rupee terms. Rather than enhancing overall returns, the investment in the India Fund has introduced an element of volatility to overall portfolio valuations, as shown in Chart 1, despite the strong performance of its social and core infrastructure portfolios. In recognition of the higher than expected risks involved in hybrid infrastructure investing (and specifically in infrastructure investing in India), the Board established that **3i Infrastructure will make no further investments in India** (beyond the current commitment to the India Fund).

Chart 1 – **Cumulative cost and value progression** (£m)



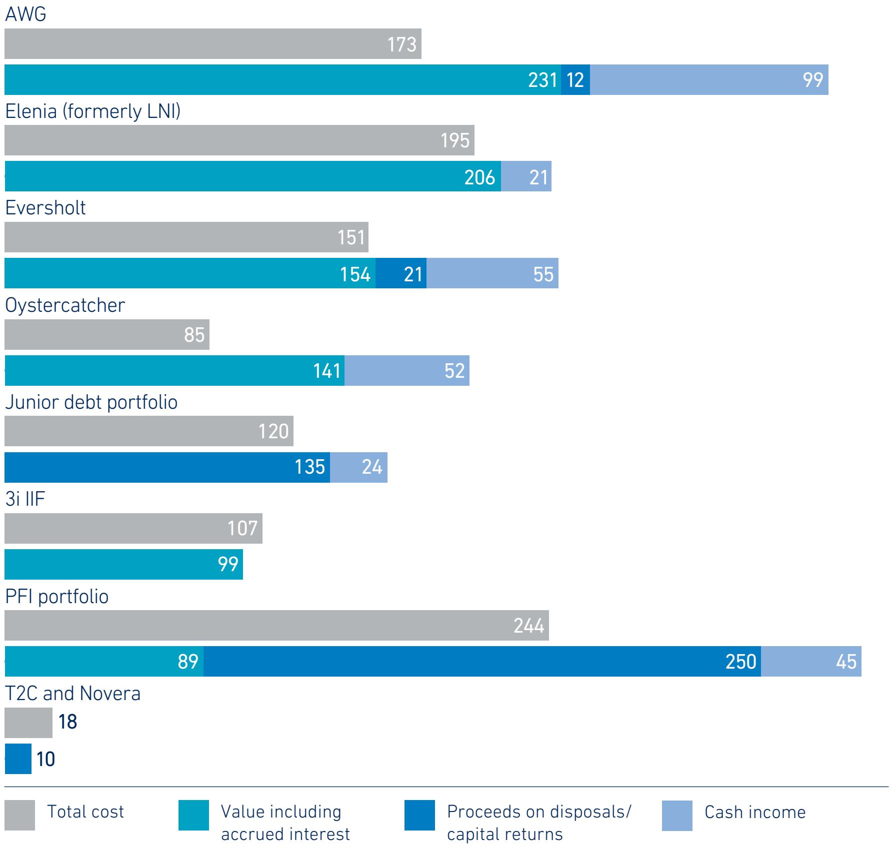


16%

Annualised asset IRR since inception to 31 March 2013

Chart 2 – **Portfolio asset returns throughout holding period**

(six years since inception, £m)



The calculation of the IRR (Internal Rate of Return) uses cash flows generated from the investments to calculate the annualised effective compound rate of return. The calculation uses: (i) total cost (original cost plus any further investment); (ii) proceeds for investments that have been sold, or from capital returns; and (iii) closing value for investments that have not been sold.

Investment track record

The Investment Adviser has implemented its strategy rigorously since the Company was set up. As a result, 3i Infrastructure now has a portfolio that has provided:

- **significant income** supporting the consistent delivery of the Company's annual dividend objective;
- **strong capital profits** from realisations; and
- **an element of capital growth** underpinning the 16% gross IRR shown in Chart 2.

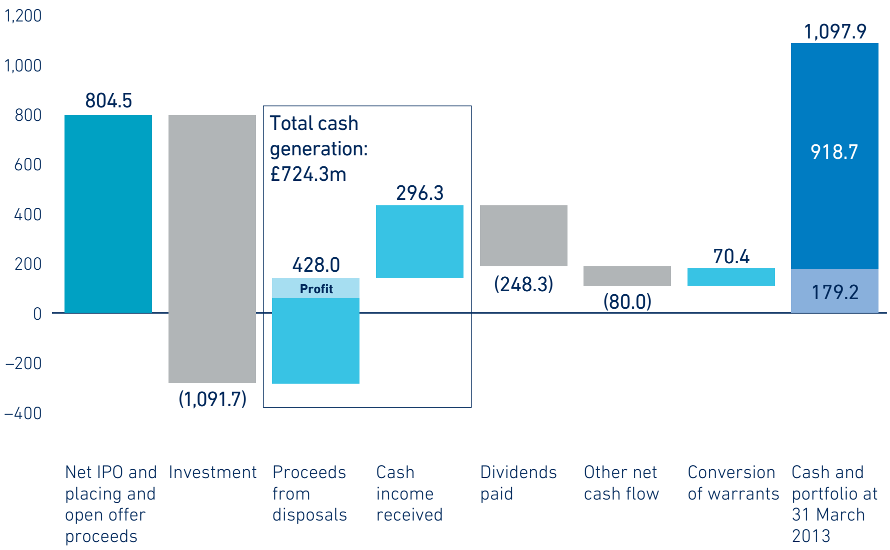
The value created through this robust investment performance has been crystallised in a number of instances through well managed realisations. While the Company is structured to hold investments over the long term, it will sell assets on an opportunistic basis, where compelling offers generate shareholder value, as was the case for Alma Mater in 2008, I[2] in 2009, the junior debt portfolio in 2011–12 and Alpha Schools in 2013.

Charts 2 and 3 illustrate the investment track record since 3i Infrastructure's inception. In particular:

- the **core and social infrastructure portfolios have generated strong returns**, in line with, or ahead of expectations;
- the **return is underpinned by substantial cash generation** in the form of income or capital profits;
- most investments **return a significant proportion of their cost through income** in a relatively short period of time;
- where investments have been sold, they have generated **good uplifts over cost**, and an overall IRR of 19.3%; and
- the valuation of the India Fund has been volatile.

As shown in Chart 3, from investment of £1,092 million, since the Company's inception the portfolio has returned cash income of £296 million and realised proceeds of £428 million.

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



More on the strategic update
Strategic update: page 8

Market and opportunities

Conditions for investment

Allocations to the infrastructure asset class have continued to grow as many investors increasingly seek opportunities that deliver a high level of income. This trend has intensified as yields in some other asset classes remain compressed in a persistently low interest rate environment.

This has resulted in significant demand for infrastructure assets from specialist financial investors, as well as direct investors such as large pension funds and sovereign wealth funds.

There were a number of major transactions in regulated utilities across Europe last year, including OpenGrid, Wales and West Gas and Veolia Water, but generally market activity in core infrastructure has been muted. The deals that were completed continued to be supported by the availability of capital markets and bank debt for strong infrastructure businesses, even as liquidity in other sectors remained relatively constrained.

As demand for infrastructure assets increases, price points have risen. This trend has been noticeable across the infrastructure market, with projected returns available from secondary PFI investments and from core infrastructure investments in stable economies reduced.

The broader market environment remains volatile. Economies in Europe are struggling to recover, as the sovereign debt crisis endures, the availability of credit remains constrained and a number of countries, particularly in the euro periphery, continue to face significant macroeconomic and political headwinds.

In this environment, we have remained disciplined investors and have avoided overbidding in competitive processes, focusing on a narrower set of opportunities in the UK and Northern Europe. As a result, investment activity has been lower than in previous years.

The market opportunity in core infrastructure

The themes driving the market opportunity in core infrastructure are broadly unchanged compared to last year. Disposals from corporates and financial institutions have continued to provide the majority of investment opportunities. In particular, utilities as well as oil and gas majors are selling distribution and downstream assets to focus on generation and upstream activities, while banks and other financial institutions are selling assets or portfolios to comply with capital adequacy regulations.

Opportunities in core infrastructure are also likely to derive, in due course, from the sale of assets by specialist financial investors. Some infrastructure funds, nearing the end of their investment periods, will need to realise investments to return capital or prove valuations.

The market opportunity in PPP

Investment in social infrastructure is at the heart of the Europe-wide political agenda to create growth and private sector funding is a critical element in the success of these ambitions. Over time, we expect resource-constrained governments throughout Europe to increasingly privatise or open up essential infrastructure through PPP-style transactions. There are now over 1,000 closed PPP projects across Europe, with a combined equity value of around £10 billion, spanning critical sectors providing essential services including schools and hospitals, as well as prisons, roads, light rail, water treatment plants, military support equipment, government accommodation facilities and energy projects.

Well over £1 billion has been raised by specialist investors over the past three years in investment vehicles focused on this type of investment. Investors continue to have much appetite for the long-term, low-risk and income oriented returns offered by investments in PPP projects. Investments in primary projects, in particular, have proven increasingly attractive in light of the premium returns promised by this type of investment, as outlined on page 12.

The UK's primary project market has slowed down since the Conservative-Liberal Democrat coalition government came into power in 2010, although a new PFI programme focused on new school and healthcare projects was recently launched and the Government has announced details of its proposed PF2 model for PPP. Other European governments have developed similar PPP models to access private sector capital and outsourcing expertise, particularly in France, Belgium and the Netherlands, with smaller programmes also in place in Germany and Scandinavia.

India

Infrastructure deal volumes have fallen in India as a result of lower GDP growth rates, a growing fiscal deficit, currency volatility and persistently high inflation and high interest rates. While the fundamental case for infrastructure development (and private involvement in this) remains unaltered, there are challenges in this market at present.

The India Fund reached the end of its investment period in November 2012 and 3i Group, which through 3i Investments manages the India Fund, suspended new fundraising in this market. It is likely that the Company's remaining commitment to the India Fund will remain largely undrawn. The team's focus will be on preparing the India Fund's investments for sale in a challenging market.

Outlook

The infrastructure market continues to offer attractive opportunities. We are seeing good investments in both core and social infrastructure, our key areas of focus and we expect to be investing further over the next year.

As part of the XLT consortium, we are making significant progress with the DfT on the Thameslink Rolling Stock Procurement Programme.

We are also currently focusing on a number of opportunities in the northern European core infrastructure market. While returns available from infrastructure investing in our core markets remain under pressure, we will continue to seek opportunities where we have a competitive advantage over other bidders, where we can engage at an early stage or leverage market relationships to ensure that portfolio returns are not compromised.

Portfolio

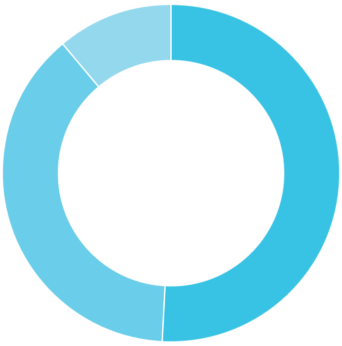
Table 1 below summarises the valuation and movements in the portfolio, as well as the return per investment, for the year to 31 March 2013 on an investment basis. Charts 4, 5 and 6 below illustrate the distribution of the portfolio by geography, sector and maturity at 31 March 2013. Chart 7 illustrates the distribution of the portfolio in the risk/return framework presented on page 11.

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

Portfolio assets	Directors' valuation 31 March 2012	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	**Directors' valuation 31 March 2013**	Profit on disposal	Income in the year	**Asset total return in the year**
Anglian Water Group	209.4	–	–	21.2	–	**230.6**	–	15.5	**36.7**
Elenia	201.0	–	–	0.6	3.9	**205.5**	–	20.6	**25.1**
Eversholt Rail Group	154.2	–	(6.6)	6.0	–	**153.6**	–	17.8	**23.8**
Oystercatcher	118.2	–	–	21.3	1.9	**141.4**	–	11.2	**34.4**
3i India Infrastructure Fund	114.2	4.9	–	(26.3)[1]	6.3	**99.1**	–	–	**(20.0)**
Elgin	42.0	–	(0.3)	1.2	–	**42.9**	–	3.4	**4.6**
Octagon	33.3	–	–	0.7	–	**34.0**	–	2.6	**3.3**
Alpha Schools	18.5	–	(18.5)	–	–	**–**	2.7	1.5	**4.2**
Dalmore Capital Fund	–	11.6	–	–	–	**11.6**	–	0.2	**0.2**
T2C[2]	–	–	–	–	–	**–**	–	–	**–**
Total	890.8	16.5	(25.4)	24.7	12.1	**918.7**	2.7	72.8	**112.3**

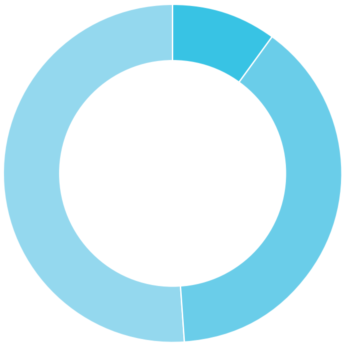
1 Includes a £7.2 million negative impact from US$/rupee exchange movements.
2 T2C was sold in the year for a nominal amount.

