

Financial review

The Company delivered another year of strong financial performance.

Key financial measures (year to 31 March)

	2020	2019
Total return ¹	£224m	£259m
NAV	£2,269m	£1,902m
NAV per share	254.5p	234.7p
Total income ²	£121m	£115m
Total income and non-income cash	£139m	£201m
Portfolio asset value ²	£1,647m	£1,681m
Cash balances ²	£418m	£266m
Total liquidity ³	£718m	£550m

1 IFRS Total comprehensive income for the year.

2 Reconciliation of measures to the financial statement balances is set out in Tables 7 and 8 on page 59.

3 Includes cash balances of £413 million (2019: £257 million), unrestricted cash in subsidiaries of £5 million (2019: £9 million) and £300 million (2019: £284 million) undrawn balances available under the Company's revolving credit facility.



We have a strong liquidity position to weather these challenging conditions and to fund attractive new investment opportunities.

James Dawes
CFO, Infrastructure
6 May 2020

We have a balance sheet that provides the Company with a strong liquidity position to weather these challenging conditions and to fund attractive new investment opportunities. The portfolio has the income-generating capacity to support the progressive dividend policy. The target dividend for FY21 of 9.8 pence per share is an increase of 6.5% over FY20. This dividend is expected to continue to grow progressively in future years.

Returns

Total return

The Company generated a total return for the year of £224 million, representing an 11.4% return on time-weighted opening NAV and equity issued (2019: £259 million, 15.4%). This performance is ahead of the target return of 8% to 10% per annum over the medium term.

This outperformance was driven by the strong return from the sale of WIG and the UK operational projects portfolio, partly offset by the impact of the Covid-19 pandemic. Changes in the valuation of the Company's portfolio assets are described in the Movements in portfolio value section of the Investment Manager's review on pages 28 to 30.

Total income of £121 million in the year grew by 5% on the previous year, with good levels of dividend receipts from Joulz and Attero, partially offset by reduced income from Oystercatcher. Total income and non-income cash of £139 million in the year was lower than last year due to a lower level of refinancing proceeds (2019: £201 million).

The dividend to shareholders for FY20 was fully covered, with a significant surplus.

This growth in income was supported by non-income cash receipts of £18 million during the year, principally related to distributions from Infinis (2019: £86 million). These non-income cash receipts reflect distributions from underlying portfolio companies, which would usually be income to the Company, but which are distributed as a repayment of investment for a variety of reasons. Whilst non-income cash does not form part of the total return shown in Table 3 below, it is included when considering dividend coverage.

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

The Financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) basis for its reporting. The non-material adjustments required to reconcile this analysis to the Financial statements are shown in Table 7 on page 59.

Capital return

The capital return is the largest element of the total return. The portfolio generated a value gain of £152 million in the year to 31 March 2020 (2019: £204 million), as shown in Chart 8 on page 54. The largest contributor was the sale of WIG which generated £102 million. These value movements are described in the Movements in portfolio value section of the Investment Manager's review.

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

	2020	2019
Capital return (excluding exchange)	152	204
Foreign exchange movement in portfolio	(18)	3
Capital return (including exchange)	134	207
Movement in fair value of derivatives	21	5
Net capital return	155	212
Total income	121	115
Costs	(52)	(69)
Other net income/(costs) including exchange movements	–	1
Total return	224	259

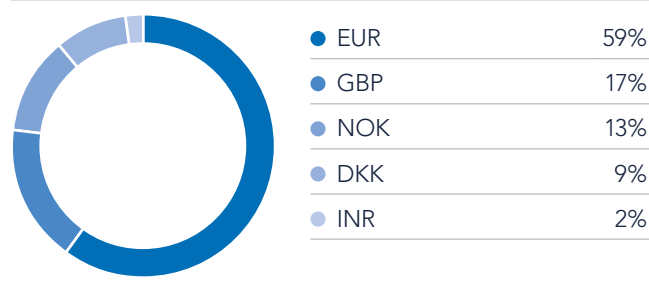
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Foreign exchange impact

The portfolio is diversified by currency as shown in Chart 6 below. We aim to deliver steady NAV growth for shareholders, and the foreign exchange hedging programme enables us to do this by reducing our exposure to fluctuations in the foreign exchange markets.

