3i Infrastructure plc

Annual report and accounts 2011

Performance highlights

Our performance for the year to 31 March 2011

Steady NAV progression
Total return of £85.5 million, or 9.2% on shareholders' equity

9.2%

Strong portfolio income generation
More than double the portfolio income generated last year, covering the dividend objective for the year

£69.3m

Renewed momentum in investment activity
Four new assets added to the portfolio

£187.5m

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

1.4%

Solid investment track record
Annualised asset IRR since inception

19.0%

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

Overview

IFC	Performance highlights
01	Our business
02	A closer look at our business
03	Our portfolio
04	Chairman's statement

Investment Adviser's review

06	About the Investment Adviser
06	The Infrastructure asset class
06	Investment strategy
11	Market and opportunities
13	Portfolio
14	Movements in portfolio value
16	Summary of valuation methodology
17	Underlying asset performance
17	Activity since the year end
18	Profile of senior members of the investment advisory team

Review of investments

20	AWG
21	Eversholt
22	Oystercatcher
23	Junior debt portfolio
24	Elgin, Octagon, Alpha Schools
25	I² loan notes, T2C
26	3i India Infrastructure Fund

Returns and Risk

28	Key performance indicators
29	Returns
30	Balance sheet
32	Risk
34	Basis of preparation
34	Review report

Governance

36	Corporate responsibility report
39	Board of Directors
40	Directors' report
43	Corporate governance statement

Financials and other information

50	Independent auditor's report
51	Consolidated statement of comprehensive income
52	Consolidated and Company statement of changes in equity
53	Consolidated and Company balance sheet
54	Consolidated and Company statement of cash flows
55	Significant accounting policies
59	Notes to the accounts
75	Investment policy
76	Portfolio valuation methodology
IBC	Information for shareholders

The Directors' report for 3i Infrastructure plc for the year to 31 March 2011 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 plc. 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.

Our business

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

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

Our market focus is on three sectors: Social Infrastructure, Utilities and Transportation. We invest mainly in Europe and Asia, focusing on the developing world through our commitment to the 3i India Infrastructure Fund.

For more information
Investment strategy – page 6
Market and opportunities – page 11
Key performance indicators – page 28

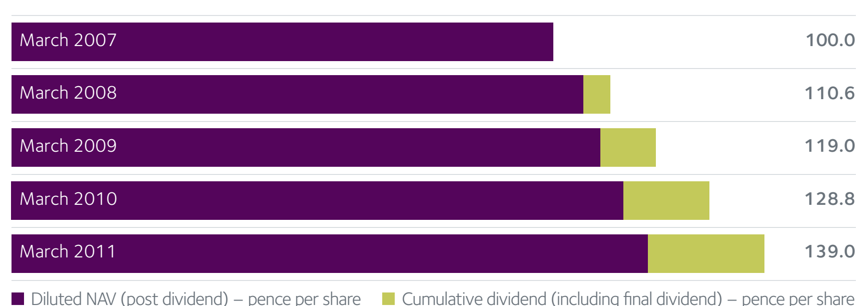
A closer look at our business

Financial highlights for the year to 31 March 2011

	Investment basis[1]		Consolidated IFRS basis[2]	
	31 March 2011	31 March 2010	**31 March 2011**	31 March 2010
Total return	**£85.5m**	£82.5m	**£86.8m**	£81.2m
Total return on shareholders' equity	**9.2%**	9.3%	**9.3%**	9.3%
Total dividend per share	**5.72p**	5.50p	**5.72p**	5.50p
Diluted net asset value ("NAV") per share	**120.3p**	116.3p	**120.9p**	116.7p
Diluted NAV after deducting proposed final dividend of 2.86p	**117.4p**	113.0p	**117.9p**	113.4p
Portfolio value	**£821.7m**	£648.1m	**£1,093.3m**	£926.5m
Cash balances	**£174.6m**	£313.7m	**£176.3m**	£314.0m

(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 minority interests. The gross consolidated total comprehensive income for the year was £99.5 million (2010: £94.1 million).

Our track record – growth in shareholder returns



9.9% annualised return to shareholders

5% dividend objective achieved in every year since inception

For more information
Returns and Risk – pages 28 to 34
Portfolio – pages 13 to 17
Review of investments – pages 20 to 26

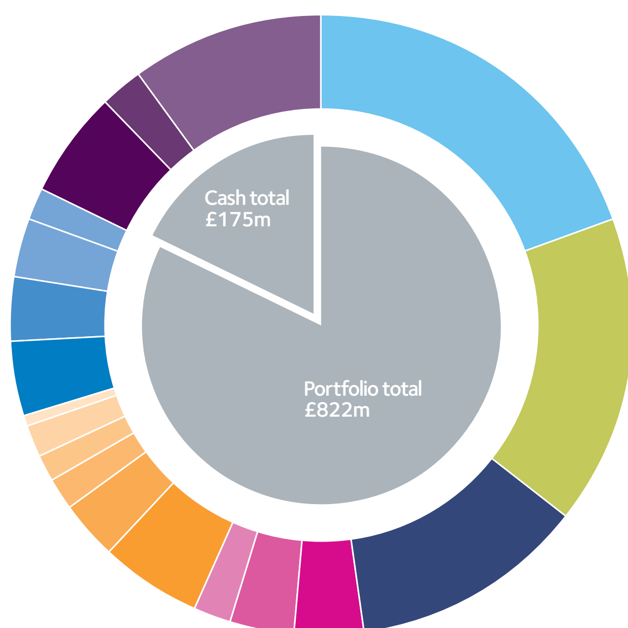
Our portfolio

17 assets
invested

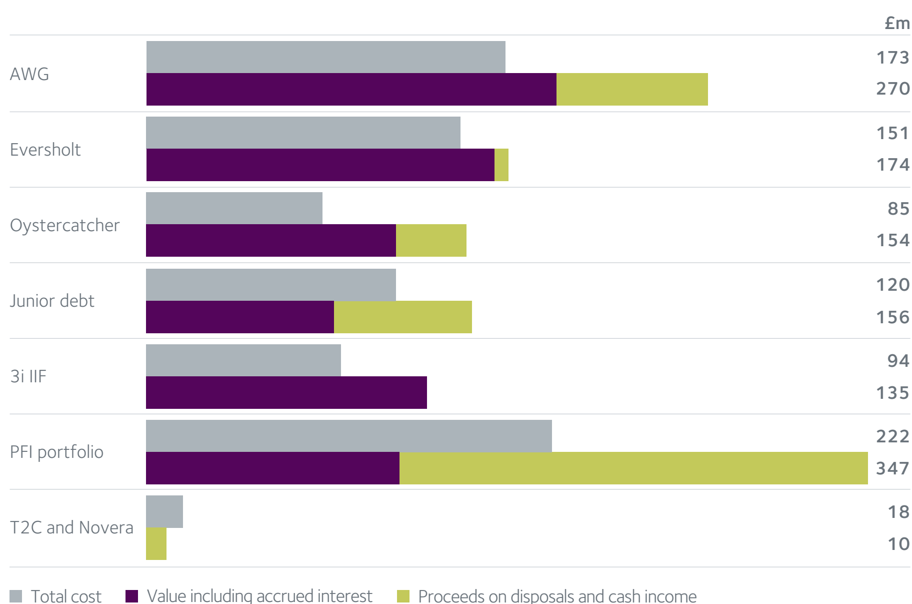
£822 million
portfolio value

£175 million
cash balances

Asset value on an investment basis at 31 March 2011	£m
Anglian Water Group	196
Eversholt Rail Group	161
Oystercatcher	119
Junior debt portfolio	
TDF	37
NGW Arqiva	32
Thames Water	21
3i India Infrastructure Fund	
Adani Power	53
Krishnapatnam Port	31
Soma Enterprise	16
KMC Roads	15
GVK Energy	14
Ind-Barath Utkal	6
PFI portfolio	
Elgin (16 projects)	40
I² loan notes	32
Octagon	31
Alpha Schools (11 schools)	18
T2C	nil
Total portfolio value	822
Cash	
Cash committed to India	54
Cash committed to final dividend	23
Free cash	98
Total cash	175



Our track record – value creation from the portfolio



19%
annualised asset IRR since inception

The calculation of the IRR (Internal Rate of Return) uses cash flows generated from the assets to work out the annualised effective compound rate of return. The calculation uses closing values for assets that have not been sold.