Chart 4 – **Portfolio by geography**



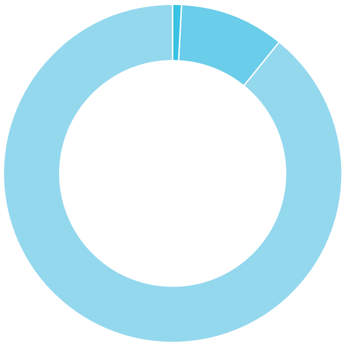
UK and Ireland	**51%**
Continental Europe	**38%**
Asia	**11%**

Chart 5 – **Portfolio by sector**



Social infrastructure	**10%**
Transportation	**39%**
Utilities	**51%**

Chart 6 – **Portfolio by maturity**



Early stage	**1%**
Operational growth	**10%**
Mature	**89%**

Chart 7 – **Risk/return spectrum and asset distribution**

Social infrastructure/PPP

7%–12% TARGET RETURN

- Three investments
  - Elgin: a portfolio of 16 school and community healthcare projects
  - Octagon: concession company to build, operate and maintain the Norfolk and Norwich University Hospital
  - In the year, the Company invested £11.6 million in the Dalmore Capital Fund, which invests in secondary PFI projects
- Alpha Schools, which was part of the Company's initial portfolio, was sold in March 2013

Core infrastructure

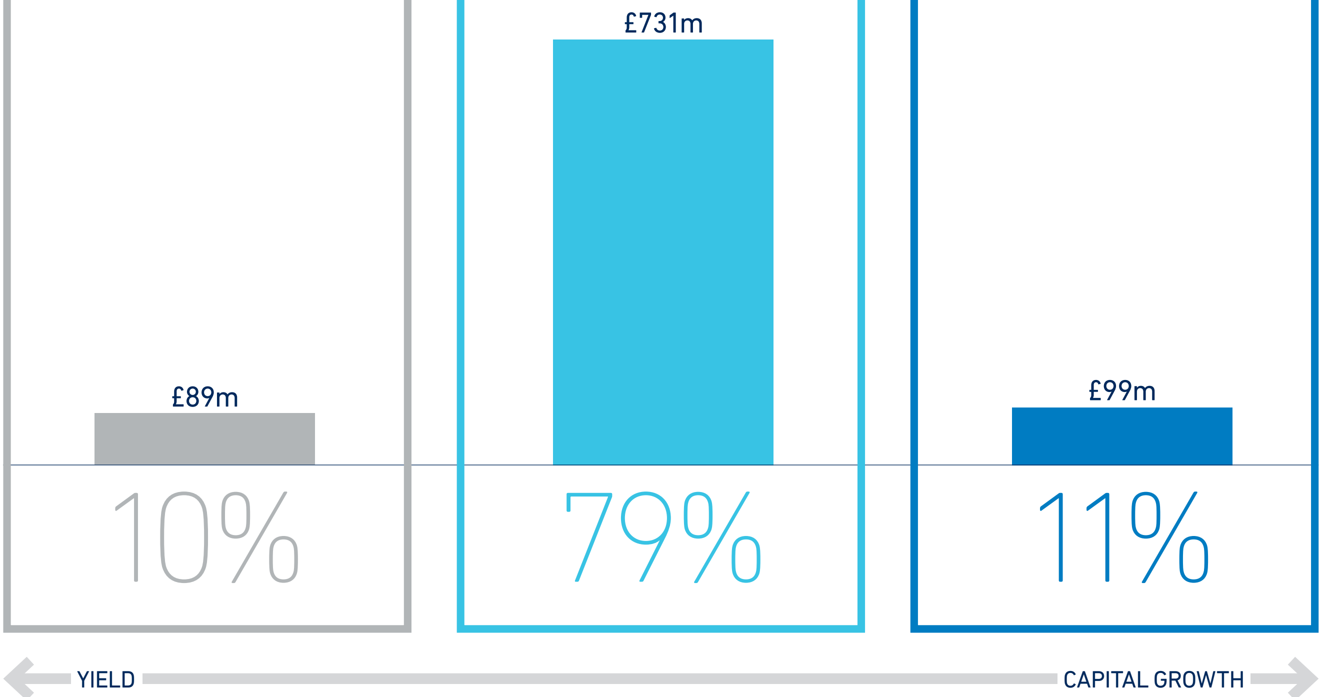
8%–15% TARGET RETURN

- Four investments
  - Anglian Water Group: the fourth largest water supply and wastewater company in England and Wales
  - Elenia: owns the second largest electricity distribution network and a district heating business in Finland
  - 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
- No new additions in the year
- The investment in T2C was sold during the year

Hybrid infrastructure

>15% TARGET RETURN

- 3i Infrastructure has a US$250 million commitment to the 3i India Infrastructure Fund ("India Fund"), 73% drawn at 31 March 2013
- Seven investments
  - three in the power sector
  - three in the roads sector
  - one in the ports sector
- Of the assets above, one, Supreme Roads, was acquired by the India Fund in the year
- The India Fund reached the end of its investment period in November 2012 and will be making no new investments
- The India Fund is now focused on asset realisation over time



Movements in portfolio value

As set out in Chart 8, the portfolio was valued at £918.7 million at 31 March 2013, compared to £890.8 million at the beginning of the financial year. Total portfolio value growth was £24.7 million in the year, with the strong performance of the European portfolio only partly offset by poor performance in India. Investment of £16.5 million was more than offset by divestment of £25.4 million. Foreign exchange movements increased portfolio value by £12.1 million. However, net of the impact of the hedging programme, the effect of foreign exchange movements on total return was minimal.

Investment

3i Infrastructure invested a total of £16.5 million in the year.

On 12 October 2012, the Company announced that it had made a commitment of £15.0 million to the Dalmore Capital Fund ("Dalmore"), £10.0 million of which was drawn at that date to fund Dalmore's £89.5 million acquisition of a 49.9% stake in a portfolio of UK PFI assets from Interserve plc. A further £1.9 million of this commitment was drawn by Dalmore in January 2013 to increase its stake in two of the projects in that portfolio. On 28 March 2013, Dalmore admitted two new limited partners and the Company received a return of £0.3 million of its initial investment, taking the net investment to £11.6 million.

Dalmore is managed by Dalmore Capital Limited ("Dalmore Capital") which is run by key members of the team that managed I[2], a secondary PFI fund in which 3i Infrastructure previously held an investment and which generated an IRR for the Company of 23.8% on full exit. The investment in Dalmore builds on the Company's strong track record in social infrastructure and provides it with access to the specialist investment skills of the team at Dalmore Capital in the secondary PFI market.

In addition, at the end of January 2012, the India Fund entered into an agreement to acquire a minority stake in a portfolio of road build-operate-transfer ("BOT") companies of Supreme Infrastructure India Limited. The transaction closed on 3 July 2012, with the India Fund investing US$35.9 million. 3i Infrastructure invested US$7.5 million (£4.9 million) through the India Fund as its share in this transaction.

Divestment

On 25 March 2013, 3i Infrastructure sold its 50% holding in Alpha Schools (Highland) Holdings Limited ("Alpha Schools") to a wholly-owned subsidiary of HICL Infrastructure Company Limited (which already owned the balance of the investment). The sale of the investment in Alpha Schools, which was held through a subsidiary undertaking, generated gross proceeds of £21.2 million, representing a significant premium to the opening value of £18.5 million. Alpha Schools, a concession company under a PFI contract to build, operate and maintain 11 new schools in Scotland, was part of the initial portfolio seeded into the Company at its IPO in 2007.

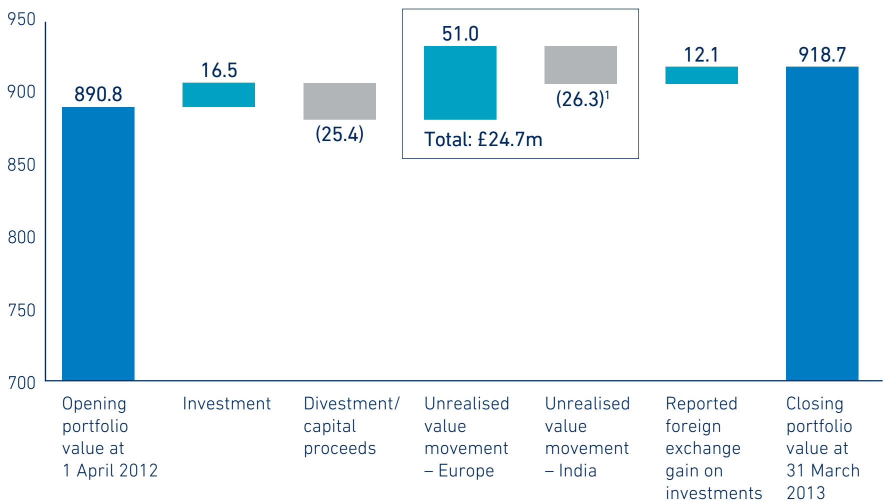
As previously reported, the Company received proceeds of £6.6 million from Eversholt Rail Group and of £0.3 million from Elgin following the partial repayment of their shareholder loans, bringing total divestment proceeds received in the period to £25.4 million.

During the year, 3i Infrastructure's investment in Thermal Conversion Compound ("T2C") was sold for a nominal amount, generating no proceeds for the Company. 3i Infrastructure invested in T2C, a special purpose company established to build, operate and maintain a waste-to-energy plant on an industrial park near Frankfurt, in 2007. A provision was taken against the value of T2C in March 2010, due principally to significant delays in the construction of the plant. The investment had remained valued at nil since then.

Unrealised value movement

As shown in Chart 8 below, overall the portfolio generated a total unrealised value gain of £24.7 million in the year to 31 March 2013 (2012: £7.0 million). The European portfolio achieved strong returns in the year, increasing in value by £51.0 million. This positive performance was partially offset by poor performance in India, with the valuation of the Company's holding in the India Fund declining by £26.3 million over the same period.

Chart 8 – **Reconciliation of the movement in portfolio value on an investment basis** (£m)



1 Includes a £7.2 million negative impact from US$/rupee exchange movements. The movement excluding exchange losses was £19.1 million. Exchange movements are described in Table 2 on page 22.

More on Dalmore
Review of investments: page 35

More on the divestment of Alpha Schools
Divestment: Alpha Schools: page 13

Core portfolio

The core portfolio generated a good value uplift in the year, with unrealised value growth of £49.1 million, driven by the continued strong operational performance of the underlying investments, the impact on value of the successful refinancing of the Oystercatcher acquisition debt and reflecting the strong market for European core infrastructure assets. Value increases were partly offset by income receipts.

The valuation of Anglian Water Group (£230.6 million at the end of March 2013, compared to £209.4 million a year earlier) benefited from a number of positive factors, including the end of drought conditions following a period of intense rainfall, the successful raising of new debt at attractive rates, the satisfactory outcome of negotiations with Ofwat on potential licence changes and the sale of Morrison Facilities Services to Mears. AWG is performing in line with its regulatory settlement, and is making good progress in the implementation of its wide-ranging efficiency and capital expenditure programmes. In light of the strong valuations being achieved in transactions in the UK water sector, the discount rate used to value the Company's investment in AWG was reduced since September 2012, as described on page 23.

Elenia (formerly Lakeside Network Investments) was valued at £205.5 million at 31 March 2013 compared to £201.0 million a year earlier, including foreign exchange gains of £3.9 million. Elenia completed its post-acquisition corporate reorganisation process in January 2013, which allowed it to pay a dividend. 3i Infrastructure's share of this dividend amounted to £20.6 million in this financial year.

Eversholt was valued at £153.6 million at the end of March 2013, which after a partial loan repayment of £6.6 million is up from £154.2 million a year earlier. The valuation benefited from Eversholt's continued strong operational performance, which was balanced by distributions of income. While delays in the refranchising process introduced an element of uncertainty for the industry, the DfT announced a fresh start for the refranchising process at the end of March 2013 (see Eversholt investment review on page 30).

The valuation of Oystercatcher (£141.4 million, compared to £118.2 million a year earlier) reflects a value uplift of £21.3 million and foreign exchange gains of £1.9 million. The value gain reflects a reduction in the discount rate used to value the investment following the successful refinancing of the acquisition debt facility, as the discount rate had previously been increased. The three terminals continue to perform well, in line with our expectations.

PFI portfolio

The PFI portfolio achieved unrealised value growth of £1.9 million in the period (2012: £4.9 million). RPI-driven value increases were offset by income distributions of £7.7 million. Dalmore, the Company's most recent social infrastructure investment, performed well in the period of ownership.

3i India Infrastructure Fund

The valuation of the Company's investment in the 3i India Infrastructure Fund declined from £114.2 million at the end of March 2012 to £99.1 million at 31 March 2013, after new investment of £4.9 million. This movement was driven principally by a significant reduction in the valuation of Adani Power Limited, following a 40% decline in its share price over the year. The valuation of the power sector assets in the portfolio declined in the year, due to factors including the availability and pricing of fuel and the terms of power purchase agreements with State Electricity Boards. In addition, Soma Enterprise faced construction challenges in project execution and constraints on working capital, principally due to delays in obtaining approvals from the relevant authorities.

More on portfolio performance:
Review of investments: page 25

Investment Adviser's review

Foreign exchange impact

As shown in Table 2 below, the reported foreign exchange gain on investments of £12.1 million reduced to a net £1.6 million gain after other foreign exchange related movements, including the impact of the foreign exchange hedging programme.

The Indian rupee depreciated marginally against sterling in the year, resulting in net foreign exchange losses of £0.9 million for the India Fund. The Board monitors both the rupee exposure and the cost/benefit of hedging that exposure on a regular basis.

The euro appreciated by 1.5% against sterling during the year, but the resulting foreign exchange gains were partially offset through the foreign exchange hedging programme undertaken to provide mitigation from movements in that exchange rate, resulting in a net positive impact of only £2.5 million.

Overall, the net impact for the year was a foreign exchange gain of £1.6 million (2012: £16.3 million loss).

Underlying asset performance

The fully operational investments held by the Company delivered a steady performance during the year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") for these investments increased by 2.8% on a like-for-like basis relative to the prior year. EBITDA for the European investments increased by 3.4% on the prior year. Specifically, AWG, Eversholt and Oystercatcher saw year-on-year increases of 2.1%, 2.8% and 8.4% respectively.

The 2.8% overall figure is calculated on a weighted average basis and the investments 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) and Octagon and, within the 3i India Infrastructure Fund, Adani Power, Krishnapatnam Port, Soma Enterprise, GVK Energy and KMC Roads.

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; and
- regulated asset base multiples.

Table 2 – **Impact of foreign exchange movements on portfolio value** (year to 31 March 2013, £m)

	£/rupee	£/€	Net impact
Translation of assets £/US$	6.3		6.3
Translation of assets £/€		5.8	5.8
Reported foreign exchange gain on investments			**12.1**
Asset valuation US$/rupee[1]	(7.2)		(7.2)
Movement in the fair value of derivative financial instruments (£/€ hedging)		(3.3)	(3.3)
Other foreign exchange movements			**(10.5)**
Net foreign exchange gains/(losses)	**(0.9)**	**2.5**	**1.6**

1 Contained within Unrealised profits/(losses) on revaluation of investments in Table 3 on page 40.

Discounted cash flow and discount rates

As at 31 March 2013, 97.5% of the portfolio was valued on a DCF basis. The weighted average discount rate applied at that date was 12.0% (March 2012: 12.6%), deriving from a range of 8.2% (for an operational PFI asset) to 19.0% (for a project within the 3i India Infrastructure Fund). Chart 9 shows the movement in the weighted average discount rate applied to the portfolio at the end of each six-month period since the Company's 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) in our relevant markets have remained flat since the September 2012 valuation and, as such, this did not drive changes to the discount rates applied at 31 March 2013.

Our assessment of risk premia and current market pricing, however, resulted in the following changes to discount rates being applied at the end of the year:

AWG

The discount rate used to value AWG was reduced to reflect: (i) the valuations achieved in recent transactions in the UK water sector (eg Sutton and East Surrey Water); (ii) the sale of Morrison Facilities Services, valued at a higher discount rate compared to the core water and wastewater business; (iii) the Company's continued ability to refinance its debt in the market at attractive rates, as reflected in the continued narrowing of the spread between AWG bond yields and UK gilts; and (iv) the reduced uncertainty in relation to the regulatory licences.

Oystercatcher

The discount rate used to value Oystercatcher was reduced to reflect a de-risking of the investment following the successful refinancing of the acquisition debt facility in March 2013. The discount rate to value Oystercatcher had been increased in March 2012 due to the approaching refinancing.