Portfolio foreign exchange movements after accounting for the hedging programme, increased the net capital return by £3 million (2019: £8 million). As shown in Chart 7, the reported foreign exchange loss on investments of £18 million (2019: gain of £3 million) included a loss of £1 million from the Company's exposure to the Indian rupee, which is not hedged. This was fully offset by a £21 million gain on the hedging programme (2019: gain of £5 million). The positive hedge benefit resulted from interest rate differentials on the euro hedging programme.

Chart 6: Portfolio value by currency
(at 31 March 2020)

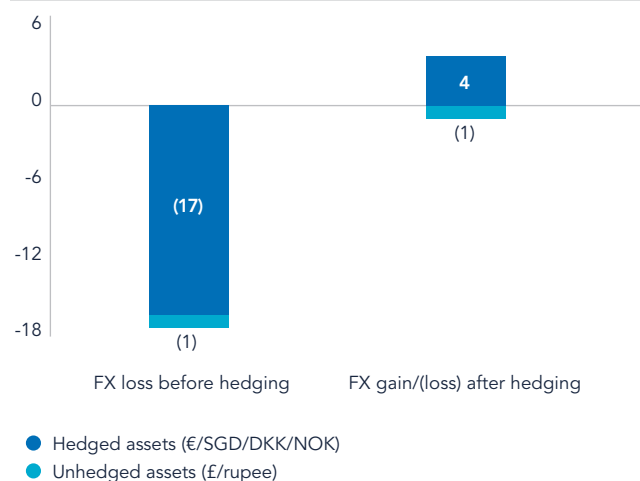


Income

The portfolio generated income of £117 million in the year (2019: £115 million). Of this amount, £34 million was through dividends (2019: £35 million) and £83 million through interest on shareholder loans (2019: £80 million). An additional £3 million of interest was accrued on the vendor loan notes issued in lieu of WIG proceeds together with a further £1 million of interest receivable on deposits (2019: negative interest of £0.1 million).

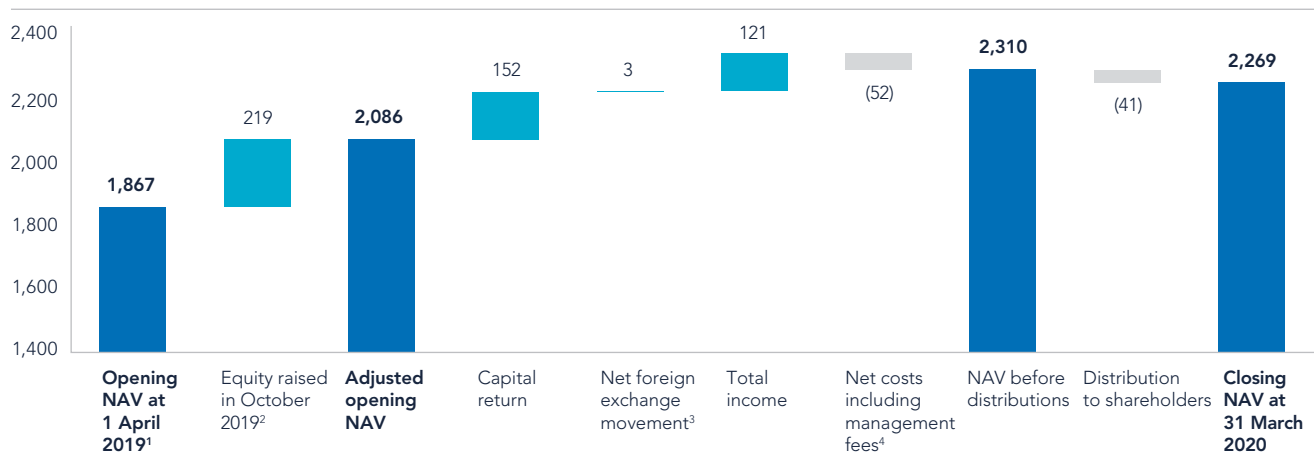
The strong contribution from Joulz and Attero offset the loss of income contribution from the sale of XLT in the prior year and the reduction in income from Oystercatcher. A breakdown of portfolio income is provided in Chart 9 on page 55.

