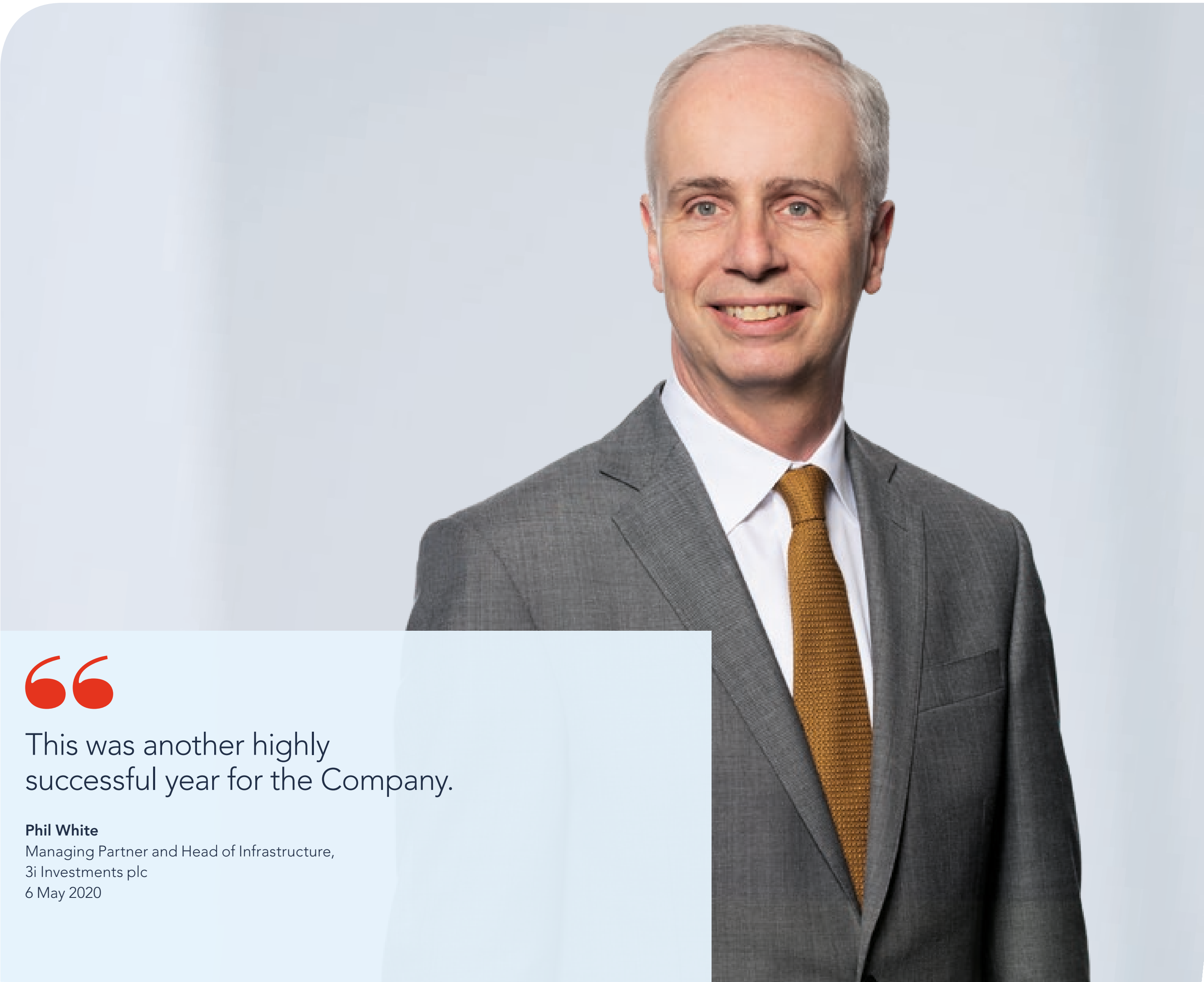
Review from the Managing Partner

The portfolio performed very well for the year as a whole. All our businesses remain operational and are proving resilient as we work closely with the portfolio companies' management teams to address the challenges of the Covid-19 pandemic.