Chairman's statement

"The investment in Eversholt and the further investments in India strengthen the Company's existing portfolio, which has continued to perform well throughout the year, generating strong income. The Board looks forward to building on this positive momentum, and is working with the Investment Adviser to develop the pipeline for the next financial year."

Peter Sedgwick – Chairman
4 May 2011

This has been an important year for 3i Infrastructure plc ("3i Infrastructure", or "the Company"), which saw continued good asset performance and significant investment momentum. During the year, the Board also focused on securing liquidity in the medium term by signing a new revolving credit facility, it extended the Company's advisory agreement and investment exclusivity with the Investment Adviser, and it implemented procedures to ensure compliance with the new UK Corporate Governance Code.

Performance

3i Infrastructure delivered steady growth in net asset value during the year to 31 March 2011. Total comprehensive income attributable to the equity holders of the parent, on a consolidated basis, totalled £86.8 million for the year, a return of 9.3% on opening shareholders' equity.

On the investment basis, which the Board also uses to monitor investment performance, the return was £85.5 million, or 9.2% on opening shareholders' equity. The return was underpinned principally by the strong income generated from the portfolio assets, totalling £69.3 million in the year, more than double the income generated last year, reflecting the strong operational performance of the asset portfolio.

Dividend

On the basis of these results, the Board is pleased to propose a final dividend payment of 2.86 pence per share. This, added to the interim dividend of 2.86 pence per share paid in January 2011, brings the total dividend to 5.72 pence per share, or 5% of opening shareholders' equity, in line with the Company's return objectives and represents an increase of 4% over the previous year.

Investment and realisations

The Company invested a total of £187.5 million, adding four new investments to the portfolio. These include the direct investment in Eversholt, as well as three investments completed through the 3i India Infrastructure Fund ("the Fund").

The acquisition of Eversholt in December 2010 was very important in the implementation of the Company's strategy of growing its "core" infrastructure portfolio, building towards the delivery of the return objectives. Eversholt, one of the three leading rail rolling stock leasing companies in the UK, is a profitable transport asset with stable contracted revenues, a strong market position and defensive characteristics. The investment has already contributed strongly to portfolio income for this financial year.

The opportunity for infrastructure investment in India is exciting and the Board is pleased with the three new assets added by the Fund in the year. These include two power projects (GVK Energy and Ind-Barath Utkal) and one toll road operator (KMC Roads), providing the Company with additional exposure to these two rapidly growing sectors through the Fund's partnerships with established promoters with a strong track record of delivery.

Developments in the debt markets have provided the backdrop for most of the divestment activity during the year and in the period following the financial year end. In October 2010 the Company completed the sale of its Viridian junior debt investment, generating proceeds of £46.8 million. In April 2011 the Thames Water tranche was repaid in full by the borrower before its full term, and the NGW Arqiva tranche was sold, generating proceeds of £55.4 million in aggregate.

Liquidity and Investment Advisory Agreement

With a significant portion of the cash balances invested, the Board looked to secure the Company's liquidity in the medium term. In November 2010, 3i Infrastructure signed a three-year, £200 million revolving credit facility with a syndicate of five major banks. This replaced the £225 million revolving credit facility signed in March 2008, which was due to expire in March 2011.

In December 2010 the Company also extended its Investment Advisory Agreement with 3i Investments plc. The renegotiation achieved two key objectives: (i) it extended the exclusivity arrangements between the Company and 3i Investments plc by a further £200 million, and (ii) it extended the fixed duration of the agreement by three years from March 2012 to March 2015.

With the investment exclusivity and the agreement with the Investment Adviser extended, and with the Company's liquidity secured over the medium term, the Company has a solid platform from which to invest.

Corporate governance and Board

The Company aims to uphold the highest standards of corporate governance and has chosen to comply fully with all applicable provisions of the Combined Code on Corporate Governance.

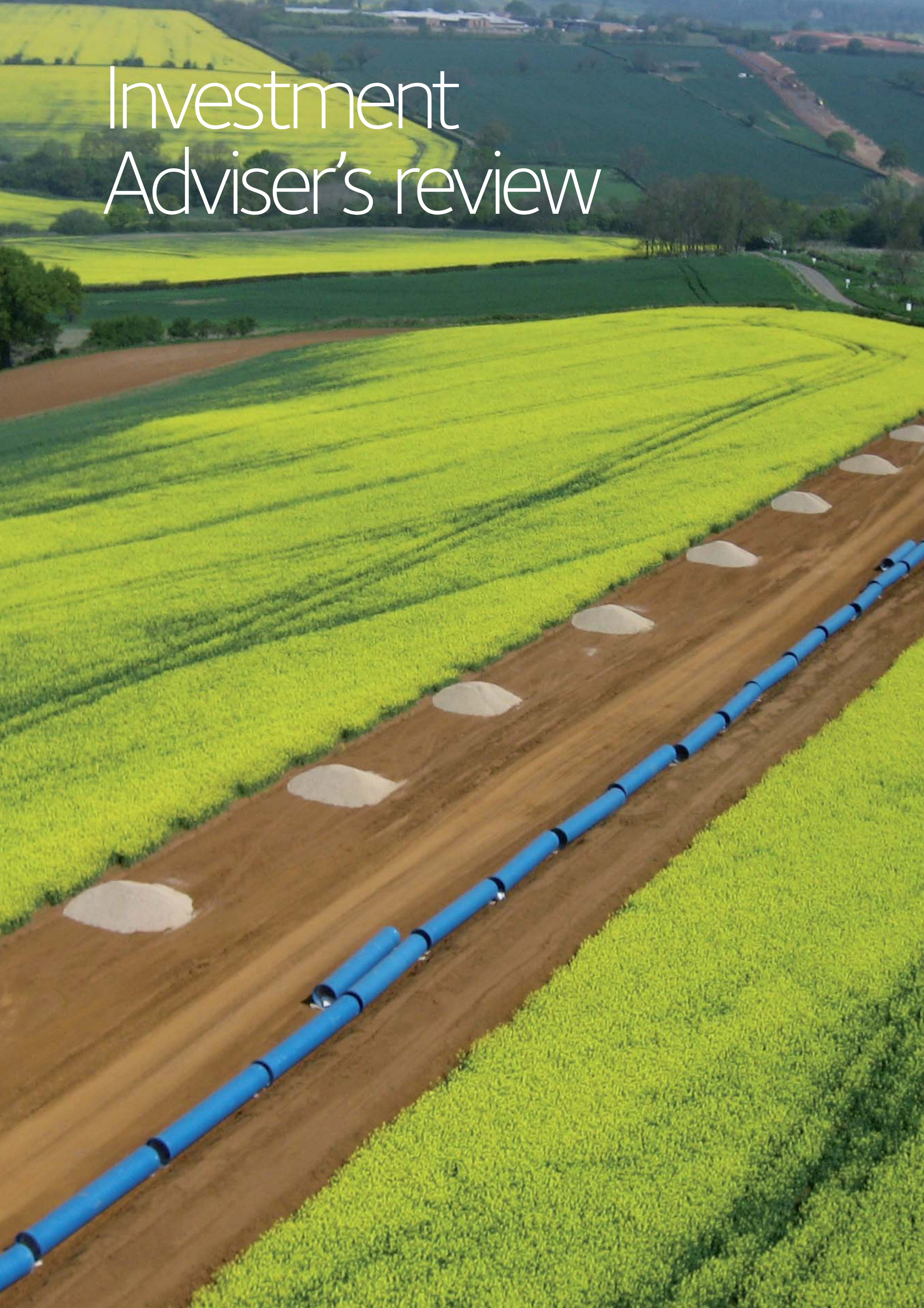
During the year, the Financial Reporting Council updated and reissued the UK Corporate Governance Code ("the Code"), which will now apply to all companies with a premium listing on the London Stock Exchange. The Board has conducted a thorough appraisal of the new Code and has implemented a number of changes to its procedures, to ensure that the Company complies with all applicable provisions of the new Code. These changes are described in greater detail in the Corporate governance statement, on pages 43 to 48, and include the annual re-election of all Directors and the creation of a Remuneration Committee.