Chart 7: Impact of foreign exchange ('FX') movements on portfolio value (year to 31 March 2020, £m)



Note: SGD exposure is within Oystercatcher, a euro denominated investment.

Chart 8: Reconciliation of the movement in NAV (year to 31 March 2020, £m)



1 Opening NAV of £1,902 million net of final dividend of £35 million for the prior year.

2 Net of issue costs of £4 million.

3 Foreign exchange movements are described in Chart 7 above.

4 Includes non-portfolio exchange.

The Company received £13 million of dividends from Joulz, significantly ahead of our investment case. This reflected the business's outperformance on a profit and cash basis.

Higher than budgeted dividends were received from Attero following stronger operational performance, certain one-off cash receipts and positive working capital movements.

Dividends from Oystercatcher were lower than the prior year partly due to the timing of receipt of distributions, but also due to a deterioration in the oil storage market during much of the year.

Interest income from ESVAGT increased year-on-year after capitalisation of outstanding interest in December 2019.

Costs

Management and performance fees

During the year to 31 March 2020, the Company incurred management fees of £28 million (2019: £30 million).

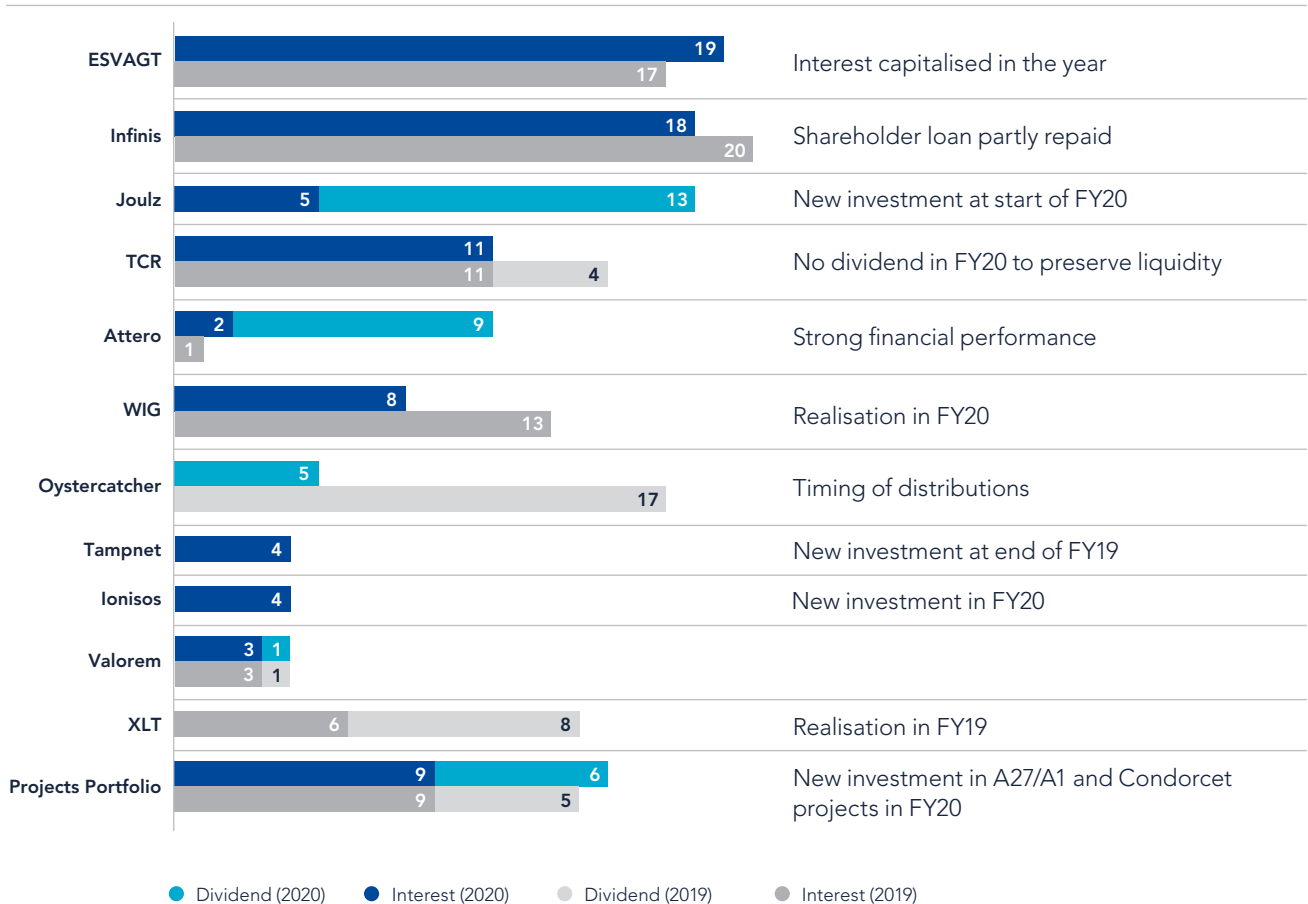
The fees, payable to 3i plc, consist of a tiered management fee, and a one-off transaction fee of 1.2% payable in respect of new investments. The management fee tiers range from 1.4%, reducing to 1.2% for any proportion of gross investment value above £2.25 billion.