We are pleased to be able to report that while every business is affected to some extent by Covid-19, all of our investments, other than TCR, are operating close to normally and providing continuity of service to their customers. We have constructed a portfolio of asset intensive businesses providing essential infrastructure services, and this portfolio is proving resilient in the face of the unprecedented effects of Covid-19. We are grateful to our portfolio company management teams and staff for their outstanding response to such demanding circumstances.

Although this pandemic and its effects are exceptional, we do know from experience that in times of stress the businesses most vulnerable to failure are those with excess debt and/or limited access to liquidity to provide funding during a downturn. In that respect this situation is not new. We have been proactive in refinancing almost all of our economic infrastructure businesses over the past few years, providing them with long-term debt with good headroom to financial covenants and access to liquidity facilities. In addition, the Company itself is in a strong position, with access to over £700 million of liquidity in the form of cash and a revolving credit facility, to provide additional support to portfolio companies should that be necessary.



"This was another highly successful year for the Company.

Phil White
Managing Partner and Head of Infrastructure,
3i Investments plc
6 May 2020

Notwithstanding the pandemic, this was another highly successful year for the Company. The portfolio overall performed well and the realisations of WIG and of the UK operational projects portfolio, both at excellent prices, helped us to exceed materially our medium-term return objective once again. The immediate effects of Covid -19 on our portfolio are in general quite muted other than in the case of TCR, which we discuss further below. However our investment cases, for the most part, do include growth and this we expect to be delayed at least for the duration of the stay at home and social distancing measures enacted in most countries, and to some extent beyond that. This delay to growth has reduced our year end valuations across the portfolio, as have the effects of the recent rapid fall in oil and gas prices, and the fall in electricity prices over the mild winter and more recently. We have also moved the discount rates used to value the majority of our portfolio companies up from the levels we would otherwise have expected at the year end, to reflect the currently heightened uncertainty and greater market volatility.

In recent years the importance of sustainability and meeting ESG standards has increased and this topic has moved up the agenda for many of our investors. This has always formed an integral part of what we do and sustainability is a core part of our analysis of new investments and our management of the portfolio. We use a proprietary ESG assessment tool to review prospective investments and to assess ESG performance of the existing portfolio. We invest in companies that will benefit from long-term sustainable themes such as the transition to a lower carbon economy or the increasing demand for healthcare from an ageing population. Examples of this can be found in the Sustainability report on pages 44 to 49.

Portfolio review

We have a large and diversified investment portfolio across sector, geography and investment maturity. The investment management team continues to drive performance from the Company's portfolio through our engaged asset management approach. Our team works closely with portfolio company management teams to help define their strategic direction and sustainable business plans, implement efficient and prudent capital structures, drive operational performance, support continued investment in their asset bases and identify and execute bolt-on acquisitions where these add value.

TCR, our airport ground handling equipment leasing and maintenance business, had, prior to Covid-19, a successful year with some key strategic achievements. TCR has made good progress in anchoring its activities in the US with new contracts. A first contract in Abu Dhabi also marked a successful entry into the Middle East.

TCR earns the majority of its revenues from leasing ground handling equipment to airlines, ground handling companies and airports. Most of these leases are in the form of fixed lease rental payments. A small proportion of revenues are variable and linked to equipment usage, repair or maintenance. The dramatic fall in air travel due to Covid-19 has reduced these variable revenues, although air cargo movements are continuing to an extent. TCR is working closely with its customers through these exceptional circumstances including, where appropriate, considering taking on further equipment currently owned by customers as an additional leasing contract. Importantly, TCR is managing liquidity carefully and has no near-term refinancing requirement. TCR is our portfolio company most affected by Covid-19 and we recognise that some of those effects may only become visible over the longer term.