Due to the nature of the Company, it is important that the members of its Board have a broad variety of skills and experience. Florence Pierre, a French national, was appointed to the Board as a non-executive Director in September 2010, bringing with her over 25 years of experience in European mergers and acquisitions and general corporate finance advisory activity.

Outlook

The investment in Eversholt and the further investments in India strengthen the Company's existing portfolio, which has continued to perform well throughout the year, generating strong income. The Board looks forward to building on this positive momentum, and is working with the Investment Adviser to develop the pipeline for the next financial year.

Investment Adviser's review



Investment Adviser's review

"The infrastructure market continues to be relatively rich in opportunities, with the role of financial investors well established. The Investment Adviser is building a diverse pipeline for the next financial year. As pricing pressure for assets increases, the Investment Adviser's comprehensive market access, focused investment strategy and solid operational understanding of the asset class will be key to achieving the Company's return objectives in the years to come."

Cressida Hogg – Managing Partner, Infrastructure
4 May 2011

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 realisation of investments and on funding requirements, as well as on the management of the investment portfolio.

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 in investing in, or advising on, infrastructure or private equity assets. The investment advisory team can also draw on 3i Group's network of investment professionals, based in 13 countries, to originate infrastructure investment opportunities.

3i Group was among the subscribers to 3i Infrastructure's Initial Public Offering and subsequent Placing and Open Offer and currently owns 32.9% of the equity in the Company.

The infrastructure asset class – key characteristics

Infrastructure assets generally have a strong market position, often operating within regulated markets, or with revenues underpinned by strong, long-term contracts.

Infrastructure assets can be described as "essential", either because they support economic activity and economic growth, such as utilities or transport infrastructure, or because they support important social functions, such as education or healthcare facilities. Infrastructure assets are typically characterised by the following features:

- Strong market positions
- Capital-intensive businesses
- Some degree of inflation linkage
- Low cyclical volatility
- Predictable, income-oriented returns when operational
- Potential for capital growth

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

Investment strategy

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

In advising the Company on delivering this overall objective, the Investment Adviser will seek to add value by buying assets at the appropriate value point, by applying consistent and rigorous portfolio management to drive good operational performance in the portfolio assets and by encouraging portfolio companies to invest for long-term value creation.

Investment Adviser's approach

1. Rigorous approach to investment

Consistent investment strategy

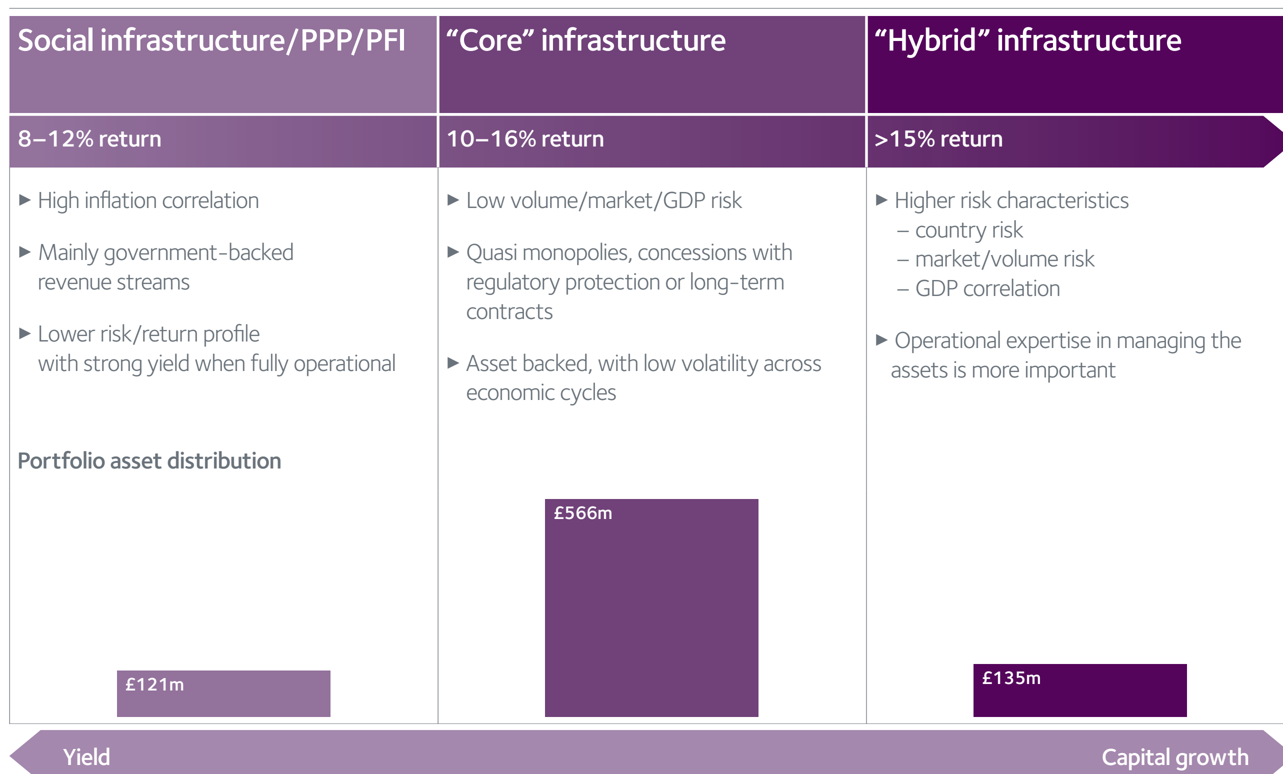
The Investment Adviser's strategy is to build a portfolio that delivers a balance of yield and capital growth, in line with the Company's return objectives.