An annual performance fee is also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the total return. This performance fee is payable in three equal annual instalments, with the second and third instalments only payable if certain conditions are met. This hurdle was exceeded for the year ended 31 March 2020 resulting in a performance fee payable to 3i plc in respect of the year ended 31 March 2020 of £17 million (2019: £31 million). The first instalment, of £6 million, will be paid in May 2020. For a more detailed explanation of how management and performance fees are calculated, please refer to Note 18 to the accounts on pages 133 and 134.

Fees payable

Fees payable on investment activities include costs for transactions that did not reach, or have yet to reach, completion and the reversal of costs for transactions that have successfully reached completion and were subsequently borne by the portfolio company. For the year to 31 March 2020, fees payable totalled less than £1 million (2019: £1 million).

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



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Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £3 million in the year (2019: £3 million).

Finance costs of £3 million (2019: £4 million) in the year comprised arrangement, commitment and utilisation fees for the Company's £300 million revolving credit facility ('RCF').

Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in Table 4 below, against the average NAV over the reporting period.

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ('AIC') recommended methodology and was 1.42% for the year to 31 March 2020 (2019: 1.81%). The ongoing charges ratio is higher in periods where new investment levels are high and new equity is raised or capital is returned to shareholders. Realisation of assets, such as WIG and the UK projects portfolio, reduce the ongoing charges ratio.

The AIC methodology does not include performance fees or finance costs. However, the AIC recommends that the impact of performance fees on the ongoing charges ratio is noted, where performance fees are payable. The cost items that contributed to the ongoing charges ratio are shown below. The ratio including the performance fee was 2.24% (2019: 3.52%). The total return of 11.4% for the year is after deducting this performance fee and ongoing charges.

Balance sheet

The NAV at 31 March 2020 was £2,269 million (2019: £1,902 million). The principal components of the NAV are the portfolio assets, cash holdings, the vendor loan notes from the sale of WIG, the fair value of derivative financial instruments and other net assets and liabilities. A summary balance sheet is shown in Table 5. Movements in portfolio value are discussed on pages 28 to 30, including the impact on valuations from Covid-19.