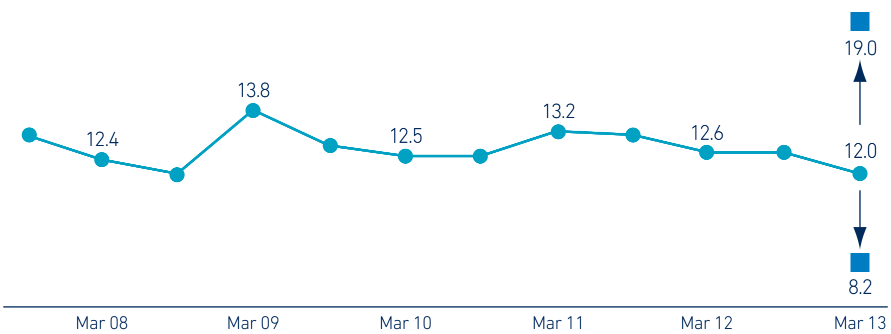
India

The discount rates applied to value projects across the India Fund's portfolio, based on their stage of development, remained broadly unchanged. The discount rates used to value some individual projects within KMC Roads were reduced, as development milestones were reached. In addition, the discount rate used to value Krishnapatnam Port was reduced slightly to reflect greater confidence in cargo volumes. These changes had no material impact on the overall discount rate applied across the India Fund.

Dalmore Capital Fund and 3i India Infrastructure Fund

The Company's investment in Dalmore and in the India Fund was valued as the Company's share of net assets held by those funds. Within the India 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 the value attributable to a put option, which provides downside valuation protection.

Chart 9 – **Portfolio weighted average discount rate** (%)



Profile of senior members of the investment advisory team

Cressida Hogg Managing Partner
Infrastructure

Cressida co-founded 3i Group's Infrastructure business in 2005 and took over the role of Managing Partner in January 2009. 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.

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. Qualified Chartered Accountant.

Neil King Partner
Infrastructure

Neil has responsibility for the investment advisory team's investment origination and appraisal activities in Europe. He has been involved in advising on most of the Company's new deals, including leading the investments into Eversholt, Elgin and Dalmore Capital and has had a leading role in ensuring a consistent approach to infrastructure investment. 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 Elenia, Eversholt and Oystercatcher's oil storage companies. Phil joined 3i Group in 2007, bringing 20 years of investment, advisory and financing experience to this role, gained from roles at Macquarie, WestLB and Barclays.

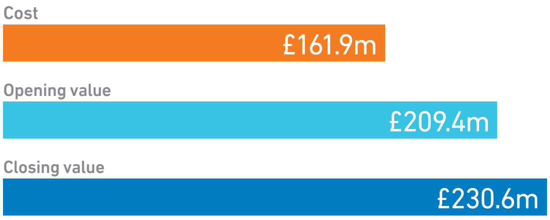
Scott Moseley Partner
Infrastructure

Scott joined 3i Group in 2007. His primary focus is origination and execution of European infrastructure investment opportunities. His deals include the investments in Elenia, Eversholt and the junior debt portfolio. Scott is also involved in the Thameslink project, where 3i Infrastructure is a shareholder in the preferred bidder consortium, Thameslink XLT. He is a director on the boards of Elenia and XLT. Scott has 13 years of experience in the infrastructure sector.

Review of investments

Anglian Water Group

Performance in the year



Equity interest	**10.3%**
Income in the year	**£15.5m**
Asset total return in the year	**£36.7m**
Valuation basis	**DCF**

The value on an IFRS basis is £336.6 million.

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 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 managed separately by 3i Investments.

Investment rationale

AWG was taken private in 2006 by a group of investors, including Canada Pension Plan, Colonial First State, Industry Funds Management and 3i Group, which "seeded" part of its AWG holding into 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 has attractive fundamentals:

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

Achievements in the period of ownership

AWG has flourished under private ownership. It has refocused on its core business, selling Morrison Utilities Services, Morrison Facilities Services and much 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, asset quality and customer service rather than short-term earnings and share price performance. The management now balances long-term planning, for example to respond to the challenges of climate change, with a clear focus on operational efficiency and customer service.

Developments in the year

AWG continued to perform robustly during the year, with its EBITDA increasing by 2.1% year-on-year. Anglian Water is making good progress in the implementation of its current regulatory settlement, with a strong focus on a wide-ranging efficiency programme.

Anglian Water continues to perform well in customer service against its peers, ranking first in Ofwat's Service Incentive Mechanism survey for the year ending 31 March 2013.

The principal issue facing Anglian Water at the end of March 2012 was the drought which followed two unusually dry winters. In response, AWG had started the implementation of incremental capital expenditure to improve further the resilience of water supply and encourage water conservation. The heavy rains seen since April 2012 relieved the drought conditions, but put downward pressure on demand from households and small business customers, and resulted in some flooding. Demand from small businesses was impacted further by the weak economic conditions.

The business has experienced success with its "Keep it Clear" media campaign, highlighting the impact of blockages caused by inappropriate waste being flushed into sewers. The incremental capital expenditure and the impact on demand of record-breaking rainfall resulted in a reduction in the dividend received from AWG this year.

The business continues to implement its cost efficiency and capital spending programmes, performing well against its targets. AWG has been able to raise debt on attractive terms throughout the year, maintaining access to diverse sources of funding.

In November 2012, AWG sold Morrison Facilities Services to Mears for a total consideration of £24 million. This will further reduce the management time dedicated to non-core activities.

Following the publication of its Water White Paper in December 2011, the Government published its draft Water bill in July 2012, setting out a number of changes to the structure of the industry, including the extension of competition for business customers, changes to the abstraction regime to encourage more efficient use of water resources and measures to help the industry manage bad debts. Anglian Water remains proactive across the broad range of issues and will continue to engage widely to ensure that it is well placed to respond to the changes that will ensue. During the year, there was a satisfactory outcome to negotiations with Ofwat regarding its proposed changes to licences. This has enabled management to focus on preparing for the next regulatory review, for which water companies are required to submit draft business plans by the end of 2013.

The Company lowered the discount rate used to value its investment in AWG, as described on page 23, reflecting higher comparable valuation benchmarks and supported by AWG's continued robust operational performance and its strong track record of debt raising.

Elenia

Performance in the year

Cost
£194.8m

Opening value
£201.0m

Closing value
£205.5m

Equity interest	39.3%
Income in the year	£20.6m
Asset total return in the year[1]	£25.1m
Valuation basis	DCF

1 Includes an unrealised foreign exchange gain of £3.9 million
The value on an IFRS basis is £235.5 million.

Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 410,000 customers and has a 12% market share. The business is regulated on a four-year cycle, delivering a set return on its regulated asset base.

Elenia Lämpö owns and operates 16 local district heating networks, each with strong market shares in their local areas. It has its headquarters in Hämeenlinna and is the main supplier of heat to the town, with some ancillary electricity production from the Vanaja CHP plant. District heating, which involves the pumping of hot water directly into homes and businesses from central hubs, is not regulated in Finland.

The investment is held through 3i Networks Finland LP, an intermediary limited partnership which is managed separately by 3i Investments.

Investment rationale

3i Infrastructure purchased Elenia from Vattenfall AB in January 2012 in consortium with 3i Group plc, GS Infrastructure Partners and Ilmarinen Mutual Pension Insurance Company.

Elenia has strong infrastructure characteristics:

- the electricity distribution business operates in a stable and transparent regulatory environment, with regulatory incentives providing opportunities for value-accretive growth;
- the businesses are profitable and provide inflation linkage. This is likely to support a robust yield to 3i Infrastructure over the long term; and
- Finland is an attractive market, providing opportunities for consolidation over the medium term.

Developments in the year

Elenia successfully completed the post-acquisition corporate reorganisation in early January 2013. The completion of this process allowed Elenia to distribute its first dividend to shareholders following the acquisition. 3i Infrastructure's share of this distribution was £20.6 million.

Elenia's governance was enhanced through the appointment of new independent chairmen to the boards of each business, as well as through a number of management appointments to further strengthen the executive teams, including a new chief financial officer and a new chief executive for Elenia Lämpö.

The consortium has engaged with the management team of Elenia to update and enhance its capital expenditure plans to improve network reliability.

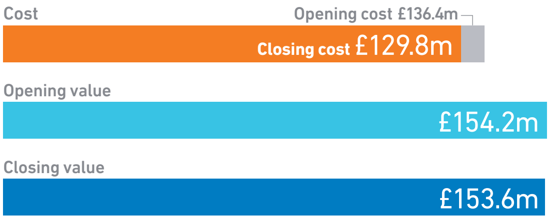
A number of acquisition opportunities were also examined, with the first bolt-on acquisition, of Asikkalan Voima, completed in August 2012. This is a small distribution company in which Elenia already owned a 50% holding. Elenia purchased the remaining 50% of the shares from Lahti Energia. This acquisition affirms the Company's thesis on consolidation opportunities in the sector.

The Finnish government is seeking to implement legislation aimed at improving reliability of electricity supply in response to outages caused by severe weather conditions in 2011 and 2012. This is a positive development, consistent with Elenia's strategy. We expect detailed proposals from the regulator on revisions to the regulatory regime in the autumn.

Finally, the businesses were rebranded, with the new "Elenia" name successfully launched in May 2012, reinforcing to domestic audiences the separation from Vattenfall.

Eversholt Rail Group

Performance in the year



Equity interest	**33.3%**
Capital repayment in the year	**£6.6m**
Income in the year	**£17.8m**
Asset total return in the year	**£23.8m**
Valuation basis	**DCF**

Eversholt Rail Group ("Eversholt") is one of the three leading rail rolling stock companies in the UK and owns approximately 28% of the current UK 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, Eversholt also owns a freight fleet, which accounts for less than 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.

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.

Achievements 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. Further executive appointments were made to the Irish and UK businesses to bolster Eversholt's technical, legal and financial resources, positioning it well to manage the significant increase in workload as the pace of rail franchise re-tendering accelerates.

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

Eversholt continued to perform well in the year, with its EBITDA increasing by 2.8% compared to last year. This allowed Eversholt to repay an additional £6.6 million of its shareholder loan as described on page 20. The Company also accrued regular interest payments of £17.8 million. The proceeds of £6.6 million account for the difference between opening and closing cost in the chart on the previous page.

The cancellation by the Department for Transport ("DfT") of the Intercity West Coast franchise competition and suspension of the wider refranchising programme was a significant disappointment for Eversholt, as it had been heavily involved in supporting bidders for all affected franchises. Eversholt has welcomed the subsequent review of the rail franchising programme led by Richard Brown, which recommended early recommencement of the programme along with reinforcement of the capability and resources of the DfT. In March 2013, the DfT announced a new timetable for future franchises, which staggers the programme over a longer period, necessitating a large number of relatively short franchise extensions/awards. Eversholt is now working proactively with current franchise holders and prospective bidders, as appropriate, to provide the best possible rolling stock solutions for the travelling customer. In particular, the timing for the East Coast franchise competition has been clarified to start in early 2014 and Eversholt has developed innovative proposals to upgrade its existing fleet operating on that franchise.

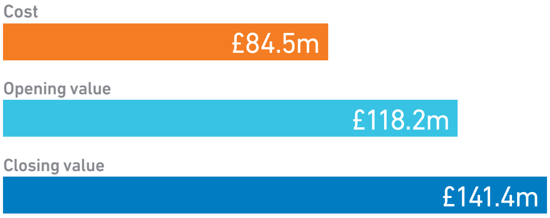
Market developments have provided a number of asset management opportunities for Eversholt. The company is providing asset management services to the Cross London Trains ("XLT") consortium, the preferred bidder for the Thameslink rolling stock procurement programme.

In December 2012, Eversholt raised £150 million in a private placement with a 20-year maturity, the proceeds of which were used to repay the company's outstanding balance on its capital expenditure facility and to partly repay the senior bank facility. This further extends the maturity profile of Eversholt's debt and demonstrates its ability to access diverse sources of debt funding.

Eversholt's Class 395 trains were used for the Olympic Javelin Train Service, ran by Southeastern Railways to transport passengers from St Pancras Station to the Olympic Park. Approximately 2.4 million passenger journeys were made on this service, or over 90,000 passenger journeys a day throughout the Games.

Oystercatcher

Performance in the year



Equity interest	45.0%
Income in the year	£11.2m
Asset total return in the year[1]	£34.4m
Valuation basis	DCF

1 Includes an unrealised foreign exchange gain of £1.9 million. The value on an IFRS basis is £309.3 million.

Oystercatcher Luxco 2 S.à r.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 75 terminals in 23 countries with a total storage capacity of 20.3 million cubic metres.

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 leading player in the oil storage market, with a strong operational reputation.

Achievements 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 customers' 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 to provide dedicated storage for biodiesel products for a new production facility adjacent to the site was 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, completed in February 2012, and let on a use-or-pay basis to an existing customer.

Since investment, total capacity at the three terminals has increased by 23%, while annual throughput has increased by 18%.

In March 2013, 3i Infrastructure signed the refinancing of the Oystercatcher acquisition debt facility, significantly de-risking its financing structure (see below).

Developments in the year

All three terminals performed ahead of expectations in the year, with their EBITDA up by 8.4% year-on-year.

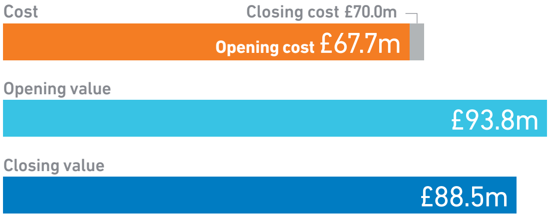
Market conditions for trading customers have not been as favourable as in previous years, as trading margins remain squeezed by a shallower forward curve, as well as by lower volatility in oil prices. However, the strong market position of all three terminals ensured that customer contracts expiring in 2012 were re-let on improved terms. Throughput levels remained high throughout the year.

In Malta, the construction of an LPG pipeline to transport LPG imports from Oiltanking's jetty to a new storage facility (owned by GASCO Energy Ltd) was completed within budget and the first cargo was received in June 2012. Completion of this pipeline is important, as a smooth supply of LPG is vital to the Maltese economy.

In March 2012, the Company increased the discount rate used to value its holding in Oystercatcher 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 approached maturity in 2014. The refinancing of the acquisition debt facility was completed in March 2013. As outlined on page 23, this allowed a reduction in the discount rate used to value Oystercatcher as at March 2013.

Social infrastructure

Performance in the year



Equity interest	
Elgin	**49.9%**
Octagon	**36.8%**
Dalmore	**9% share of funds**
Investment in the year	**£11.6m**
Realised proceeds in the year	**£21.2m**
Income in the year	**£7.7m**
Asset total return in the year	**£12.3m**
Valuation basis	**DCF for Elgin and Octagon, LP share of funds for Dalmore**

Elgin

Elgin Infrastructure Limited ("Elgin") is 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 sub-contracted to Robertson Facilities Management (in 15 projects) and Carillion Facilities Management (in one project).