Tampnet performed well during the first year under our ownership. International growth was boosted by the award of a new contract for building and operating a 5G network on two platforms offshore of Newfoundland, Canada. This was followed by a contract to supply 4G coverage to Ørsted's offshore windfarm, Hornsea One, the world's largest offshore windfarm. Outperformance in the North Sea was partly offset by delays in the build-out of deep water assets in the Gulf of Mexico. We successfully refinanced the business, earlier than planned, at a lower cost of debt and with longer debt maturities than in our investment case. Management was bolstered by the appointment of Magnus Mandersson as Chair in August 2019. The fall in the oil price since January could subdue growth in the near term, and if sustained could lead to earlier decommissioning of platforms, but a low oil price can also be a catalyst for increasing bandwidth demands from Tampnet's customers as part of the drive to lower operating costs.

Review from the Managing Partner

Joulz was acquired in April 2019 and performed ahead of our investment case for the year, with strong growth in the order book as the Netherlands accelerates its energy transition. Significant progress has been made to complete the carve-out from Stedin, the previous owner, and we strengthened the management team with the appointment of a Head of Metering, an interim CFO and a Financial Controller. Sjoerd Vollebregt was appointed Chair in March 2020, bringing a wealth of experience in the Dutch corporate sector. Joulz is operating normally through the pandemic but there could be some customer distress and weakening of growth as a consequence.

Attero has performed strongly since acquisition in June 2018. The company secured new waste supply contracts at higher gate fees than assumed in our investment case, and landfill volumes and gate fees also outperformed expectations. We appointed Mel Kroon as Chair in June 2019, who brings a technical background and a strong understanding of the energy and electricity value chain. The tax on waste imports to the Netherlands, highlighted in the Half-yearly report, was passed by the Dutch Parliament and Senate and took effect from 1 January 2020. Following the renegotiation of most of its imported waste contracts, Attero expects that the immediate impact of the tax on its revenues will be limited. We do anticipate a reduction in the supply of industrial and commercial waste as a result of the pandemic, offset to an extent by increased household waste. Immediate effects on Attero are mitigated by its medium-term waste supply contracts and significant buffer stock of untreated waste.

Oystercatcher performed in line with expectations this year. The introduction on 1 January 2020 of the IMO's new regulation in relation to the sulphur content of fuels used in shipping has created increased demand for storage of marine gasoil and low sulphur fuel oil, which has benefited some terminals in the Oystercatcher portfolio. The recent collapse in the oil price, which was triggered by a sudden fall in global demand for oil, has caused a switch from a backwardation market structure for oil products, to one of contango. This is a helpful backdrop for Oystercatcher, as a contango market structure creates additional incentive to store and thus increased demand for oil storage.

Infinis performed ahead of budget for the year, primarily due to outperformance in the captured landfill methane business and the resumption of payments under the UK's capacity market following the positive decision of the European Court of Justice on the scheme's legitimacy, including back payments due during the suspension period (which we had not factored into our previous valuation). Infinis is making good progress on its development plan to exploit spare grid capacity and existing land rights by co-locating subsidy-free solar generation assets with its existing captured landfill methane activities and appointed a new Head of Solar development in March 2020. We are seeing increasing potential value in Infinis's strong environmental credentials and its negative carbon footprint. Our valuation of Infinis reflects a lower electricity price following the mild winter, lower oil and gas prices and the pandemic-induced drop in demand.

Ionisos, acquired in September 2019, has performed in line with the investment case both operationally and financially and has made good progress on a number of future growth initiatives. All sites, including in Italy and Spain, have continued to operate throughout the pandemic and Ionisos has responded well to an increase in demand for sterilisation of medical testing kits and protective masks.

ESVAGT has seen good progress in the business over the last six months, both in the offshore wind market and in the oil and gas segment. Operations have been maintained during the Covid-19 pandemic with some increased costs from changes in operating procedures to reduce the risk of infection among crew. The fall in the oil price could reduce demand for vessels during the summer peak, but the management team has worked hard to improve fleet contract coverage, which should reduce volatility in revenues.