The infrastructure asset class is well suited to this strategy, as it offers the possibility of diversifying investments across the risk/return spectrum. As shown in more detail in Chart 1, the infrastructure asset class can be subdivided into three main categories of assets: (i) social infrastructure/PPP/PFI; (ii) "core" infrastructure and (iii) "hybrid" infrastructure. The characteristics of each category are described in Chart 1. Returns from these assets typically range between 8% and 15% or greater, depending on the risks associated with the investment. Yields generated from the assets also vary, depending, among other factors, on the stage of development of the asset (eg assets under construction versus operational assets).

The Company aims to deliver the 12% net return over the long term by building a portfolio which is predominantly weighted towards mature "core" infrastructure assets.

As shown in Chart 1, nearly 70% of 3i Infrastructure's portfolio is weighted towards mature "core" assets, with the 15% exposure to PFI/PPP assets providing support to the delivery of the yield objective, and the 16% "hybrid" exposure through the 3i India Infrastructure Fund providing higher capital growth. This is a defensive portfolio, which has delivered steady returns and a robust cash yield in times of macroeconomic and market uncertainty.

Chart 1 – Risk/return spectrum and asset distribution, value at 31 March 2011



Premium origination and execution skills

Many transactions in the "core" infrastructure space are large and complex, requiring first-class origination and execution skills. These include an in-depth knowledge of the target sectors and geographies, a sound operational understanding of the target assets and of their regulatory regimes, as well as the ability to deliver a highly efficient financing structure. The Investment Adviser brings these skills to bear in its origination and execution activity on behalf of the Company.

The Investment Adviser adopts a rigorous approach to the assessment of investment opportunities, ensuring that only those that best fit the Company's strategy and that can contribute to the delivery of its return objectives are taken through the initial screening. The team then undertakes extensive due diligence on each opportunity, including consideration of market and specific sector risks, as well as of corporate responsibility issues, prior to any recommendation to the Board.

The Investment Adviser is focusing on developing its pipeline for the next financial year. In doing so, it leverages the resources of its main infrastructure hubs of London and Mumbai, as well as the wider resources of 3i Group. It focuses on building proprietary knowledge and networks in target sectors and geographies, its comprehensive approach to origination ensuring that a high proportion of the opportunities in the market are evaluated and screened.

Rigorous approach to investment:
Eversholt Rail Group

The £2.1 billion acquisition of Eversholt this year in consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners contributed significantly towards the achievement of a portfolio weighted in favour of "core" assets. Eversholt is one of the three leading rail rolling stock companies in the UK, and owns approximately 29% of the total British rail fleet. The acquisition, completed in December 2010, was immediately accretive to NAV and income and provided exposure to a profitable transport asset with stable contracted revenues, a strong market position and defensive characteristics.

The Investment Adviser's market access and execution skills were key to the success of the transaction. The team was able to obtain exclusivity very early in the process by partnering with a credible consortium with in-depth knowledge of Eversholt's market, an understanding of the value drivers and of the value opportunity, as well as the skills required to put together the complex financing package.

Since investing, the consortium has been implementing a comprehensive 100-day post acquisition programme. This has focused on strengthening Eversholt's leadership through the appointment of a new chairman, on a comprehensive assessment of operational targets, and on refinancing most of the debt in the acquisition structure. Three new public bonds have been issued by Eversholt since December 2010, for a total of £1.1 billion, attracting strong demand from public market investors. All are long dated and were priced at attractive terms, significantly reducing the ongoing interest costs and refinancing risk.

For more information
Portfolio – pages 13 to 17
Review of investments – pages 20 to 26
Profile of senior members of the investment advisory team – page 18

2. Best-in-class portfolio management

Infrastructure assets typically have strong market positions, backed by concessions or some form of regulatory protection, have low cyclical volatility and provide predictable, income-oriented returns over the long term.

Mature infrastructure assets tend to be held over long periods of time, as income is generally a more important component of the return for these types of assets than capital growth and matches investors' long-term liabilities. Value, which can be enhanced through gradual and incremental improvements in the assets' operational performance, is delivered in large part through income, and less often through realised profits following a sale.

The Company's intention, therefore, is generally to hold investments over the long term and to generate income from these assets over time. Matching the long-term hold period of the underlying assets with evergreen funding was the principal reason for structuring the Company as a listed vehicle with permanent capital. However, investments in the 3i India Infrastructure Fund, which are at an earlier stage of their development, may be held for a shorter period.

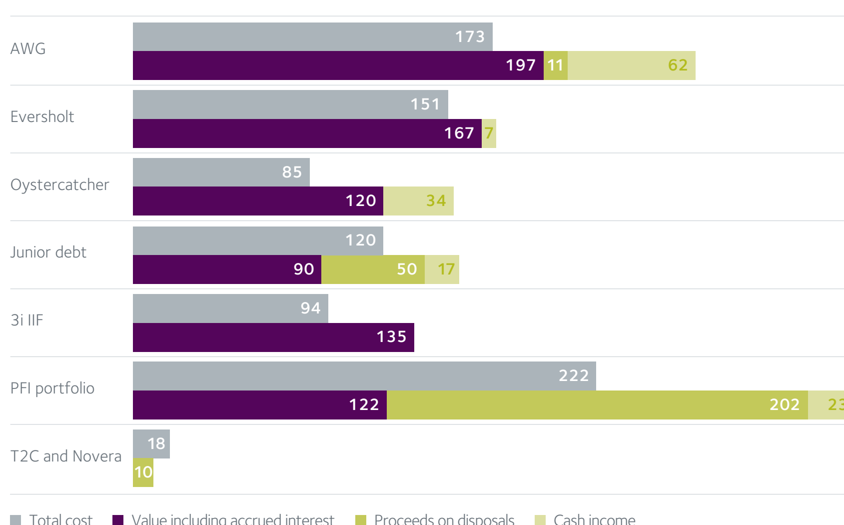
Portfolio management is a key area of focus for the Investment Adviser and is an important tool in achieving the Company's return objectives. The Investment Adviser works with portfolio companies to develop and refine business strategies to deliver improvements in operational performance, and to monitor key indicators to ensure that any issues are identified and acted upon quickly. The Company is represented, generally through the Investment Adviser, on the boards of all its equity investments.

3i Infrastructure will sell assets on an opportunistic basis, where compelling offers generate shareholder value, as was the case for Alma Mater and I² in 2008 and 2009, or where there are asset specific reasons for a disposal, as for the Viridian junior debt investment.

Chart 2 illustrates how this portfolio management strategy has delivered strong returns from the portfolio assets. In particular, the chart shows that: (i) the return is underpinned in the vast majority of cases by substantial cash generation in the form of income or realised proceeds; (ii) most assets can return a significant proportion of their cost through income in a relatively short period of time, and (iii) where assets have been sold, notably in the PFI portfolio, they have generated good uplifts to cost.

In total, against a total investment cost of £863 million, the portfolio has already returned cash income of £143 million since inception, and realised proceeds of £273 million, including realised profits over cost of £57 million.

Chart 2 – Portfolio asset returns throughout holding period (£m)



3. Investing for long-term value creation

Driving income generation from portfolio assets is crucial to the delivery of the Company's return objectives. Returns from "core" infrastructure assets, however, also have a significant capital growth component, which is maximised through capital investment for long-term development. As a consequence, it is important that portfolio companies are encouraged to invest in expansion projects that deliver value accretion over the long term.

The Investment Adviser works with management teams to devise and implement long-term development strategies. This requires an in-depth knowledge of market and sector dynamics, as well as an understanding of the long-term value drivers for each of the assets.