Octagon

Octagon Healthcare Limited ("Octagon") is 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 sub-contracts the provision of facilities services to Serco.

Dalmore

Dalmore Capital Fund ("Dalmore") is a 25-year LP fund managed by Dalmore Capital Limited and investing in the equity and subordinated debt in secondary PFI transactions which are both operational and do not have volume-based payment regimes. The fund can invest across the social infrastructure sector and targets gross returns of 10% for its investors. At 31 March 2013, Dalmore had total commitments of £170 million. Subsequently, the fund held a third close, increasing total commitments to £249 million.

Investment rationale

Exposure to social infrastructure through PFI projects provides 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.

Achievements 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 the Company's holdings in Alma Mater, I^2 and Alpha Schools at significant uplifts over cost in 2008, 2009 and 2013 respectively, generating an aggregate IRR of 30%.

Developments in the year

All assets in the PFI portfolio performed well operationally during the year, delivering good levels of income.

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 NHS Trust. In July 2012, the hospital received the top "excellent" rating for standards of cleanliness, food and privacy and dignity, according to the results of an annual PEAT inspection by patient representatives, independent validators and NHS staff. In November 2012, an unannounced inspection of the hospital by the Care Quality Commission found that the hospital met all the essential quality and safety standards inspected. At the end of March 2013, the hospital announced it had been completely clear of MRSA bloodstream infections for more than a year.

In October 2012, the Company announced that it had made a commitment of £15 million to Dalmore, £10 million of which was drawn at that date to fund Dalmore's £89.5 million acquisition of a 49.9% stake in a portfolio of UK PFI assets from Interserve plc. A further £1.9 million of this commitment was drawn by Dalmore in January 2013 to increase its stake in two of the projects in that portfolio.

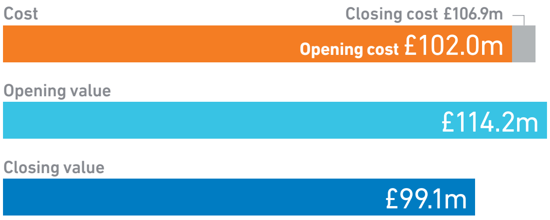
Dalmore is managed by Dalmore Capital Limited, which is run by key members of the team that managed I^2, a secondary PFI fund in which 3i Infrastructure previously held an investment and which generated an IRR for the Company of 23.8% on full exit. The Dalmore Capital team has an excellent track record of originating, acquiring, financing, managing and optimising secondary PFI investments and an extensive network of contacts across the financial institutions and contractors active in the social infrastructure sector.

The investments in Dalmore are performing well and income generation has been in line with expectations.

The Company's investment in Alpha Schools was sold in March 2013, as described on page 13.

3i India Infrastructure Fund

Performance in the year



Partnership interest	**20.9%**
Investment in the year	**£4.9m**
Asset total return in the year[1]	**£(20.0)m**
Valuation basis	**LP share of funds**

1 Includes a net foreign exchange loss of £0.9 million (sterling/US$ gain of £6.3 million, and US$/rupee loss of £7.2 million).

The 3i India Infrastructure Fund (the "India Fund") is a US$1.2 billion fund which closed in 2008, investing 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 this fund.

The investment period for the 3i India Infrastructure Fund ended on 30 November 2012 and the Board expects that the Company's remaining commitment will not be substantially drawn.

As at 31 March 2013, the Fund was 73% invested in a portfolio of seven 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.

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

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.

Soma Enterprise Limited ("Soma") is one of the leading infrastructure developers in India. Its order book, valued at over US$3.2 billion, focuses mainly on BOT road projects, but also 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 in the state of Orissa.

Supreme Infrastructure BOT Holdings Private Limited ("Supreme Roads"), a subsidiary of Supreme Infrastructure India Limited, a new investment in the year, is building a portfolio of BOT road projects.

Investment rationale

The investment case can be summarised as follows:

- there is much need for infrastructure investment in India, with the current infrastructure deficit in the country providing 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 years;
- the investment in the India Fund offered 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 India Fund was well positioned, with an established presence in its market through its investment manager.

Achievements in the period of ownership

The India Fund reached the end of its investment period in November 2012 and now has a diversified portfolio of assets in the power, ports and roads sectors, in line with its mandate.

The Company's remaining commitment to the India Fund is limited to 15% of the original US$250 million commitment, or US$37.5 million and, in practice, is unlikely to be drawn in full.

Several of the projects, including Adani Power and Krishnapatnam Port, have increased significantly in size since the India Fund's investment. Despite this, the financial performance and valuation of the India Fund's assets has been affected by a number of market and other external factors, including the depreciation of the Indian rupee. At 31 March 2013, the India Fund's NAV was 0.93x investment cost in sterling terms.

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

3i Investments, which manages the India Fund, is focused on the realisation of investments over the next two to three years, if market conditions allow.

3i India Infrastructure Fund continued

Developments in the year

Overall, the assets in the India Fund's portfolio have faced significant challenges during the year.

The power assets have continued to be affected by a number of factors, including:

- the availability of domestic coal and gas: Coal India Limited, the largest coal producer in India, as well as many gas producers, have struggled to match their output to demand from power producers and to deliver supplies to their customers;
- the pricing of coal: the domestic coal shortage and the depreciation of the rupee against most currencies have affected the price of coal;
- the inability for electricity producers to pass increased fuel costs through to customers under existing power purchase agreements (PPAs), pending a review from the relevant authorities; and
- the strain on State Electricity Boards' financial position: SEBs have been financially constrained for a number of years and as a result banks are now reluctant to lend to them. This has constrained their ability to enter into new long-term PPAs with power producers.

In February 2011, the Indian government responded to the issues arising from coal shortages by directing Coal India Limited 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 requirement of the plant. However, due to the weak penalties imposed on Coal India Limited for non-compliance, it is expected that supplies are likely to remain short of the contracted quantities, increasing producers' reliance on imports. On the positive side, merchant tariffs have remained relatively buoyant, due to the increasing demand/supply gap, but also due to a reduction in hydro output as a result of below average monsoon rainfall.

These factors continued to have a negative impact on Adani Power's market performance. Its shares declined by 40% during the year. GVK Energy and Ind-Barath Utkal, the India Fund's other power investments, were also affected by these issues, as well as by delays in construction and some increases in construction costs.

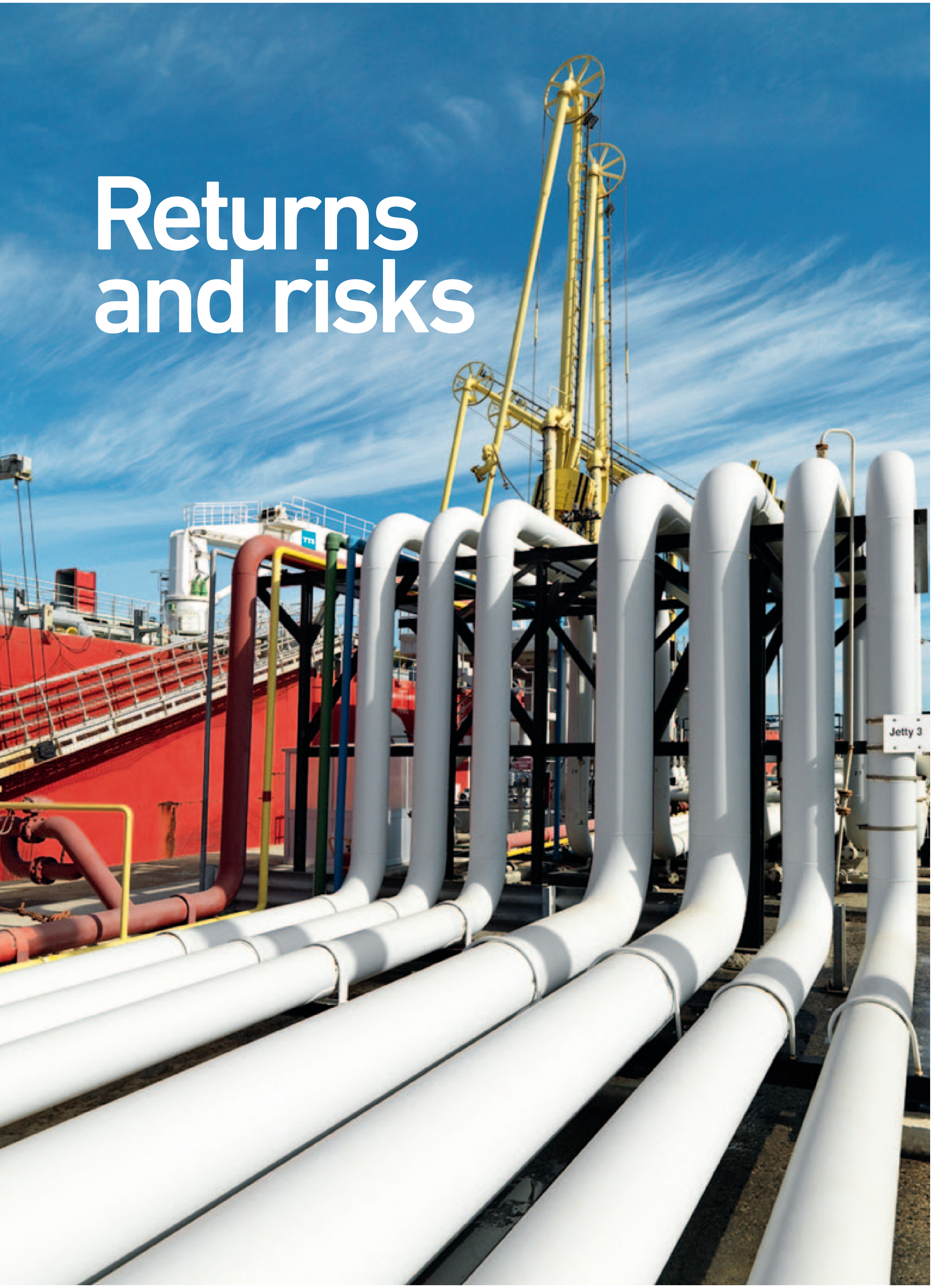
After the year end, Adani Power's share price performance was boosted by a decision by power sector regulator (the Central Electricity Regulatory Commission) to compensate Adani Power's Mundra project for the escalation of import fuel costs in the form of increases in tariffs under existing PPAs.

The India Fund's port asset, Krishnapatnam Port, has continued to be affected by an iron ore export ban, which, although now lifted, will subdue exports for some time as production resumes and pent-up domestic demand is satisfied. The company continued to focus on changing its cargo mix and performed well in the year, supported by continued increases in its general cargo and container volumes.

The two smaller road asset portfolios (KMC Roads and Supreme Roads) are making progress, despite some delays relating to land acquisitions and environmental clearances and saw modest value gains during the year. KMC Roads has also faced funding constraints. Soma, the India Fund's largest road investment, faced significant challenges in project execution, due to delays in receipt of approvals from the highways authorities and an escalation in raw material costs, resulting in constraints in working capital.

Macroeconomic conditions in India remain challenging, with slowing growth, currency volatility and persistently high inflation rates continuing to affect the economic outlook.

Returns and risks



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. This objective was updated to 10% per annum for future years, as described on page 8.

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

Status
8.6% total return for the year to 31 March 2013.

Dividend

Objective
To target an annual distribution yield of 5% of the opening NAV[1]. This objective was updated to 5.5% for future years, as described on page 8.

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

Status
Total dividend of 6.49p equates to a 5.5% 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 any equity issued in the year.

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

	Year to 31 March 2013	Year to 31 March 2012	Consolidated IFRS basis Year to 31 March 2013
Realised profits/(losses) over fair value on the disposal of investments	2.7	(4.7)	2.7
Unrealised profits on the revaluation of investments	24.7	7.0	34.4
Foreign exchange gains/(losses) on investments	12.1	(4.3)	–
Capital return/(loss)	39.5	(2.0)	37.1
Portfolio income			
Dividends	46.0	41.0	69.4
Income from loans and receivables	26.8	30.3	29.0
Income from quoted debt investments	–	1.8	–
Fees payable on investment activities	(0.7)	(1.3)	(0.7)
Interest receivable	0.7	1.5	0.7
Investment return	112.3	71.3	135.5
Advisory, performance and management fees payable	(14.3)	(15.3)	(15.5)
Operating expenses	(2.3)	(2.4)	(2.3)
Finance costs	(2.9)	(2.9)	(17.8)
Movements in the fair value of derivative financial instruments	(3.3)	5.3	(0.3)
Other net (expense)/income	(0.3)	0.3	(0.3)
Profit before tax	89.2	56.3	99.3
Income taxes	(0.1)	(0.3)	(0.1)
Profit after tax and profit for the year	89.1	56.0	99.2
Exchange difference on translation of foreign operations	–	–	12.6
Profit attributable to non-controlling interests for the year	–	–	(19.5)
Total comprehensive income ("Total Return")	89.1	56.0	92.3

More on the strategic update
Chairman's statement: page 6
Strategic update: page 8

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 shown on page 46, 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 2013 of £89.1 million, representing an 8.6% return on opening shareholders' equity (2012: £56.0 million, 5.6%). The return was driven principally by portfolio income generation of £72.8 million and by the strong performance of the European assets, but was impacted negatively by the weaker performance of the 3i India Infrastructure Fund ("India Fund").

Capital returns

Realised capital returns

3i Infrastructure generated a realised capital gain of £2.7 million in the year to 31 March 2013, arising from the sale of its holding in Alpha Schools for proceeds of £21.2 million against an opening value of £18.5 million. As described in the case study on page 13, the investment in Alpha Schools generated a profit over cost of £12.1 million over the period of ownership.

Unrealised capital returns, including foreign exchange movements

The combined unrealised value movement across the portfolio, including foreign exchange impact, as shown in Chart 10, totalled £33.5 million in the year to 31 March 2013.

The European portfolio continued to perform strongly, increasing in value by £51.0 million in the year. This strong performance, however, was offset by the poor performance of several of the assets in the India Fund, which declined in value by £19.1 million. The valuation movements are described in the Movements in portfolio value section on page 20.

There were net foreign exchange gains of £1.6 million as sterling depreciated against the euro and appreciated against the Indian rupee, as described in Table 2 on page 22.

Investment return

Portfolio income

The portfolio generated income of £72.8 million in the year (2012: £73.1 million), of which £46.0 million was through dividends (2012: £41.0 million) and £26.8 million through interest on shareholder loans (2012: £32.1 million, including £1.8 million interest from quoted debt investments).