The accounting standards require cash or other net assets and liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and total aggregate cash and net assets/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 8 on page 59.

At 31 March 2020, the Company's net assets after the deduction of the final dividend were £2,228 million (2019: £1,867 million).

Cash and other assets

Cash balances at 31 March 2020 totalled £418 million (2019: £266 million), including £5 million (2019: £9 million) of unrestricted cash balances held within intermediate unconsolidated holding companies.

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

The movement from Other net liabilities in the prior year to Other net assets represents the vendor loan notes and a decrease in the performance fee accrual.

Borrowings

The Company has a £300 million RCF in order to maintain a good level of liquidity for further investment whilst minimising returns dilution from holding excessive cash balances. This is a three-year facility, which was extended for the second time by a year in May 2020. The maturity date is now April 2023.

At 31 March 2020, the RCF was not drawn. In the prior year it had been used to issue letters of credit for undrawn commitments to projects of £16 million. These letters of credit have now all been cancelled. There are currently no cash drawings.

Table 4: Ongoing charges (year to 31 March, £m)

	2020	2019
Investment Manager's fee ¹	25.8	30.1
Auditor's fee	0.4	0.4
Directors' fees and expenses	0.5	0.5
Other ongoing costs	2.4	1.8
Total ongoing charges	29.1	32.8
Ongoing charges ratio	1.42%	1.81%

¹ Includes investment adviser's fee prior to 15 October 2018.

NAV per share

The total NAV per share at 31 March 2020 was 254.5 pence (2019: 234.7 pence). This reduces to 249.9 pence (2019: 230.4 pence) after the payment of the final dividend of 4.6 pence (2019: 4.325 pence). There are no dilutive securities in issue.

Dividend and dividend cover

The Board has proposed a dividend for the year of 9.2 pence per share, or £82 million in aggregate (2019: 8.65 pence; £70 million). This is in line with the Company's target announced in May last year.

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

Table 6 below shows the calculation of dividend coverage and dividend reserves. The final dividend cover surplus is £23 million for the year (2019: £95 million). The retained amount available for distribution, following the payment of the final dividend, will be £876 million (2019: £678 million). This is a substantial surplus, which is available to support the Company's progressive dividend policy, particularly should dividends not be fully covered by income in a future year. This could be due to holding uninvested cash or where lower distributions have been received from portfolio companies in order to preserve liquidity during the Covid-19 pandemic.

Alternative Performance Measures ('APMs')

We assess our performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies.

These APMs are used to present a clearer picture of how the Company has performed over the year and are all financial measures of historical performance. The APMs are consistent with those disclosed in prior years.

- Total return on opening NAV reflects the performance of the capital deployed by the Company during the year. This measure is not influenced by movements in share price or ordinary dividends to shareholders.
- The NAV per share is a common measure of the underlying asset base attributable to each ordinary share of the Company and is a useful comparator to the share price.
- Total income and non-income cash is used to assess dividend coverage based on distributions received from the investment portfolio.
- Investment value including commitments measures the total value of shareholders' capital deployed by the Company.
- Total portfolio return percentage reflects the performance of the portfolio assets during the year.

The definition and reconciliation to IFRS of the APMs is shown on pages 58 and 59.

Table 5: Summary balance sheet (at 31 March, £m)

	2020	2019
Portfolio assets	1,647	1,681
Cash balances	418	266
Derivative financial instruments	21	(16)
Other net assets (including vendor loan notes)	183	(29)
NAV	2,269	1,902

Table 6: Dividend cover (year to 31 March, £m)

	2020	2019
Total income, other income and non-income cash	139	202
Operating costs including management/advisory fees	(34)	(37)
Dividends paid and proposed	(82)	(70)
Dividend surplus for the year	23	95
Dividend reserves brought forward from prior year	678	345
Realised profits or losses over cost on disposed assets	192	269
Performance fees	(17)	(31)
Dividend reserves carried forward	876	678