The Investment Adviser has been applying these skills very successfully to the Company's investment in Oystercatcher, which was valued at £119.6 million at 31 March 2011 relative to an investment cost of £84.5 million, and which has delivered income of £34.4 million since 3i Infrastructure's investment in August 2007.

The case study on the right shows that the operating companies in Oystercatcher have invested heavily in expansion projects.

Investing for long-term value creation: Oystercatcher

Since the Company's initial investment in Oystercatcher in 2007 the Investment Adviser has been actively involved in the assessment of a range of capital expenditure project proposals, both to increase storage capacity and to improve operational effectiveness, at all three terminals.

- In Singapore, a 160,000 cubic metre expansion project was approved in 2008 to accommodate increasing demand from adjacent refineries and petrochemicals industries. This was completed on time and within budget in June 2009. The capacity was let on a use-or-pay basis under a long-term contract to an existing customer.
- In Amsterdam, a 42,000 cubic metre expansion project was approved in 2009 to provide dedicated storage for biodiesel products for a new production facility being constructed beside Oiltanking Amsterdam's site, due to be completed in the summer of 2011. This capacity is also let on a use-or-pay basis under a long-term contract. Along with this, several smaller investments were approved to upgrade throughput and customer service, including higher capacity pumps and new pipeline connections to improve blending capabilities.
- In Malta, investment in a new 13,000 cubic metre tank has recently been approved, to be let on a use-or-pay contract to an existing customer from completion at the end of 2011.

From the year of Oystercatcher's investment to the end of 2010, total capacity at the three terminals has increased by over 12% while annual throughput has increased by over 25%.

This demonstrates the Company's willingness to see its portfolio companies deploy capital in new projects which deliver long-term value accretion.

Market and opportunities

Conditions for investment

Transaction volumes in the infrastructure market increased throughout the year, as investor confidence returned.

Banks' appetite for infrastructure exposure remained, and the continued availability of debt at relatively attractive terms underpinned purchasers' confidence to bid for assets. Demand for capital markets debt issued by strong "core" infrastructure companies also increased, as demonstrated by Eversholt's successful public bond issuance programme.

The outlook for inflation and interest rates will continue to be an important determinant in the conditions for investment going forward. While relatively high inflation is positive for the infrastructure asset class, its impact on interest rates may affect financing, as well as achievable returns.

The opportunity

The market opportunity for infrastructure investment remains positive, and after an intensification of investment activity in the year to March 2011, the Investment Adviser is focusing on building the pipeline for the next financial year.

There are several themes driving the pipeline, many of which we have described before. Our key themes include:

Non-core disposals

Many corporates continue to be under pressure to deleverage their balance sheets. In the case of financial institutions, the evolution of capital adequacy regulations means that regulatory capital buffers will have to be increased, and this is likely to be achieved, at least in part, through the sale of assets. The Company's acquisition of Eversholt Rail Group from HSBC is an example of this.

The pressure to reduce debt is driving many companies to renew focus on their activities in core areas. Examples of this include: utilities selling networks to focus resources on power generation; oil and gas companies exiting midstream assets to focus on upstream activities; and construction companies divesting assets that have completed their construction phase, to recycle capital into new projects.

Public sector budget constraints

As European governments cut spending to tackle public sector deficits, private sector investment in essential infrastructure should increase through privatisations and PPP-style transactions. While we believe this will be the case in the medium to long term, in the shorter term new PFI/PPP procurement may slow, as governments evaluate their priorities and work through the implementation of spending cuts. Some government sales, however, are taking place: for example, the UK government successfully privatised the HS1 rail link in 2010.

Policy drivers

The requirement for new and replacement infrastructure, as well as the shift to the "green economy", may drive government incentives for new infrastructure projects (eg the Green Investment Bank announced by the UK government). Infrastructure may also be used in some countries as a tool for economic stimulus.

Cyclical recovery/market stabilisation

As market conditions are stabilising, there is greater consensus between parties on forecasts and outlook, for example on traffic projections for transportation assets. This may result in an increase in pro-cyclical and volume sensitive assets, such as airports, changing hands in the short to medium term.

Secondary market sales/opportunities from refinancing

Some infrastructure funds are nearing the end of their fund life, and while the first wave of forced exits is probably two to three years away, some funds are looking to sell assets to prove fund valuations. Many of these assets are likely to be sold to other infrastructure funds. There may also be opportunities from the refinancing of assets currently held in infrastructure funds.

India

The opportunity in India remains significant, as shown by the increased level of transaction activity for the 3i India Infrastructure Fund. Strong GDP growth and an increasingly urbanised population continue to drive demand for new build infrastructure. There is political momentum for new infrastructure development in India, and the Indian government continues to place much importance on private sector participation.

The competitive environment

Investors are increasingly attracted to investing in assets with infrastructure characteristics, as they seek protection from volatility in other asset classes and from inflation and other macroeconomic risks.

Significant funds have been raised over the past three to four years, and some investors, most notably sovereign wealth funds and large pension funds, have also begun to invest directly in infrastructure assets.

Growing demand for assets has resulted in greater pricing pressure, in particular in the more liquid segments such as PPP/PFI, and increasingly in the "core" infrastructure segment.

The Investment Adviser's strong track record, particularly in completing complex transactions and working closely with operating partners and other investors, means that 3i Infrastructure is well positioned to see the best deal flow even in more competitive markets.

Outlook

The infrastructure market continues to be relatively rich in opportunities, with the role of financial investors well established. The Investment Adviser is building a diverse pipeline for the next financial year. As pricing pressure for assets increases, however, the Investment Adviser's comprehensive market access, focused investment strategy and solid operational understanding of the asset class will be key to achieving the Company's return objectives in the years to come.

Portfolio

Table 1 below summarises the valuation and changes to the portfolio for the year, as well as the return per asset. Charts 3, 4 and 5 below illustrate the breakdown of the portfolio by geography, sector and maturity as at 31 March 2011.

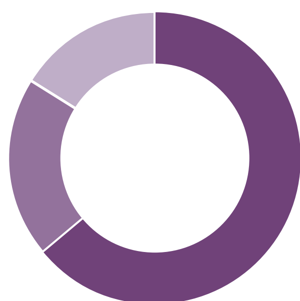
All the financial information presented in this section is prepared according to the investment basis of preparation.

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

Portfolio assets	Directors' valuation 31 March 2010	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	**Directors' valuation 31 March 2011**	Profit on disposal	Income in the year[(1)]	**Asset total return in the year**
AWG	193.6			2.3		**195.9**		27.0	**29.3**
Eversholt	–	151.1		9.6		**160.7**		6.5	**16.1**
3i India Infrastructure Fund	97.9	35.2		7.5	(5.9)	**134.7**		–	**1.6**
Oystercatcher	118.8			1.8	(1.0)	**119.6**		13.7	**14.5**
Junior debt portfolio	123.7		(43.2)	10.0	(0.3)	**90.2**	3.6	6.3	**19.6**
Elgin	38.7			1.5		**40.2**		3.3	**4.8**
I^2 loan notes	30.4	1.2[(2)]		–		**31.6**		2.5	**2.5**
Octagon	28.8			2.3		**31.1**		3.1	**5.4**
Alpha Schools	16.2			1.5		**17.7**		1.4	**2.9**
T2C	0.0			–		**0.0**		–	**–**
	648.1	187.5	(43.2)	36.5	(7.2)	**821.7**	3.6	63.8	**96.7**

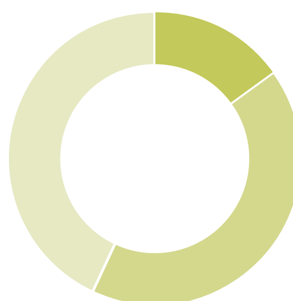
(1) Relates to dividend and interest income. For Eversholt, an additional £6.8 million was received as a fee.
(2) Capitalised loan note interest.