Elenia paid its first dividend to the Company of £20.6 million in the year (2012: nil) following the completion of its post-acquisition corporate reorganisation.

AWG paid a dividend of £10.7 million and interest of £4.8 million in the year (2012: £15.5 million, £4.7 million). The dividend from AWG was lower than last year, mainly as a result of increased spending on measures to mitigate the effects of extreme weather conditions in early 2012. Further detail is set out in the AWG investment review on page 26.

Eversholt generated good cash flows, which have allowed it to pay down £6.6 million of its shareholder loan. The Company also accrued interest of £17.8 million from Eversholt in the year (2012: £20.1 million). Due to the structure of the investment in Eversholt, the income from this asset is received principally as interest on the shareholder loan. The year-on-year decline in the interest accrued is due to the reduction in the amount of the shareholder loan as a result of principal repayments across the last two financial years.

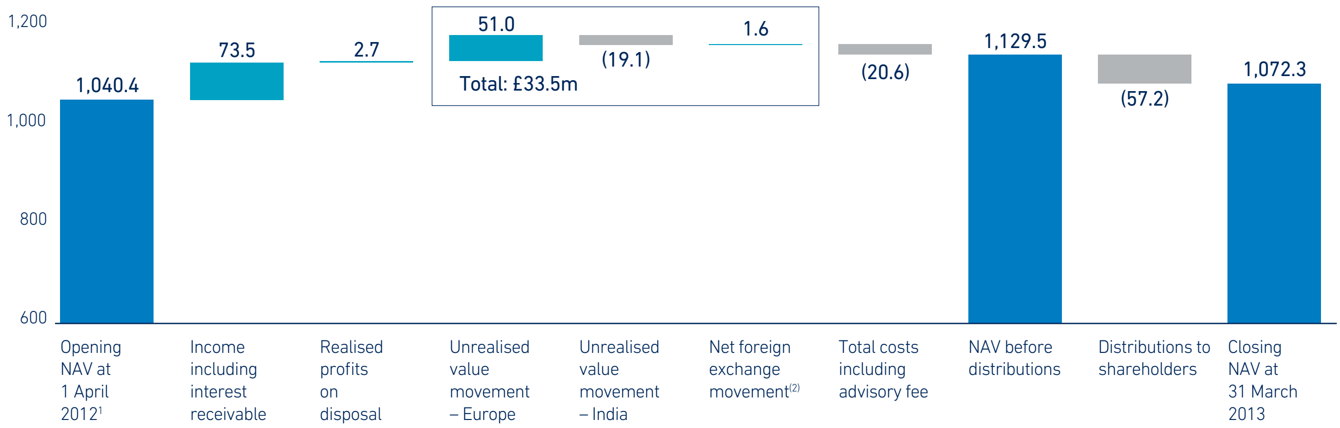
Oystercatcher paid a dividend of £11.2 million in the year (2012: £9.5 million), all of which was received in the first half of the year. No dividend was paid in the second half, as income from the operating companies was not distributed by Oystercatcher, but retained (in addition to some reserves already accumulated in 2012) to cover the costs of refinancing its debt.

The PFI assets generated income of £7.7 million, of which £3.5 million was from dividends and £4.2 million from interest on shareholder loans (2012: £3.0 million, £5.5 million).

Fees payable for transaction costs in relation to deals which did not reach, or have yet to reach, final completion totalled £0.7 million in the year (2012: £1.3 million), with the reduction reflecting the low levels of investment activity during the year.

The costs relating to the refinancing of Oystercatcher were borne by that vehicle and are reflected in its value movement.

Chart 10 – **Reconciliation of the movements in NAV on an investment basis** (£m)



1 Net of prior year final dividend.
2 Foreign exchange movements are described in detail in Table 2 on page 22.

Financial review

Interest receivable

Interest income from cash and cash equivalents totalled £0.7 million (2012: £1.5 million), the year-on-year decline reflecting higher average cash balances last year and a small reduction in interest rates available on short-term deposits. The Company's cash balances generated interest at an average rate of 0.5% in the year (2012: 0.6%).

Advisory fees, performance fees and other operating and finance costs

During the year to 31 March 2013, the Company incurred advisory fees of £12.9 million (2012: £15.3 million). 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 reduces to 1.25% for any proportion of an asset held for more than five years.

As several of the Company's assets have now been held for more than five years (40% of the portfolio at 31 March 2013), the advisory fee rate chargeable has reduced for those assets. This resulted in a reduction in the advisory fee this year, as set out in Chart 11 below.

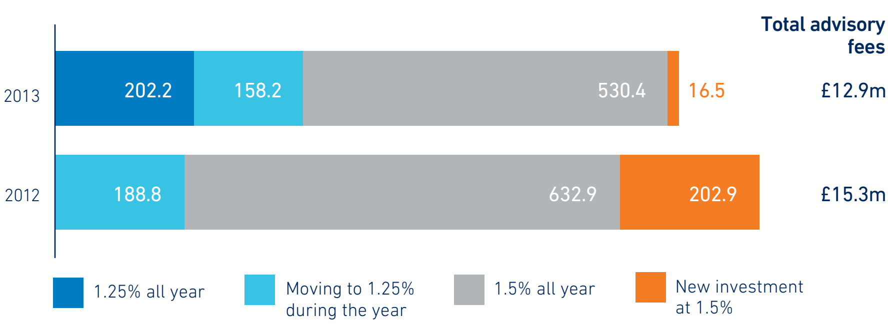
The performance fee, calculated as 20% of returns above a performance hurdle of 8% growth in net asset value per annum, totalled £1.4 million (2012: nil). For a more detailed explanation of how fees are calculated, please refer to Note 19 on page 81.

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £2.3 million (2012: £2.4 million). The reduction from the prior year relates mainly to costs incurred last year in relation to the conversion of warrants.

Finance costs of £2.9 million (2012: £2.9 million) comprise the arrangement and commitment fees for the Company's £200 million revolving credit facility.

Movements in the fair value of derivatives of £(3.3) million (2012: £5.3 million) represent the fair value movements of the euro hedging programme, and included a £0.6 million gain on the settlement of derivatives at their maturity.

Chart 11 – **Portfolio analysis by advisory fee rate**[1] (year to 31 March, £m)



1 Fees are charged on opening portfolio value and the cost of new investments.

Balance sheet and cash flows

At 31 March 2013, the Company's net assets totalled £1,103.3 million, or £1,072.3 million after the deduction of the final dividend (2012: £1,040.4 million), comprising the asset portfolio, valued at £918.7 million (2012: £890.8 million), cash and cash equivalents of £179.2 million (2012: £173.4 million), net derivative financial instruments liabilities of £2.5 million (2012: £1.4 million asset) and other current assets of £12.3 million (2012: £4.4 million), primarily relating to accrued income from portfolio investments and prepayments, offset by accrued operating and financing costs of £4.4 million (2012: £3.4 million). A summary balance sheet is included in Table 4.

Cash on deposit was managed actively by the Investment Adviser, and there were regular reviews by the Board of counterparties and their limits. Cash 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 2013, the £200 million revolving credit facility held by the Company had not been drawn.

On 2 May 2013, the Company entered into a new, £200 million, three-year facility, on improved terms compared to the previous facility. At the time of reporting, the new facility had not been drawn.

Net asset value per share

The total NAV per share at 31 March 2013 was 125.2p (2012: 121.0p). This reduces to 121.7p (2012: 118.0p) after the payment of the final dividend of 3.52p. There are no dilutive securities in issue following the expiry of the Company's warrants in the previous financial year.

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

	As at 31 March 2013	As at 31 March 2012	Consolidated IFRS basis As at 31 March 2013
Assets			
Non-current assets			
Investment portfolio	918.7	890.8	1,222.6
Derivative financial instruments	1.4	1.8	1.4
Total non-current assets	920.1	892.6	1,224.0
Current assets			
Other current assets	12.3	4.4	18.9
Derivative financial instruments	0.3	0.9	0.3
Cash and cash equivalents	179.2	173.4	185.3
Total current assets	191.8	178.7	204.5
Total assets	1,111.9	1,071.3	1,428.5
Non-current liabilities			
Borrowings	–	–	(160.0)
Derivative financial instruments	(3.7)	(0.6)	(13.3)
Total non-current liabilities	(3.7)	(0.6)	(173.3)
Current liabilities			
Trade and other payables	(4.4)	(3.4)	(6.4)
Borrowings	–	–	(0.6)
Derivative financial instruments	(0.5)	(0.7)	(0.5)
Total current liabilities	(4.9)	(4.1)	(7.5)
Total liabilities	(8.6)	(4.7)	(180.8)
Net assets	1,103.3	1,066.6	1,247.7
Equity			
Stated capital account	181.6	181.6	181.6
Retained reserves	921.7	885.0	882.8
Translation reserve	–	–	45.6
Total shareholders' equity	1,103.3	1,066.6	1,110.0
Non-controlling interests	–	–	137.7
Total equity	1,103.3	1,066.6	1,247.7

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. The Company also maintains a risk log.

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 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 ▪ Reports on Indian portfolio performance and macro issues reviewed during the year ▪ 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 Conduct 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 Executive Committee ▪ 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
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 or due to lower levels of infrastructure transaction volumes, both of which may influence asset pricing	■ Building on the strong track record of the Investment Adviser and the 3i Infrastructure brand ■ Investment Adviser's proactive approach to sourcing proprietary deal flow through relationship building with potential vendors
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 requirements of 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 the underlying investment portfolio 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 Review of investments and the Financial review 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 62 to 65, 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 does not consolidate majority investments and subsidiaries formed specifically for investment purposes in the same way as required under IFRS.

Several adjustments to the consolidated financial statements prepared under IFRS have been 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 Elenia respectively. The remaining portions of these entities are held by other third parties. 3i Infrastructure is required under IFRS to consolidate 100% of 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 non-controlling interest entitlement shown in the statement of comprehensive income and the balance sheet prepared on an IFRS basis.

One subsidiary of the Company, 3i Primary Infrastructure 2005–06 LP, which held the investment in Alpha Schools prior to its disposal, has investing partners who 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 non-controlling interest on an IFRS basis but are accrued as an expense in the investment basis.

3i Infrastructure holds two wholly-owned subsidiaries, Oystercatcher Luxco 1 S.à r.l. and Oystercatcher Luxco 2 S.à r.l., ("Oystercatcher Luxco 1" and "Oystercatcher") to fund the minority investment into three subsidiaries of Oiltanking GmbH. External borrowings were obtained 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 held as an investment at fair value accordingly.

Independent assurance report

Independent auditor's assurance report to the members of 3i Infrastructure plc on review of the Statements prepared on the Investment Basis
This report is produced for the purpose of reporting to the members of 3i Infrastructure plc ("the company") in connection with our review of the accompanying Summary of total return (see Table 3) for the year ended 31 March 2013 and the Summary balance sheet (see Table 4) as at 31 March 2013 (together 'the Statements').

Our work has been undertaken so that we might report to the members those matters that we have agreed to state to them in this report and for no other purpose. 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 examination, for this report, or for the opinions we have formed.

Respective responsibilities of the company and Ernst & Young LLP
The Directors of the Company are responsible for the preparation of the Summary of total return and the Summary balance sheet in accordance with the basis of preparation set out above. It is our responsibility to provide a conclusion on the Summary of total return and the Summary balance sheet based on our examination.

Our approach
We conducted our engagement in accordance with 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 (IFAC). Our engagement is a limited assurance engagement and consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The objective of a limited assurance engagement is to perform those procedures that enable us to obtain information and explanations that provide us with sufficient appropriate evidence to express a negative assurance conclusion on the Statements prepared on the Investment Basis. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. The scope of our work does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Inherent limitations
Our examination excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. 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 2013

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 and, consequently, to the Company. For more information on 3i Group's corporate responsibility policies, please refer to its website: http://www.3i.com/corporate-responsibility

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

Responsible Investment policy

3i Group is a signatory to the UN Principles for Responsible Investing ("RI") and has embedded RI policies in its investment and asset management processes.

The Investment Adviser's philosophy on 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.

The Investment Adviser's RI 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 and is 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 received from third-party providers. As far as possible, the Company will work only with suppliers who support its aim to source products and services 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.

Prompt payment code

3i Group performs most payment and treasury functions for the Company. During the year, it became a signatory of the Prompt Payment Code. The Code encourages and promotes best practice between organisations and their suppliers. Signatories to the Code commit to paying their suppliers within clearly defined terms, and to ensuring there is a proper process for dealing with any issues that may arise.

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;
- 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.à r.l. and 3i Infrastructure (Luxembourg) S.à r.l. He was a trustee and director of Dyslexia Institute Limited (trading as Dyslexia Action) between 2007 and 2011 and has been appointed Chairman of Bowel Cancer UK from 2013. 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.

Paul Masterton
Non-executive Director

Paul spent most of his career in the printing and communications industry, holding various appointments in the UK, the US and Asia. From 2008 to 2013, Paul was the chief executive of the Durrell Wildlife Conservation Trust, an international wildlife charity. Paul has a number of directorships in banking, insurance and property development and, in 2012, was appointed as the founding chairman for Digital Jersey, a partnership between the Government of Jersey and the digital sector to represent and promote the industry. Appointed with effect from 4 April 2013, resident in Jersey.

Florence Pierre
Non-executive Director

Florence spent the majority of her career as an investment banker in corporate finance. She was subsequently appointed Chief Executive of the French branch of Degroof Corporate Finance, a subsidiary of Bank Degroof, and a Director of Degroof Corporate Finance in Belgium. At present, Florence operates as an independent consultant. 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 Belgium.

Paul Waller
Non-executive Director

Prior to his retirement, after 35 years service, Paul was a Managing Partner at 3i Group, with specific responsibility for fundraising and investor relations. As a member of the senior leadership team since 1999, he also previously acted as co-chair of the firm's investment committee. Paul is a former chairman of the European Private Equity & Venture Capital Association and chairman of their Investor Relations Committee. In January 2013, Paul was appointed a Partner of Hamilton Lane Advisors and focuses primarily on client development and overall firm marketing initiatives. 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.

Charlotte Valeur
Non-executive Director

Charlotte is Managing Director of GFG Ltd, which advises on investment fund governance and conducts board reviews. Prior to founding GFG in 2011, Charlotte was the Managing Partner at Brook Street Partners Ltd. Before founding Brook Street Partners in 2003, she worked in the City of London, heading up institutional Fixed Income sales desks at Warburg, BNP Paribas, Société Générale and Commerzbank. She began her career in Copenhagen in 1982 with Nordea as a Fixed Income trader. Charlotte currently serves on boards of a number of listed and unlisted companies, is a member of the Institute of Directors and is regulated by the Jersey Financial Services Commission. Resident in Jersey, served until 31 March 2013.

Directors' report

The Directors' report contains statutory and corporate governance information for the year to 31 March 2013 ("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 83 and the Company's principal subsidiaries are shown on page 82.