Valorem had an excellent year with revenue from electricity generation above budget, 117MW of projects becoming operational and 160MW of new projects closed. Valorem has continued to focus on conversion of its wind and solar pipelines in France and a successful diversification into hydro power projects, following the acquisition of a 51% stake in Force Hydraulique Antillaise ('FHA') in July 2019. Although existing assets have continued to operate during the pandemic, we have seen a slowdown in the progress of assets under construction, due to availability of workers and in some cases a shortage of equipment, such as solar panels.

Further information can be found in the Review of investments on Pages 34 to 43

Realisations

In December 2019, we announced two realisations from the portfolio, both achieving excellent returns for shareholders. We sold our investment in WIG, the independent wireless infrastructure operator headquartered in the UK, to Brookfield Infrastructure. The sale generated significant additional value for shareholders and was made in the context of a changing competitive landscape in the UK mobile towers sector where scale is increasing in importance, with a number of potential tower transactions anticipated. The sale valued the Company's stake in WIG at approximately £387 million, compared to a valuation of £291 million at 30 September 2019. This equated to an enterprise value for WIG of £575 million, and resulted in a 27% gross IRR and a 1.7x gross money multiple for the Company. Approximately half of the proceeds have been received, with a quarter payable unconditionally in December 2020 and a quarter payable unconditionally in December 2021.

Following a strategic review, we also sold our UK operational projects portfolio. The sale followed the completion of the construction phase for all projects in the portfolio. The projects sold comprised stakes in Ayrshire College, Elgin (a vehicle holding 16 project investments), Mersey Gateway Bridge, Octagon (Norfolk & Norwich) Hospital, the West of Duddon Sands offshore transmission owner project, as well as an interest in the Dalmore Capital Fund. These sales have all completed, delivering a gross IRR to the Company of 15%.

Investment activity

This year we invested £186 million to acquire 100% of Ionisos, the third largest cold sterilisation provider globally, headquartered in France and servicing the medical, pharmaceutical and cosmetics industries. Demand for sterilisation is driven by attractive market fundamentals and non-cyclical market factors, including an ageing population in Western Europe, growing demand for medical services increasingly relying on single use products, and increasingly stringent regulation governing the sterilisation of medical, pharmaceutical and cosmetics products. The investment has also allowed the Company to diversify its sector exposure and increase its presence in France. Ionisos also has operations in Germany, Spain, Italy and Estonia.

Existing commitments of €234 million (£203 million) were funded during the year. These comprised:

- a €220 million (£190 million) investment in Joulz, a leading owner and provider of essential energy infrastructure equipment and services in the Netherlands;
- an €8 million (£7 million) investment in Condorcet Campus, an educational facilities project in France; and
- a €6 million (£6 million) investment in A27/A1, a road project in the Netherlands.

We continue to see a reasonably good flow of new investment opportunities, but have maintained our highly selective stance as we are careful to ensure that we add the right businesses to our portfolio and to not simply pursue growth as an objective. We have been busy managing the portfolio, including the three sizeable investments acquired or completed since March 2019: Tampnet, Joulz and Ionisos.

Outlook

The Company's portfolio is well diversified and has exposure to a range of countries, sectors and risk factors. While exposure to regulatory risks has been reduced over recent years, there is potential volatility from market factors including commodity and electricity prices and GDP growth. Our return performance for this financial year has again exceeded our medium-term objective, even though we have taken account of the effects of Covid-19 on our near-term growth expectations and discount rates, without which we would have expected a return even higher following a very good year of performance from the portfolio. We continue to believe that the portfolio is well positioned to meet the Company's return and dividend targets over the medium term.

Our portfolio company management teams and staff are working very hard to manage their businesses through these exceptional conditions, supported by the strong 3i investment management team and our wider network. The resilience of the portfolio has been reassuring, underlining its key infrastructure characteristics of asset intensive business providing essential infrastructure services, albeit we recognise that these are highly uncertain conditions and that the long-term effects may not be seen for some time. Finally, we are well-funded, with access to cash and liquidity facilities to support portfolio companies if needed and to invest wisely in new opportunities, which we may well see more of once the immediate effects of the pandemic are over.

Phil White
Managing Partner and Head of Infrastructure,
3i Investments plc
6 May 2020