Chart 3 – Asset portfolio by geography



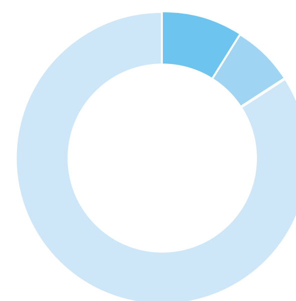
- UK and Ireland 64%
- Continental Europe 20%
- Asia 16%

Chart 4 – Asset portfolio by sector



- Social Infrastructure 15%
- Transportation 42%
- Utilities 43%

Chart 5 – Asset portfolio by maturity



- Early stage 9%
- Operational growth 7%
- Mature 84%

Movements in portfolio value

As set out in Chart 6, the value of 3i Infrastructure's portfolio increased from £648.1 million to £821.7 million over the course of the financial year.

The components of this value movement are investment of £187.5 million, divestment of £43.2 million, an unrealised value growth of £36.5 million, and foreign exchange losses (before hedging) of £7.2 million.

Investment

Investment activity increased in the year to 31 March 2011, with total investment of £187.5 million (2010: £73.4 million). Four new investments were completed, with a total value of £186.3 million, of which one, Eversholt Rail Group, was a direct investment and three were completed through the 3i India Infrastructure Fund (the "Fund"). Total investment also includes capitalised interest of £1.2 million from the I^2 loan notes. An additional US$14.0 million (£8.7 million) was committed in the year to fund the second tranche of the acquisition of GVK Energy by the 3i India Infrastructure Fund, but has not yet been drawn down.

Eversholt Rail Group

In November 2010 3i Infrastructure, in consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners, announced it had agreed to acquire Eversholt Rail Group ("Eversholt") from HSBC Asset Finance (UK) Limited, a wholly-owned subsidiary of HSBC Holdings plc.

The transaction, which achieved financial close in December 2010, valued Eversholt's gross assets at approximately £2.1 billion, and the consortium financed the acquisition through a combination of equity and debt. 3i Infrastructure contributed £151.1 million as part of the total consideration.

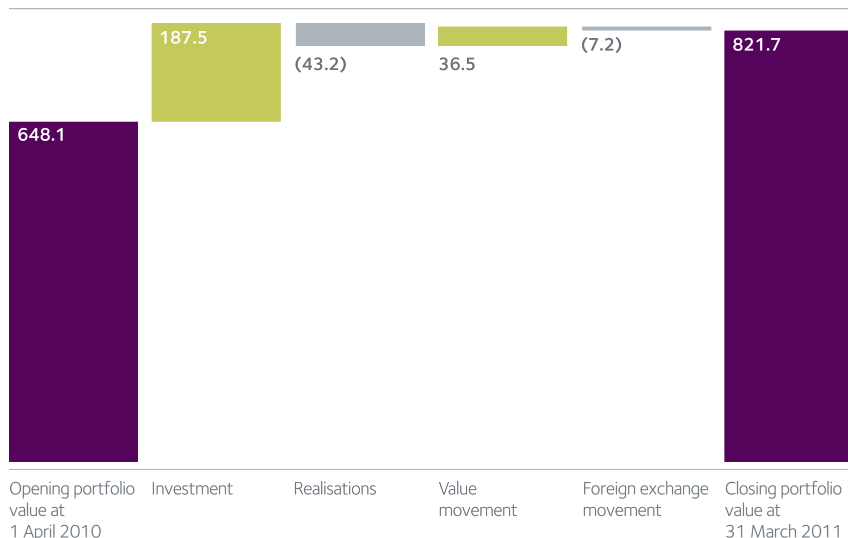
A full description of the Company's investment in Eversholt, as well as of the investment rationale, can be found on page 21.

3i India Infrastructure Fund

The Fund completed three new investments in the year, two power assets and one toll road developer and operator. The rapidly growing Indian power generation market is an attractive area for investment, as the continuing imbalances between power demand and supply in India are expected to continue over the next decade. The Indian road sector has seen similar growth, as the Indian government remains focused on relieving road congestion and improving accessibility. Like the other investments in the Fund, all three investments have been made alongside strong local promoters with an established track record of delivery in their respective sectors.

GVK Energy Limited ("GVK Energy") is developing a power portfolio comprising an operational capacity of 915MW, with a further 3,132MW under various stages of development. The GVK Energy portfolio is differentiated from other power projects in the Fund, as it is mainly gas fired. The Fund invested US$177.9 million (£112.5 million) for a substantial minority stake in GVK Energy in December 2010, with GVK Power and Infrastructure, GVK Energy's parent company, retaining a majority. 3i Infrastructure's share of this investment was US$37.2 million (£23.7 million), of which US$23.3 million (£15.0 million) was drawn by the Fund on announcement, with the remainder expected to be drawn over the next financial year.

Chart 6 – Reconciliation of the movement in portfolio value on an investment basis (£m)



Ind-Barath (Utkal) Limited ("Ind-Barath Utkal"), is building a 700MW coal-fired power plant based in the state of Orissa. The Fund invested US$45.2 million for a minority stake in Ind-Barath Utkal in March 2011, with the company's parent, Ind-Barath Power Infra Limited, a developer of power projects, retaining the majority. The Company's share of the investment was US$9.5 million (£5.8 million).

KMC Infratech Limited ("KMC Roads"), is a subsidiary of KMC Constructions Limited ("KMCCL"), a Hyderabad-based infrastructure engineering and construction company. KMC Roads is KMCCL's "build, operate and transfer" roads business. Its portfolio currently comprises 10 such projects, totalling c.1,000 kilometres across India, making it one of the largest road portfolios in the country and a strong platform for future BOT road projects. The Fund invested US$111.4 million (£68.6 million) for a substantial minority in KMC Roads in March 2011, of which the Company's share was US$23.3 million (£14.3 million).

Realisations

In October 2010, the Company sold the entirety of its holding in one of Viridian's junior debt facilities (Electricinvest Holding Company Limited £500 million Junior Facility), for £46.8 million, representing a profit over original cost of £4.8 million. The Viridian position, built over the course of 2008 and 2009, was valued at £43.2 million at 31 March 2010.

Unrealised value movement

The portfolio generated an unrealised value gain of £36.5 million (2010: £66.8 million). This was lower than last year due to the impact on value of strong income receipts, as well as to a smaller increase in value from the mark-to-market valuation of the junior debt portfolio.

As shown in Table 2, the mark-to-market valuation of the **junior debt portfolio** increased by 12% in the year, from £80.5 million at 31 March 2010 to £90.2 million at 31 March 2011 (2010: 38%). The March 2011 figures above are net of the divestment of the Viridian debt holding in October 2010. The increase in value was due in part to the market-wide recovery in the trading of junior debt instruments, and underpinned by the performance of the junior debt portfolio's underlying companies. In particular, the Thames Water junior debt tranche, which was repaid in full by the borrower in early April 2011, was valued at close to par at 31 March 2011.