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 62 to 65. Total comprehensive income for the year attributable to equity holders of the parent was £92.3 million (2012: £55.0 million). An interim dividend of 2.97p (2012: 2.97p) per share in respect of the year to 31 March 2013 was paid on 9 January 2013. The Directors recommend that a final dividend of 3.52p (2012: 2.97p) per share (which, added to the interim dividend of 2.97p per share, equates to 5.5% of opening NAV) be paid in respect of the year to 31 March 2013 to shareholders on the register at the close of business on 21 June 2013. Following its annual review of strategy, the Company updated its total return objective to 10% per annum (from 12% to be achieved over the long term) and its dividend objective to 5.5% per annum (from 5%).

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. In December 2010 the Relevant Investment Amount was increased by £200 million and the investment period was extended 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. The most recent amendment of the Investment Advisory Agreement, dated November 2012, further extended the Relevant Investment Amount by £47 million, to cover the cash balances available for investment at 30 September 2012.

3i Group was among the subscribers to 3i Infrastructure's IPO and to the subsequent Placing and Open Offer and owns 34.1% 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 81. For information on the performance evaluation of the Investment Adviser, please see page 55.

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 82. State Street Secretaries (Jersey) Limited has been appointed as the Administrator and Company Secretary to the Company.

Business review

Observing the Disclosure and Transparency Rules of the Financial Conduct Authority ("FCA") 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 2013, 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 44;
- the development and performance of the Company's business during the year, see page 41;
- the position of the Company's business at the end of the year, see page 43;
- financial key performance indicators, see page 8 to 9 and 40;
- other key indicators, see page 5;
- main trends and factors likely to affect the future development, performance and position of the Company, see page 17;
- environmental matters and policy, including the impact of the Company's business on the environment, see page 48; and
- references to, and additional explanations of, amounts included in the Company's annual financial statements, see page 40.

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 risks section on pages 44 to 45.

Share capital

Ordinary shares

The issued share capital of the Company as at 31 March 2013 was 881,351,570 ordinary shares (2012: 881,349,570). The small increase in the number of ordinary shares is attributable to the exercise of 2,000 warrants which had been submitted for exercise on 13 March 2012, but were not issued until 30 April 2012. All warrants have 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, 2,000 (2012: 64,438,409) warrants were converted into shares. Of the 70,640,980 warrants issued at IPO, 281,491 were left unsubscribed at expiry and were subsequently cancelled in the previous financial year.

No warrants were issued during the year and there are no dilutive securities in issue as at 31 March 2013.

Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital as at 31 March 2013 and 30 April 2013, which are disclosable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, are as follows:

Interests in ordinary shares	%	Number of ordinary shares[1] as at 31 March and 30 April 2013
3i Group plc (and subsidiaries)	34.14	300,922,661

1 Each ordinary share carries the right to one vote.

Directors' interests

In accordance with FCA Listing Rule 9.8.6(R)(1), Directors' interests in the shares of the Company (in respect of which transactions are notifiable to the Company under FCA Disclosure and Transparency Rule 3.1.2(R)) as at 31 March 2013 are shown below:

Directors' interest and beneficial interests[1]	Ordinary shares at 31 March 2013
Peter Sedgwick	**104,653**
Philip Austin	**10,000**
Sir John Collins	**19,215**
Florence Pierre	**5,000**
Charlotte Valeur[2]	**3,500**
Paul Waller	**244,639**
Steven Wilderspin	**10,000**

1 No options have ever been granted since the inception of the Company.
2 Served until 31 March 2013.
Note: no Directors had any interests or beneficial interests in the Company's warrants throughout the year.

In the period from 1 April 2013 to 30 April 2013, there were no changes in the interests of each serving 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 at the next Annual General Meeting ("AGM"), to be held on 9 July 2013 ("the 2013 AGM"). The Company will seek to renew such authority until the end of the AGM in 2014, 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 FCA 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.

Under the UK Corporate Governance Code (the "Code"), however, all directors of FTSE 350 companies should be subject to annual election by shareholders. As a result, all Directors, other than Charlotte Valeur, Florence Pierre and Paul Waller, will voluntarily retire and stand for election or re-election at the 2013 AGM (see below).

Charlotte Valeur, who served as a non-Executive Director on the Company's Board since September 2009, completed her three year term on 28 September 2012 and was re-appointed as a non-Executive Director for a further period which ended on 31 March 2013.
Paul Masterton was appointed with effect from 4 April 2013 (following approval of his appointment by the Jersey Financial Services Commission); he will resign and stand for election at the 2013 AGM.

Paul Waller and Florence Pierre indicated that they wished to resign from the Board at the Company's 2013 AGM and are therefore not seeking re-election. 3i Group exercised its right under the Relationship Agreement to nominate a successor to Paul Waller to be the 3i Group nominated Director to the Company. On 1 May, the Board therefore appointed Ben Loomes as a Director, with the appointment taking place immediately after the 2013 AGM. Ben Loomes will be seeking shareholder approval for his appointment at the 2013 AGM.

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 FCA'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 judgements 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.

The Directors are also responsible for preparing the annual report and accounts and consider that, taken as a whole, this report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

In accordance with the FCA'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 50.

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 11 to 23, in the Returns and risks section on pages 40 to 45, and in the financial statements and related notes on pages 62 to 82. 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 62 to 82. 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 2013
Registered Office:
Lime Grove House
Green Street
St Helier
Jersey
Channel Islands
JE1 2ST

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 and subsequently revised in September 2012 (the "Code"), a copy of which is available from the Financial Reporting Council website (www.frc.org.uk)), subject to the FCA's 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 complied with all the applicable provisions of the Code for the financial year ending 31 March 2013.

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 from time to time at shorter notice. During the year, there were seven main meetings of the Board of Directors. In addition to these meetings, there were two 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 2013)	Number of meetings	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	7
Steven Wilderspin	7	7

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

- review of the Company's strategy, including market positioning, geographic and investment strategy and the Company's return objectives;
- 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, including making a commitment to Dalmore and the sale of Alpha Schools;
- review of portfolio asset performance;
- selection and approval of Rothschild as the Company's Corporate Adviser;
- 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;
- overview of the remuneration, incentives and retention structure in place for key team members of the Investment Adviser;
- extension of the Investment Advisory agreement to give the Company further exclusivity with the Investment Adviser;
- review of the independence of Directors;
- review of any updates to the UK Corporate Governance Code and the Codes of Practice for Certified Funds in Jersey and the requirements for the Company; and
- updates to UK and Jersey law and their impact on the Company.

During the year, the Directors met with the CEO of a portfolio company to gain further 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. In addition, the Chairman represents the Company on the advisory board of the India Fund and participated in two meetings of that board in India in the past year, which were attended by the Investment Adviser's team in India and representatives of the management teams of the India Fund's investee companies.

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, the Board conducted a formal evaluation of its own performance and that of its committees. This was an internal exercise following the full external review conducted by Tracy Long of Boardroom Review, an independent specialist consultancy, in 2012. The evaluation this year considered, amongst other factors, the balance of skills, experience and knowledge of the Company of Board members. It also considered the operational effectiveness of the Board. As part of the process, the Board also reviewed how it fulfilled its responsibilities, the matters reserved to the Board and delegations to other committees. As part of the review:

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

The results of the processes were formally reported to the Board and Audit Committee respectively. All Board members, as well as a number of 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 operation of the Board and interaction with the Investment Adviser.

The following recommendations were also made:

- to review the information requirements of the Board in relation to the performance of portfolio companies; and
- to broaden the Board's knowledge of key portfolio assets through further meetings with management team members of portfolio companies.

Investment Adviser

The Board has a Management Engagement Committee (comprising all Board members, with the exception of Paul Waller, the 3i Group nominee Director), which carries out the annual evaluation of the Investment Adviser required under the Listing Rules and which manages the relationship with the Investment Adviser on behalf of the Company. Following its assessment of the Investment Adviser, the Directors believe that the continued appointment of the Investment Adviser on the terms set out on page 81 is in the interest of shareholders, based on the performance of the Investment Adviser.

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.à r.l. and 3i Infrastructure (Luxembourg) S.à r.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 co-operation 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 50. All Directors served throughout the year under review, with the exception of Paul Masterton, who was appointed with effect from 4 April 2013 (see page 50).

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. Appointment letters for Directors were updated 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. The letters were refreshed in November 2012 to reflect the best practice guidelines published in December 2011 by the Institute of Chartered Secretaries and Administrators. The current letters are dated 28 September 2011 in the case of Florence Pierre and Steven Wilderspin, 7 December 2011 in the case of Sir John Collins, 13 December 2012 in the case of Peter Sedgwick and 18 March 2013 in the case of Paul Waller. All Directors were re-elected at the 2012 AGM. Following the formal appraisal process of Directors, and in accordance with Section B.7.2 of the Code, the Chairman will propose the re-election or election of those Directors seeking re-election or election at the forthcoming AGM.

Charlotte Valeur completed her three-year term as a non-Executive Director of the Company on 28 September 2012 and was re-appointed for a further period to end on 31 March 2013. Paul Masterton was appointed as a non-Executive Director with effect from 4 April 2013. His appointment was confirmed by a letter dated 19 March 2013.

Copies of the 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 addition to fulfilling their legal responsibilities as Directors, the Directors are expected to bring an independent judgement 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.

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 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.

This year, the Directors also received presentations on aspects of the infrastructure market and met with a transaction specialist in the infrastructure market who has advised on several key recent infrastructure transactions in the European market. 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 Alternative Investment Fund Managers Directive ("AIFMD"). The Chairman attended a number of externally facilitated meetings on corporate governance. 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 and reviews the membership of these committees on a regular basis.

The Board's 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, of the Remuneration Committee and of the Management Engagement Committee provide that no one other than the particular committee chairman and members may attend meetings, unless invited to attend by the relevant committee. The terms of reference are available from the Company's website.

Remuneration Committee

The Remuneration Committee, chaired by Philip Austin, is charged with reviewing the scale and structure of the non-executive Directors' remuneration, and for the year under review was 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. Paul Masterton was appointed to the Remuneration Committee when he joined the Board in April 2013. The Remuneration Committee had two meetings in the year to 31 March 2013, attended by all members. A report from the Remuneration Committee is set out on page 59.

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 held five meetings in the year to 31 March 2013, attended by all members.

The Committee is responsible for adopting a formal and transparent procedure for the appointment of new Directors, including interviewing potential candidates. Final decisions on nominations, however, are taken by the entire Board. The Nominations Committee can avail itself of the services of external search consultancies. During the year, the Nominations Committee recommended the appointment of Paul Masterton as Director. This appointment was supported by Thomas & Dessain, an external search consultancy which is independent from the Company.

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. For practical reasons relating to the conduct of the Company's affairs, most Directors, including Paul Masterton, the most recent appointment, 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. The Board's policy on diversity is set out below.

Diversity

3i Infrastructure had two women on its Board of seven non-executive Directors throughout the year under review.

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.

Report of the Audit Committee

The Audit Committee, chaired by Steven Wilderspin, in the year under review also comprised Philip Austin, Sir John Collins, Florence Pierre 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 50. 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 and is a qualified Chartered Accountant.

During the year to 31 March 2013, there were five meetings of the Audit Committee, attended by all members.

During the year, the Audit Committee undertook its responsibilities in accordance with its Terms of Reference, as detailed on the Company's website. Most of the Committee's time was spent on the following areas:

- reviewing the effectiveness of the internal control environment of the Company and the Company's compliance with its regulatory requirements;
- reviewing and recommended to the Board significant accounting matters and the accounting disclosures in the half yearly and annual financial statements of the Company including:
  - matters of judgement in relation to infrastructure asset valuation. This year, the areas examined included: the level of discounts applied in valuation models, with a particular focus on those used for AWG and Oystercatcher, where changes were proposed; and the valuation of Indian assets in the light of the significant macroeconomic and asset-specific challenges that they face. The Committee discussed these matters with the Investment Adviser and the auditor, including the auditor's infrastructure valuation specialist;
  - an assessment of whether the annual report as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy and advised the Board accordingly. The Committee paid particular attention to the way the Board's strategic update and consequent changes to the Company's return objectives were communicated in the report;
- overseeing the Company's relations with its external auditors, including assessing the conduct and effectiveness of the audit process and the auditor's independence and objectivity, recommending the auditor's reappointment and approving the auditor's fees;
- reviewing the Company's compliance with its regulatory obligations in Jersey, including the implementation of, and review of compliance with, the Codes of Practice for Certified Funds which came into force on 2 April 2012; and
- conducting a review of the risk assessment process in the Company.

The Committee reported to the Board on how it has discharged its responsibilities and reported to the Board the key matters arising at each meeting.

The Audit Committee reviewed the effectiveness of the external audit process 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. In structuring its review, the Committee used a practical framework based on a guide issued by the Institute of Chartered Accountants of Scotland. Ernst & Young LLP have been the Company's auditors since inception in 2007 and the audit has not been re-tendered. In reaching this conclusion, the Directors noted that the Company continues to benefit from the insight and knowledge that its auditors have of the Investment Adviser's processes and controls in relation to the Company.

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 2013 (2012: £17,000). 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 (2012: nil).

Investment Committee

As outlined on page 54, the Board as a whole acts as the Investment Committee.

Management Engagement Committee

The Management Engagement Committee is chaired by Peter Sedgwick and, in the year under review, comprised Philip Austin, Sir John Collins, Steven Wilderspin, Charlotte Valeur and Florence Pierre. Paul Masterton joined the Management Engagement Committee upon his appointment as a Director on 4 April 2013.

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 its shareholders and to give reasons for its recommendation. The Committee also reviews the terms of the Investment Advisory Agreement.

During the year, there were five meetings of the Management Engagement Committee, attended by all members. In those meetings, 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.

Corporate governance statement

The Company Secretary

The Company has appointed State Street Secretaries (Jersey) 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 and corporate governance 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.

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 2012 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 performed its annual review of the system's effectiveness 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.

In addition, the Board regularly reviews the principal risks faced by the Company and any entries in the Company's risk log.