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The table below defines our APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Total return on opening NAV	A measure of the overall financial performance of the Company. For further information see the KPI section (page 15).	It is calculated as the total return of £224 million, as shown in the Consolidated statement of comprehensive income, as a percentage of the opening NAV of £1,902 million net of the final dividend for the previous year of £35 million, adjusted on a time-weighted basis for the receipt of the £219 million capital raise on 15 October 2019. An adjustment to increase the opening NAV of £100 million is required for this time weighting.	The calculation uses IFRS measures.
NAV per share	A measure of the NAV per share in the Company.	It is calculated as the NAV divided by the total number of shares in issue at the balance sheet date.	The calculation uses IFRS measures and is set out in Note 14 to the accounts.
Total income and non-income cash	A measure of the income and other cash receipts by the Company which support the payment of expenses and dividends.	It is calculated as the total income from the underlying portfolio and other assets plus non-income cash being the repayment of shareholder loans not resulting from the disposal of an underlying portfolio asset.	The reconciliation of Total income to IFRS is shown in Table 7. The proceeds from partial realisations of investments are shown in the Consolidated cash flow statement. The realisation proceeds which result from a partial sale of an underlying portfolio asset are not included within non-income cash.
Investment value including commitments	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company.	It is calculated as the portfolio asset value plus the amount of the contracted commitment.	The calculation uses portfolio assets shown in the reconciliation in Table 8, together with the value of future commitments as set out in Note 16 to the accounts. Undrawn loan commitments to the India Fund are not included as these are not expected to be drawn.
Total portfolio return percentage	A measure of the financial performance of the portfolio.	It is calculated as the total portfolio return in the year of £272 million, as shown in Table 1, as a percentage of the sum of the opening value of the portfolio and investments in the year (excluding capitalised interest) of £2,070 million.	The calculation uses capital return (including exchange), movement in fair value of derivatives, underlying portfolio income, opening portfolio value and investment in the year. The reconciliation of all these items to IFRS is shown in Table 1.

In addition to the APMs, the Annual report and accounts shows portfolio information including cash and other net assets held within intermediate unconsolidated holding companies. Tables 7 and 8 show a reconciliation of this portfolio information to the information presented in the Consolidated financial statements. Table 9 shows the calculation of Total income and non-income cash.

Reconciliation to Financial statements

The tables below reconcile the analysis in this financial review, which reflects the aggregate returns, costs, assets and liabilities of the underlying portfolio assets and the Financial statements. The differences arise from transactions with unconsolidated subsidiaries, with the total return for, and NAV of, the Company being the same under either basis.

Table 7: Reconciliation of summary total return (year to 31 March 2020, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial statements
Capital return (including exchange)	134	(6)	128
Movement in fair value of derivatives	21	–	21
Net capital return	155	(6)	149
Total income	121	6 ¹	127
Costs	(52)	–	(52)
Total return	224	–	224

1 Dividend income, received by unconsolidated subsidiaries from portfolio assets in the prior year but not paid up to the Company until the current year. The payment of the dividend is reflected in capital return as it has reduced the carrying value of these subsidiaries.

Table 8: Reconciliation of summary balance sheet (at 31 March 2020, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries ¹	Financial statements
Portfolio assets	1,647	5	1,652 ²
Cash balances	418	(5) ³	413
Derivative financial instruments	21	–	21
Other net assets (including vendor loan notes)	183	–	183
NAV	2,269	–	2,269

1 'Investments at fair value through profit or loss' in the Financial statements includes £5 million of unrestricted cash balances held within intermediate unconsolidated holding companies. The adjustments reclassify these balances to show the underlying value of the total cash holdings as monitored by the Board.

2 Described as 'Investments at fair value through profit or loss' in the Financial statements.

3 Cash balances held in unconsolidated subsidiaries totalled £5 million.

Table 9: Total income and non-income cash (year to 31 March, £m)

	2020	2019
Total income	121	115
Non-income cash	18	86
Total	139	201