The majority of the Company's portfolio saw positive value movements, offset in most cases by the strong levels of income generated by the portfolio assets this year.

Eversholt was valued at £160.7 million at 31 March 2011, compared to a total consideration for the acquisition of £151.1 million. This increase reflects the successful refinancing of a substantial part of the acquisition debt (described in more detail on page 8), and good operational performance since acquisition.

The assets with revenues and value most linked to inflation, **AWG** and the **PFI portfolio**, benefited from an increase in inflation during the year. The positive impact of higher inflation, however, was offset in several cases by the strong levels of income paid to the Company. AWG, in particular, paid a higher dividend this year than in 2010, following the rebound in RPI and the regulatory capital value adjustment at the beginning of the new regulatory period.

Table 2 – Junior debt portfolio valuation movements (£m)

	Cost	Value at 31 March 2011	Value at 31 March 2010	Value movement
Viridian[1]				
Electricinvest Holding Company Limited £500 million Junior Facility	42.0	n/a	43.2	n/a
NGW Arqiva				
Macquarie UK Broadcast Enterprise Limited £475 million junior facility	32.4	32.3	29.7	2.6
Télédiffusion de France				
Tyrol Acquisition 2 SAS €470 million Second Lien Facility	24.2	36.8	33.4	3.4[2]
Thames Water				
Kemble Water Structure Limited £835 million Term Loan Facility	18.9	21.1	17.4	3.7
	117.5	**90.2**	**123.7**	**9.7**

(1) Sold in October 2010 for £46.8 million.
(2) Includes a £0.3 million exchange loss.

For more information:
Underlying asset performance – page 17
Summary of portfolio valuation methodology – page 16
Review of investments – pages 20 to 26

The value of the **3i India Infrastructure Fund**, including exchange movements, was broadly in line with last year (before new investment), as the decline in the mark-to-market value of Adani Power largely offset gains elsewhere in the Fund's portfolio.

Foreign exchange impact

Foreign exchange rates were volatile throughout the year. As set out in Table 3, movements in foreign exchange generated net losses of £4.3 million on non sterling assets. Sterling appreciated by 5% against the Indian rupee in the year, resulting in foreign exchange losses of £5.1 million for the Company, as its exposure to the Indian rupee through the 3i India Infrastructure Fund remains unhedged. The Board has monitored the rupee exposure on a regular basis. During the year, sterling also appreciated by 1% against the euro, but the resulting losses were more than offset by foreign exchange derivatives entered into to provide some mitigation from movements in the sterling/euro exchange rate (the "euro hedging programme").

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 ("IPEV") valuation guidelines, generally using a discounted cash flow ("DCF") methodology, which the Board considers to be the most appropriate valuation methodology for unquoted infrastructure equity investments.

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

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

Discounted cash flow and discount rates

Around 78% of the portfolio was valued on a DCF basis at 31 March 2011. The weighted average discount rate applied at that date was 13.2% (2010: 12.5%), deriving from a range of 8.2% (an operational PFI asset) and 21.2% (a project within the 3i India Infrastructure Fund). Chart 7 shows the movement in the weighted average discount rate applied to the portfolio in each six-month period since inception.

The increase in the weighted average discount rate compared to last year was due principally to the acquisition of Eversholt, as well as to the addition of three new assets to the 3i India Infrastructure Fund, all valued using discount rates above last year's weighted average.

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 "risk-free" rates of return in the relevant country and appropriate risk premia. There were no changes to the discount rates used to value any of the assets since the last valuation at 30 September 2010, with the exception of the discount rate applied to Soma Enterprise and Krishnapatnam Port within the 3i India Infrastructure Fund, as Krishnapatnam Port became fully operational and several of Soma Enterprise's BOT projects progressed through their construction phase.

3i India Infrastructure Fund

The Company's investment in the 3i India Infrastructure Fund was valued as the Company's share of net assets held by the Fund. Within the Fund valuation, Adani Power, which has been a listed company since August 2009, is 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.

Junior debt portfolio

The Company's investment in the junior debt portfolio was valued using closing bid prices at 31 March 2011 provided by third party brokers. The portfolio traded up 12.1% in the year to 31 March 2011.

Table 3 – Impact of foreign exchange movements on portfolio value (£m)

	Year to 31 March 2011
Translation of assets £/€	(1.3)
Translation of assets £/US$	(5.9)
Foreign exchange losses on investment	**(7.2)**
Asset valuation US$/rupee(1)	0.8
Movement in the fair value of derivative financial instruments (£/€ hedging)	2.1
Other foreign exchange movements	**2.9**
Net foreign exchange losses	**(4.3)**

(1) Contained within Unrealised profits on revaluation of investments in Table 4 on page 28.

Underlying asset performance

The fully operational assets in which the Company holds an equity stake delivered a stable performance in the year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") for these assets increased by 1.4% on a like-for-like basis relative to the prior year.

The assets included in this analysis are those that have been held by the Company and largely operational for one year or more: AWG, Oystercatcher, Elgin (underlying project companies), Octagon and Alpha Schools and, within the 3i India Infrastructure Fund, Adani Power, Soma Enterprise and Krishnapatnam Port.

The two key drivers for the 1.4% increase are a 1.3% decrease in EBITDA for AWG and a 2.7% increase for Oystercatcher.

In the case of AWG, the EBITDA reduction was fully anticipated following the rebasing of revenues on 1 April 2010 at the commencement of the new five-year regulatory period.

The stable returns from the portfolio assets, achieved after two years of substantial improvements in operational performance, and in persistently volatile market conditions, are evidence of the robustness of infrastructure as an asset class.

Activity since the year end

The Thames Water junior debt tranche was repaid in full before its full term by the borrower in April 2011, generating proceeds of £21.2 million, representing an uplift over cost of £2.4 million, and an uplift over the value at 31 March 2011 of £0.2 million.

The NGW Arqiva junior debt tranche was sold in April 2011 for £34.2 million, generating a profit over cost of £1.8 million and a profit over the value at 31 March 2011 of £1.9 million.

Chart 7 – Portfolio weighted average discount rate (%)

For more information:
Portfolio income – page 29

Profile of senior members of the investment advisory team

Cressida Hogg
Managing Partner, Infrastructure

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

Neil King
Partner, Infrastructure

Neil has responsibility for the investment advisory team's investment origination and appraisal activities in Europe and North America. He was involved in advising on most of the Company's investments, and has had a leading role in ensuring a consistent approach to infrastructure investment across all offices. During the current financial year he led the Company's investment into Eversholt. 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 AWG, Eversholt and the Oiltanking investments. Phil joined in 2007, bringing 20 years of investment, advisory and financing experience to this role, including from roles at Macquarie, WestLB and Barclays. Phil is a member of 3i Group's Corporate Responsibility Committee.

Girish Baliga
Partner, Infrastructure

Girish jointly leads 3i Group's infrastructure investment business in India with Samir Palod. He is responsible for making investments on behalf of the 3i India Infrastructure Fund, in which 3i Infrastructure has a commitment. Girish joined 3i Group in 2005, following extensive investment experience from previous roles at Chryscapital and JPMorgan Partners. Girish led the 3i India Infrastructure Fund's investment in Adani Power, and serves on the board of several companies in which the Fund is invested, including GVK Energy, Soma Enterprise and Krishnapatnam Port.