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 the Company's 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 that are reviewed by the Board as appropriate;
- 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 Audit Committee has access to relevant sections of their reports.
- the Investment Adviser and the service providers prepare the half-yearly and annual accounts of the Group and monitor all associated financial reporting processes that are reviewed by the Board as appropriate; 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 learned;
- 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 in the year under review was 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 had two meetings in the year to 31 March 2013, 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 2013, the Directors were due the following:

Directors' fees	**Amount paid (£) in the year ending 31 March 2013**	Amount paid (£) in the year ending 31 March 2012
Peter Sedgwick	**140,000**	135,000
Philip Austin	**53,000**	51,500
Sir John Collins	**45,000**	45,000
Florence Pierre	**55,000**	55,000
Charlotte Valeur	**48,000**	46,500
Paul Waller[1]	**42,000**	42,000
Steven Wilderspin	**55,000**	53,500

1 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 (£) for years to 31 March 2012[1] and 2013**
Chairman's fee	**140,000**
Non-Executive Director base fee	**42,000**
Additional fee for the Senior Independent Director	**5,000**
Additional fee for the Audit Committee Chairman	**10,000**
Additional fee for Audit Committee members	**3,000**
Additional fee for Directors resident in Jersey	**3,000**

1 With effect from October 2011.
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.

The current Directors' fees were proposed by the Committee and approved by shareholders, following a review in 2011 which was facilitated by Kepler Associates Partnership LLP, who are independent from the Company. In this financial year, after benchmarking against the market, the Remuneration Committee proposed no change to Directors' fees.

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 2013 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 53, 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 2013 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 2013

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 2013 £m	Year to 31 March 2012 £m
Realised gains/(losses) over fair value on the disposal of investments		**2.7**	(4.7)
Unrealised gains on the revaluation of investments	2	**34.4**	8.5
		37.1	3.8
Portfolio income			
Dividends receivable		**69.4**	68.3
Income from loans and receivables		**29.0**	32.5
Income from quoted debt investments		**–**	1.8
Fees payable on investment activities		**(0.7)**	(1.3)
Interest receivable		**0.7**	1.5
Investment return		**135.5**	106.6
Advisory, performance and management fees payable	3	**(15.5)**	(16.2)
Operating expenses	4	**(2.3)**	(2.4)
Finance costs	5	**(17.8)**	(13.5)
Unrealised gains/(losses) on the fair value of derivative financial instruments	6	**0.1**	(0.6)
Net realised (losses)/gains over fair value on the settlement of derivative financial instruments	6	**(0.4)**	1.3
Other income		**0.2**	0.7
Other expenses		**(0.5)**	(0.3)
Profit before tax		**99.3**	75.6
Income taxes	7	**(0.1)**	(0.3)
Profit after tax and profit for the year		**99.2**	75.3
Other comprehensive income			
Exchange gain/(losses) on translation of foreign operations		**12.6**	(4.4)
Total comprehensive income for the year		**111.8**	70.9
Profit after tax and profit for the year attributable to:			
Equity holders of the parent		**80.2**	59.6
Non-controlling interests		**19.0**	15.7
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**92.3**	55.0
Non-controlling interests		**19.5**	15.9
Earnings per share			
Basic earnings per share attributable to equity holders of the parent (pence)	15	**9.1**	7.0
Diluted earnings per share attributable to equity holders of the parent (pence)	15	**9.1**	7.0

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2013	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
Opening balance	**181.6**	**855.0**	**33.5**	**1,070.1**	**127.2**	**1,197.3**
Total comprehensive income for the year	**–**	**80.2**	**12.1**	**92.3**	**19.5**	**111.8**
Non-controlling interest share of investment purchased during the year	**–**	**–**	**–**	**–**	**–**	**–**
Distributions payable to non-controlling interests	**–**	**–**	**–**	**–**	**(9.0)**	**(9.0)**
Conversion of warrants into ordinary shares	**–**	**–**	**–**	**–**	**–**	**–**
Dividends payable to shareholders of the Company during the year	**–**	**(52.4)**	**–**	**(52.4)**	**–**	**(52.4)**
Closing balance	**181.6**	**882.8**	**45.6**	**1,110.0**	**137.7**	**1,247.7**

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
Distributions payable to non-controlling interests	–	–	–	–	(8.4)	(8.4)
Conversion of warrants into ordinary shares	64.4	–	–	64.4	–	64.4
Dividends payable 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

Consolidated balance sheet

As at 31 March

	Notes	2013 £m	2012 £m
Assets			
Non-current assets			
Investments			
Unquoted investments	8	**1,004.0**	949.1
Loans and receivables	8	**218.6**	233.1
Investment portfolio		**1,222.6**	1,182.2
Derivative financial instruments	11	**1.4**	1.8
Total non-current assets		**1,224.0**	1,184.0
Current assets			
Trade and other receivables	9	**18.9**	7.1
Derivative financial instruments	11	**0.3**	0.9
Cash and cash equivalents		**185.3**	183.6
Total current assets		**204.5**	191.6
Total assets		**1,428.5**	1,375.6
Liabilities			
Non-current liabilities			
Loans and borrowings	12	**(160.0)**	(158.3)
Derivative financial instruments	11	**(13.3)**	(15.8)
Total non-current liabilities		**(173.3)**	(174.1)
Current liabilities			
Trade and other payables	13	**(6.4)**	(2.4)
Loans and borrowings	12	**(0.6)**	–
Derivative financial instruments	11	**(0.5)**	(1.8)
Total current liabilities		**(7.5)**	(4.2)
Total liabilities		**(180.8)**	(178.3)
Net assets		**1,247.7**	1,197.3
Equity			
Stated capital account		**181.6**	181.6
Retained reserves		**882.8**	855.0
Translation reserve		**45.6**	33.5
Total equity attributable to equity holders of the parent		**1,110.0**	1,070.1
Non-controlling interests		**137.7**	127.2
Total equity		**1,247.7**	1,197.3

Directors
8 May 2013

Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Cash flow from operating activities		
Purchase of investments	**(16.5)**	(231.3)
Proceeds from realisations of investments	**28.1**	132.5
Income received from loans and receivables	**19.9**	38.9
Income from quoted debt investments	**–**	2.1
Dividends received	**69.1**	68.2
Fees paid on investment activities	**(1.3)**	(0.9)
Operating expenses paid	**(2.3)**	(2.8)
Interest received	**0.8**	1.5
Advisory, performance and management fees paid	**(14.1)**	(19.2)
Carried interest paid	**–**	(1.2)
Income taxes paid	**–**	(0.4)
Other income received	**0.3**	0.8
Net cash flow from operations	**84.0**	(11.8)
Cash flow from financing activities		
Proceeds from new long-term borrowings	**160.6**	–
Repayment of existing long-term borrowings	**(160.6)**	–
Proceeds from the issue of share capital from conversion of warrants	**–**	64.4
Interest paid	**(9.4)**	(9.7)
Amounts received on the settlement of derivative contracts	**2.0**	0.3
Amounts paid on the settlement of derivative contracts	**(5.1)**	(2.5)
Fees paid on financing activities	**(8.3)**	(2.3)
Dividends paid	**(52.4)**	(50.0)
Capital contributed by non-controlling interests	**–**	28.4
Distributions paid to non-controlling interests	**(9.0)**	(8.4)
Net cash flow from financing activities	**(82.2)**	20.2
Change in cash and cash equivalents	**1.8**	8.4
Cash and cash equivalents at the beginning of the year	**183.6**	176.3
Effect of exchange rate movement	**(0.1)**	(1.1)
Cash and cash equivalents at the end of the year	**185.3**	183.6

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 2013 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 alongside the consolidated financial statements of the Group.

The financial statements were authorised for issue by the Directors on 8 May 2013.

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 judgements, 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 of determining the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Directors to exercise judgement in the process of applying the accounting policies defined below. The following policies are areas where a higher degree of judgement 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 judgement 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. Judgement 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 estimates 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 2013, 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, and Disclosure of Interests in Other Entities, IFRS 13, and 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.

IFRS 1 (Amendment) Government Loans (effective for accounting periods commencing on or after 1 January 2013).

IFRS 7 (Amendment) – Disclosures – Offsetting Financial Assets and Liabilities (effective for accounting periods commencing on or after 1 January 2013).

IAS 1 (Amendment) Presentation of Items of Other Comprehensive Income (effective for accounting periods commencing on or after 1 July 2012).

IAS 28 (Amendment) Investments in Associates and Joint Ventures (effective for accounting periods commencing on or after 1 July 2014).

IAS 32 (Amendment) Offsetting Financial Assets and Financial Liabilities (effective for accounting periods commencing on or after 1 January 2014).

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 19 (Amendment) Employee Benefits (effective for accounting periods commencing on or after 1 July 2013).

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. It is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period.

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 year.

The Group has no interests in associates outside of the Group's investment portfolio.

(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 year.

The Group has no interests in joint ventures outside of the Group's investment portfolio.

(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 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 in other comprehensive income and taken to 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

(ii) Income

(a) Realised gains or losses over value on the disposal of investments is the difference between the fair value of the consideration receivable on disposal 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 gains or losses 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. These issue costs are capitalised and disclosed within Trade and other receivables and amortised over the life of the loan. After initial recognition, loans and borrowings 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 derivative contracts are disclosed in the financial statements as either current or non-current accordingly. Realised gains over fair value on the settlement of derivative financial instruments are the difference between the fair value of the consideration receivable on disposal 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 for each relevant tax jurisdiction in which the subsidiaries of the Group operate 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 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", as defined in the Returns and risks section. However, the Directors also review information on a regular basis that is analysed by geography and is prepared on a basis that 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 49% (2012: 70%) of its portfolio income in the year from investments held in the UK and Ireland and 51% (2012: 30%) of portfolio income from investments held in continental Europe. During the year, the Group received income from its investments in Oiltanking of £26.6 million (2012: £29.8 million), Elenia of £23.6 million (2012: nil), AWG of £22.6 million (2012: £29.6 million) and Eversholt of £17.8 million (2012: £33.0 million), which represents 27% (2012: 29%), 24% (2012: nil), 23% (2012: 29%) and 18% (2012: 33%) respectively of the total portfolio income. There was no other income entitlement during the year (or in the comparative year) that represented more than 10% of portfolio income. 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 2013.

For the year to 31 March 2013	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	2.7	–	–	2.7
Unrealised gains/(losses) on the revaluation of investments	38.9	21.8	(26.3)	34.4
Portfolio income	47.5	50.2	–	97.7
Interest receivable	0.7	–	–	0.7
Investment return/(loss)	89.8	72.0	(26.3)	135.5
Finance costs	(2.9)	(14.9)	–	(17.8)
Other net income/(expenses)	(19.6)	1.2	–	(18.4)
Profit/(loss) before tax	67.3	58.3	(26.3)	99.3
As at 31 March 2013				
Balance sheet				
Fair value of investment portfolio	578.7	544.8	99.1	1,222.6
Cash and cash equivalents	177.0	8.0	0.3	185.3
Derivative financial instruments	1.7	–	–	1.7
Other assets	12.8	6.0	0.1	18.9
Assets	770.2	558.8	99.5	1,428.5
Loans and borrowings	–	(160.6)	–	(160.6)
Derivative financial instruments	(4.2)	(9.6)	–	(13.8)
Other liabilities	(3.2)	(3.2)	–	(6.4)
Liabilities	(7.4)	(173.4)	–	(180.8)
Net assets	762.8	385.4	99.5	1,247.7

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

1 Segmental analysis continued

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/(loss)	106.9	29.7	(30.0)	106.6
Finance costs	(2.9)	(10.6)	–	(13.5)
Other net expenses	(12.8)	(4.7)	–	(17.5)
Profit/(loss) 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
Derivative financial instruments	2.7	–	–	2.7
Other assets	4.9	2.1	0.1	7.1
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 investments in Oiltanking, including those derived from its underlying business in Singapore.

2 Unrealised gains on the revaluation of investments

				Year to 31 March 2013
	Unquoted investments £m	**Debt investments £m**	**Loans and receivables £m**	**Total £m**
Movement in assets held at fair value through profit or loss	**34.4**	**–**	**–**	**34.4**

				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

3 Advisory, performance and management fees payable

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Advisory fee	**12.9**	15.3
Performance fee	**1.4**	–
Management fee	**1.2**	0.9
	15.5	16.2

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

4 Operating expenses

Operating expenses include the following amounts:

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Audit fees	**0.2**	0.2
Directors' fees and expenses	**0.5**	0.5

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 2013 £m	Year to 31 March 2012 £m
Audit services			
Statutory audit	Group	**0.16**	0.15
	UK subsidiaries	**0.04**	0.05
	Overseas subsidiaries	**0.04**	0.04
		0.24	0.24

Non-audit services

Ernst & Young LLP provided non-audit services for fees totalling £17,000 for the year to 31 March 2013 (2012: £17,000). 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 (2012: nil). The Company's policy for engaging the auditor for non-audit services is set out on page 57.

5 Finance costs

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Interest payable on loans and borrowings	**9.4**	9.7
Professional fees payable associated with the arrangement of debt financing	**8.4**	3.8
	17.8	13.5

6 Movements in the fair value of derivative instruments

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Unrealised (losses)/gains on the fair value of forward foreign exchange contracts	**(3.9)**	1.9
Unrealised gains/(losses) on the fair value of interest rate swaps	**4.0**	(2.5)
	0.1	(0.6)
Net realised (losses)/gains over fair value on the settlement of forward foreign exchange contracts	**(0.4)**	1.3

7 Income taxes

	2013 £m	2012 £m
Current year charge	0.1	0.1
Prior year under provision	–	0.2
	0.1	0.3

Profits arising from the operations of the Company are subject to tax at the standard rate in Jersey of 0% (2012: 0%). Subsidiaries of the Company have provided for taxation at the appropriate rates that are applicable in the countries in which each subsidiary operates. The returns of these subsidiaries are largely not subject to tax, in each of these relevant countries.

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% (2012: 0%) and the differences are explained below:

	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Profit before tax	99.3	75.6
Profit before tax multiplied by rate of corporation tax in Jersey of 0% (2012: 0%)	–	–
Effects of:		
Foreign taxes for the current period	0.1	0.1
Foreign taxes underprovided for prior periods	–	0.2
Total income taxes in the statement of comprehensive income	0.1	0.3

8 Investment portfolio

	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
				As at 31 March 2013
Opening fair value	949.1	–	233.1	1,182.2
Additions	16.5	–	–	16.5
Disposals and repayments	(10.9)	–	(14.5)	(25.4)
Unrealised gains on investments	34.4	–	–	34.4
Unrealised foreign exchange gains	14.9	–	–	14.9
Closing fair value	1,004.0	–	218.6	1,222.6

	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
				As at 31 March 2012
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

All unrealised movements on investments and foreign exchange movements are recognised in the consolidated statement of comprehensive income during the year. The foreign exchange gain of £14.9 million (2012: loss of £(14.4) million) in the table above relates 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 gain of £14.9 million (2012: loss of £(14.4) million) is recognised within other comprehensive income as part of the overall gain of £12.6 million (2012: loss of £(4.4) million) arising on re-translation of foreign currency subsidiaries. All other movements are recognised within the total Investment return of £135.5 million (2012: £106.6 million).

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.

8 Investment portfolio continued

The Group invested in Elgin Infrastructure Limited in December 2009. The investment meets the definition of 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 an underlying portfolio of PFI projects. As at 31 March 2013, 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 (2012: nil).

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 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 2013
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Unquoted equity	**–**	**–**	**1,004.0**	**1,004.0**
Debt investments held at fair value	**–**	**–**	**–**	**–**
	–	**–**	**1,004.0**	**1,004.0**

				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 2013
Level 3 fair value reconciliation	**Unquoted investments £m**	**Debt investments £m**	**Total £m**
Opening fair value	**949.1**	**–**	**949.1**
Additions	**16.5**	**–**	**16.5**
Disposals	**(10.9)**	**–**	**(10.9)**
Unrealised gains on investments	**34.4**	**–**	**34.4**
Foreign exchange gain	**14.9**	**–**	**14.9**
Closing fair value	**1,004.0**	**–**	**1,004.0**

			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

8 Investment portfolio continued

There have been no reclassifications for assets that have been transferred in or out of Level 3 during the year (2012: 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 details of the investment hierarchy in relation to derivatives).

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 £81.4 million (2012: £72.5 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £96.9 million (2012: £82.5 million).

9 Trade and other receivables

	As at 31 March 2013 £m	As at 31 March 2012 £m
Prepayments and accrued income	**12.5**	3.7
Capitalised finance costs	**6.0**	2.9
Other receivables	**0.4**	0.5
	18.9	7.1

The carrying value of the trade and other receivables balance 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 risks section. This Note provides further detail on financial risk management, cross-referring to the Returns and risks 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 of the Group.

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. Throughout the year and the prior 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.

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.

10 Financial risk management continued

As at 31 March 2013, the Group had no shareholder loan investments subject to impairment (2012: £3.7 million impaired). No other assets held by the Group were considered to be impaired. The Company had no loans or receivables or debt investments considered past due (2012: nil).

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 2013, 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.

2013	**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	**–**	**(16.7)**	**(12.5)**	**(191.5)**	**–**	**(220.7)**
Trade and other payables	**(6.4)**	**–**	**–**	**–**	**–**	**(6.4)**
Forward currency contracts	**–**	**(0.5)**	**(0.6)**	**(3.1)**	**–**	**(4.2)**
Financial commitments	**(28.1)**	**–**	**–**	**–**	**–**	**(28.1)**
Total undiscounted financial liabilities	**(34.5)**	**(17.2)**	**(13.1)**	**(194.6)**	**–**	**(259.4)**

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)	(0.9)	–	(4.0)
Financial commitments	(46.5)	–	–	–	–	(46.5)
Total undiscounted financial liabilities	(48.9)	(13.6)	(12.3)	(168.7)	–	(243.5)

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 within loans and borrowings. The financial commitment relates to the Company's commitments to the 3i India Infrastructure Fund and the Dalmore Capital Fund (Note 17).

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

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 (2012: 250 basis points) would lead to an approximate increase or decrease in net assets and to the net profit of the Group of £4.6 million (2012: £5.8 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 the year end. The average cash balance of the Group during the year was £170.7 million (2012: £252.3 million) and the weighted average interest earned was 0.4% (2012: 0.6%). The loan facility in the Oystercatcher Luxco 2 subsidiary, disclosed in Note 12, is subject to interest rate risk, but this risk has been fully hedged through the use of interest rate swaps so there is no estimated impact on net assets or net profit from this loan.

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.

10 Financial risk management continued

(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 2013
	Sterling £m	Euro £m	US dollar £m	Total £m
Net assets	762.8	385.4	99.5	1,247.7
Sensitivity analysis				
Assuming a 10% appreciation in sterling against the euro and US dollar exchange rates:				
Impact of exchange movements on net profit	30.0	–	–	30.0
Impact of exchange movements on net assets	30.0	–	–	30.0
Impact of the translation of foreign operations in the translation reserve	–	(38.8)	(9.9)	(48.7)

				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 against the euro and US dollar exchange rates:				
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)

The impact of an equivalent depreciation in sterling against the euro and US dollar exchange rates 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 external market risk and its impact on market price or valuation, which arises principally from unquoted equity and quoted debt investments, is provided in the Returns and risks 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 2013	As at 31 March 2012
	Unquoted investments £m	Unquoted investments £m
Increase in net profit	100.4	94.9
Increase in net assets	100.4	94.9

The impact of a 10% decrease in the fair value of those investments would have the inverse impact on net profit and net assets, as shown above.

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 2013 (or at 31 March 2012), and hence the Directors do not consider that any of these investments represents a large exposure.

(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 2013 £m	As at 31 March 2012 £m
Non-current assets		
Forward foreign exchange contracts	**1.4**	1.8
Current assets		
Forward foreign exchange contracts	**0.3**	0.9
Non-current liabilities		
Forward foreign exchange contracts	**(3.7)**	(2.2)
Interest rate swaps	**(9.6)**	(13.6)
	(13.3)	(15.8)
Current liabilities		
Forward foreign exchange contracts	**(0.5)**	(1.8)

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 2013, the notional amount of the forward foreign exchange contracts held by the Group was £317.0 million (2012: £318.9 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 2013 the notional amount of the interest rate swaps held by the Group was £160.6 million or €190.0 million (2012: £158.3 million, €190.0 million).

Fair value of derivatives
The following table shows the Group's derivatives analysed into the investment hierarchy described in Note 8.

	As at 31 March 2013			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Forward foreign exchange contracts	**–**	**(2.5)**	**–**	**(2.5)**
Interest rate swaps	**–**	**(9.6)**	**–**	**(9.6)**
	–	**(12.1)**	**–**	**(12.1)**

	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)

Fair value has been determined using valuation techniques, as described on pages 22 to 23 and 84. The Group uses widely recognised valuation models for determining the 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 (2012: nil).

12 Loans and borrowings

	As at 31 March 2013 £m	As at 31 March 2012 £m
Loans and borrowings are repayable as follows:		
Less than 1 year	**0.6**	–
Between 1-5 years	**160.0**	(158.3)
	160.6	(158.3)

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 a consortium of five banks of €190.0 million or £160.6 million (2012: €190.0 million, £158.3 million). This new facility was agreed in March 2013, has been drawn down in full and is repayable in March 2018 in full. The facility agreement requires mandatory prepayments of an agreed percentage of any excess cashflow for a relevant period. The estimated amount payable in less than one year is €0.7 million or £0.6 million (2012: nil). The facility has an interest rate at EURIBOR plus an agreed margin. This new facility was used to make an early repayment in full of the old facility that had a maturity date of August 2014.

The loan to Oystercatcher Luxco 2 has certain loan covenants including interest cover ratios and a leverage ratio. The consortium has security over the equity investments held by Oystercatcher Luxco 2. The value of this security at 31 March 2013 was £309.3 million (2012: £292.8 million).

Oystercatcher Luxco 2 has an arrangement with the consortium for an additional facility of €5.0 million (2012: €11.0 million). As at 31 March 2013, Oystercatcher Luxco 2 had not drawn down against this facility. There is an annual commitment fee of 40% of the applicable agreed margin 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 a fixed margin above LIBOR. As at 31 March 2013 and 31 March 2012, 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. The facility was due to mature in November 2013 but, following the financial year end, it was renegotiated and a new facility was put in place which began on 2 May 2013 for a three-year term.

13 Trade and other payables

	As at 31 March 2013 £m	As at 31 March 2012 £m
Trade payables	**0.1**	0.1
Advisory, performance and management fees	**2.3**	0.9
Accruals	**4.0**	1.4
	6.4	2.4

14 Issued capital

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

	As at 31 March 2013		As at 31 March 2012	
	Number	£m	Number	£m
Issued and fully paid				
Opening balance	**881,349,570**	**887.8**	816,911,161	823.4
Conversion of warrants	**2,000**	**–**	64,438,409	64.4
Closing balance	**881,351,570**	**887.8**	881,349,570	887.8

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 subsequently 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. At 13 March 2012, 2,000 warrants were submitted for exercise but the associated shares were not issued until 30 April 2012 and the remaining 281,491 warrants were cancelled. At 31 March 2013, there were no warrants in issue.

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.

Aggregate issue costs of £13.1 million arising from IPO and subsequent share issues have been offset against the stated capital account in previous years. In addition, the stated capital account was reduced by Court order on 20 December 2007 with an amount of £693.1 million transferred to a new, distributable reserve which has been combined with retained reserves in these accounts. Therefore as at 31 March 2013 the residual value on the stated capital account was £181.6 million.

Notes to the accounts

15 Per share information

The earnings and net assets per share attributable to the equity holders of the parent are based on the following data:

	Year to 31 March 2013	Year to 31 March 2012
Earnings per share (pence)		
Basic	**9.1**	7.0
Diluted	**9.1**	7.0
Earnings (£ million)		
Profit after tax for the year attributable to equity holders of the parent	**80.2**	59.6
Number of shares (million)		
Weighted average number of shares in issue	**881.4**	853.2
Effect of dilutive potential ordinary shares – warrants	**–**	–
Diluted shares	**881.4**	853.2

	As at 31 March 2013	As at 31 March 2012
Net assets per share (pence)		
Basic	**125.9**	121.4
Diluted	**125.9**	121.4
Net assets (£ million)		
Net assets attributable to equity holders of the parent	**1,110.0**	1,070.1

16 Dividends

	As at 31 March 2013		As at 31 March 2012	
Declared and paid during the year	Pence per share	£m	Pence per share	£m
Interim dividend paid on ordinary shares	**2.97**	**26.2**	2.97	25.6
Prior year final dividend paid on ordinary shares	**2.97**	**26.2**	2.86	24.4
	5.94	**52.4**	5.83	50.0

The Group proposes paying a final dividend of 3.52p per share which will be payable to those shareholders that are on the register on 21 June 2013. On the basis of the shares issued at year end, this would equate to a total final dividend of £31.0 million.

17 Commitments

	As at 31 March 2013 £m	As at 31 March 2012 £m
Equity and loan investments	28.1	46.5

As at 31 March 2013, the Group was committed to subscribing a further £24.7 million (2012: £46.5 million) to the 3i India Infrastructure Fund and a further £3.4 million (2012: nil) to the Dalmore Capital Fund. The capital is available on demand by the 3i India Infrastructure Fund and the Dalmore Capital Fund respectively.

18 Contingent liabilities

At 31 March 2013, there was no material litigation or other contingent liabilities outstanding against the Company or any of its subsidiary undertakings (2012: nil).

19 Related parties

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

Investments

The Group principally takes minority holdings in the equity of unquoted investment entities. This normally allows the Group to participate in the financial and operating policies of those entities. 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 consolidated statement of comprehensive income and the consolidated balance sheet for these investments are as follows:

Statement of comprehensive income	Year to 31 March 2013 £m	Year to 31 March 2012 £m
Unrealised gains/(losses) on the revaluation of investments	3.4	(11.3)
Portfolio income	75.5	73.0

Balance sheet	As at 31 March 2013 £m	As at 31 March 2012 £m
Unquoted investments	725.2	712.8
Loans and receivables	149.2	163.7
	874.4	876.5

Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 34.1% (2012: 34.1%) of the ordinary shares of the Company. This classifies 3i Group as a "substantial shareholder" of the Company as defined by the Listing Rules.

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$8.1 million or £5.3 million (2012: US$11.9 million or £7.4 million) were drawn down by the Fund from the Company during the year for investment and deal fees. In total, commitments of US$183.7 million or £121.1 million re-translated (2012: US$175.6 million or £109.7 million) had been drawn down at 31 March 2013 by the Fund from the Company. At 31 March 2013, the Company's outstanding commitment to the Fund was US$37.5 million or £24.7 million re-translated (2012: US$74.4 million or £46.5 million).

3i Networks Finland GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Networks Finland LP, a subsidiary of the Company. During the year, £1.7 million (2012: nil) was payable to 3i Group, of which £1.5 million was offset against the advisory fee (2012: nil). The net amount of £0.2 million is shown as part of the management fee of £1.2 million (2012: £0.9 million) in Note 3. As at 31 March 2013 nil remained outstanding (2012: nil).

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, £3.2 million (2012: £2.9 million) was payable to 3i Group of which £2.2 million was offset against the advisory fee (2012: £2.0 million). The net amount of £1.0 million is shown as part of the management fee of £1.2 million (2012: £0.9 million) in Note 3. As at 31 March 2013, £0.2 million remained outstanding (2012: £0.2 million).

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. In November 2012, the Company extended the exclusivity arrangements under the Investment Advisory Agreement between the Company and 3i Investments plc, by £47.0 million, to cover the cash balances available for investment at 30 September 2012. This extension of the exclusivity arrangement was subject to approval from the Jersey Financial Services Commission, which was obtained.

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 2013, £12.9 million (2012: £15.3 million) was payable and £0.6 million (2012: £0.1 million) remains due to 3i plc at 31 March 2013.

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. For the year to 31 March 2013, £1.4 million was payable and remains due to 3i plc at 31 March 2013. For the year to 31 March 2012, the performance hurdle was not exceeded hence no performance fee was payable and no amounts remained due to 3i plc.

19 Related parties continued

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 2013 was £0.8 million (2012: £0.8 million). The outstanding balance payable as at 31 March 2013 was £0.2 million (2012: £0.2 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 2013 was £42.9 million (2012: £42.0 million).

During the year, £3.4 million of portfolio income was recognised by the Group from Elgin (2012: £3.2 million) with £0.9 million due to the Group as at 31 March 2013 (2012: £0.5 million).

20 Principal subsidiaries

Name	Country of incorporation	Ownership interest
3i Infrastructure (Luxembourg) S.à r.l.	Luxembourg	100%
3i Infrastructure (Luxembourg) Holdings S.à r.l.	Luxembourg	100%
Oystercatcher Luxco 1 S.à r.l.	Luxembourg	100%
Oystercatcher Luxco 2 S.à r.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 2013. Each of the subsidiary undertakings is included in the consolidated accounts of the Group.

The principal activity of the subsidiaries is to act as 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 Board 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 judgements, 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 judgements and making necessary estimates.

Quoted investments

Quoted equity investments are valued at the 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")

– Proportionate share of net assets

– Sales basis

– 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 terminal value attributes a residual value to the investee company at the end of the projected discrete cash flow period. 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.

Proportionate share of 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 will be used to assign a fair value to an asset 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 primary valuation basis. 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	19 June 2013
Record date	21 June 2013
Annual General Meeting	9 July 2013
Final dividend expected to be paid	12 July 2013
Half-yearly results	November 2013

Registrars

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

Capita Registrars (Jersey) Limited
12 Castle Street
St. Helier
Jersey JE2 3RT
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, including your annual 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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Registered in Jersey No. 95682

3i Infrastructure plc is regulated by the Jersey Financial Services Commission.

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.

Most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million 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 Financial Services Register at www.fca.org.uk/register to ensure that they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the Financial Conduct Authority Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the Financial Conduct Authority's 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 Financial Conduct Authority using the share fraud reporting form at www.fca.org.uk, where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.

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Annual report online

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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