Samir Palod
Partner, Infrastructure

Samir jointly leads 3i Group's infrastructure investment business in India with Girish Baliga. He joined 3i Group's Growth Capital business in Mumbai in 2005, before transferring to the infrastructure advisory team in 2008. He has worked on infrastructure investments for 3i Group such as Mundra Port. He recently led the investments in KMC Roads and Ind-Barath Utkal and serves on those companies' boards. Prior to joining 3i Group, Samir worked for 10 years with Citigroup's banking and investment banking arms in India and also has experience from roles at Asian Capital Partners and Arthur Andersen.

Deepak Bagla
Partner, Infrastructure

Deepak has overall responsibility for 3i Group's office in New Delhi and also works closely with Girish and Samir on the investments made by the 3i India Infrastructure Fund. He represents 3i Group on several Government committees and business forums. He joined 3i Group in 2007, bringing with him over two decades of financial and operational experience from his time at the World Bank, RPG Enterprises (an Indian business conglomerate) and Citigroup.

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.

Anil Ahuja
Managing Partner, Asia

Anil focuses on 3i Group's businesses in Asia, including the development of 3i Group's Indian business. As such he works closely with Cressida, Girish and Samir, and is involved in all investments made by the 3i India Infrastructure Fund. Prior to joining 3i Group in 2005, Anil worked at JPMorgan Partners Asia, overseeing the investments in the Indian market, and at Citibank Mumbai. Anil currently serves on the boards of several of 3i Group's investments in India.

Review of investments

Anglian Water Group

Cost	£161.9m
Value	£195.9m

Equity interest	10.3%
Income in the year	£27.0m
Asset total return in the year	£29.3m
Valuation basis	DCF

The value on an IFRS basis is £286.0 million.

Description

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

The investment is held through 3i Osprey LP, an intermediary limited partnership that is managed separately by 3i Investments and owned with other third parties, and in which 3i Group also has a small interest.

Investment rationale

AWG has strong infrastructure characteristics, with a regulated near-monopoly position in its geographical area for the provision of water supply and wastewater treatment, stable and predictable earnings through RPI-linked tariffs and largely predictable operating costs.

Developments in the year

AWG continues to perform in line with expectations. Following the publication of Ofwat's Final Determination in November 2009, the company has been implementing a wide-ranging operational improvements programme, which is currently on target to achieve its objectives over the five-year regulatory period.

AWG generated strong income in the year, as the business increased its dividend following two years of restraint due to low RPI and uncertainty preceding the outcome of the regulatory review for the 2010-2015 regulatory period.

Anglian Water maintained a top two place in Ofwat's performance measure, the Overall Performance Assessment, for the third year running.

AWG complies with the Walker Code and its report and accounts are available on www.awg.com.

Eversholt Rail Group

Cost	£151.1m
Value	£160.7m

Equity interest	33.3%
Investment in the year	£151.1m
Income in the year	£6.5m
Asset total return in the year	£16.1m
Valuation basis	DCF

Description

Eversholt Rail Group ("Eversholt") is one of the three leading rail rolling stock companies in the UK, and owns approximately 29% of the current British rail fleet. Its 19 fleets, predominantly weighted towards electric trains, are leased to seven Train Operating Companies ("TOCs"). Its primary revenue stream consists of lease payments from TOCs. It also owns a freight fleet. All of Eversholt's assets are fully operational, with the exception of one fleet, which is in the process of being delivered.

The rolling stock companies are not directly regulated, and have instead entered into a code of practice agreement with the Office of Rail Regulation under which they agree to work independently of each other.

Investment rationale

Eversholt has strong infrastructure characteristics and fits well with 3i Infrastructure's investment mandate as a mature, profitable transport asset with stable contracted revenues and a strong market position. The market fundamentals for rolling stock companies are positive, with new rolling stock procurement restricted by budgetary constraints, and Eversholt's passenger fleets are fully leased out.

Developments in the year

Since investing, the consortium has been implementing a comprehensive 100-day post acquisition programme, focused on strengthening the company's leadership through the appointment of a new chairman, as well as on the refinancing of most of the debt in the acquisition structure. Three new public bonds have been issued by Eversholt since December 2010, for a total of £1.1 billion. All are long dated and were priced on attractive terms, reducing refinancing risk, and attracted substantial demand from public bond investors.

Oystercatcher

Cost	£84.5m
Value	£119.6m

Equity interest	45.0%
Income in the year	£13.7m
Asset total return in the year(1)	£14.5m
Valuation basis	DCF

(1) Includes a £1.0 million foreign exchange loss. The value on an IFRS basis is £301.1 million.

Description

Oystercatcher Luxco 2 S.àr.l. ("Oystercatcher") is the holding company through which 3i Infrastructure invested in 45% stakes in three subsidiaries of Oiltanking GmbH ("Oiltanking"), located in the Netherlands, Malta and Singapore. These businesses provide over 3.6 million cubic metres of oil, petroleum and other oil-related and chemicals 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 71 terminals in 22 countries with a total storage capacity of 17.6 million cubic metres.

Investment rationale

This business meets the Company's infrastructure investment criteria through long-term demand for oil storage capacity, coupled with the shortage of competing supply and low customer turnover. Each of the three operating companies enjoys a strong market position in key oil and oil product trading hubs, and has a defensive position and reliable cash flows. Contracts are on a use-or-pay basis with fixed terms of up to 10 years, often with tariffs linked to local inflation rates.

Developments in the year

All three terminals have performed in line with or ahead of expectations in the year. Although market conditions for traders have not been as favourable as in recent years, all three terminals have experienced high throughput and full capacity utilisation. Demand for oil storage capacity will continue to be underpinned in the medium term by continuing global imbalances and a trend towards higher product specification, leading in turn to increasing differentiation in storage requirements. At all three terminals, operating costs were well managed, contributing to an improvement in EBITDA of 2.7% compared to the prior year.

Junior debt portfolio

Cost	£75.5m
Value	£90.2m

Divestment in the year	£43.2m
Profit on disposal in the year	£3.6m
Income in the year	£6.3m
Asset total return in the year[(1)]	£19.6m
Valuation basis	Quoted debt

(1) Includes a £0.3 million foreign exchange loss.

Description

3i Infrastructure invested in a portfolio of junior debt positions in core infrastructure businesses, with leading positions in the markets in which they operate. The assets held in the year are listed below.

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

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

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

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

Investment rationale

3i Infrastructure's strategy has been to acquire a portfolio of junior debt investments in core infrastructure businesses at prices below par, delivering attractive equity-like returns to maturity and strong levels of cash yield.

Developments in the year

In October 2010, the Company sold the entirety of its holding in the Viridian junior debt facility for £46.8 million, representing a profit over original cost of £4.8 million.

Market prices for junior debt instruments were stable for most of the year, but increased over the second half, resulting in a 12.1% increase in the value of the remaining portfolio over the year. Income from the portfolio was in line with last year, as LIBOR rates have remained stable. Based on the valuation at 31 March 2011, the annualised yield on the portfolio averaged 5.2%, while the expected yield to maturity was 9.6% based on the asset valuation. The average remaining maturity of the portfolio at 31 March 2011 was 4.0 years. The reported financial performance of each of the investments within the debt portfolio is monitored by the Investment Adviser and has been in line with expectations.

Developments since the year end

The Thames Water junior debt tranche was refinanced at par in early April 2011 and the NGW Arqiva holding was sold in late April. These transactions are described in more detail on page 17. Following these disposals, the annualised yield on the portfolio is 5.9%, and the expected yield to maturity is 10.5%, based on the residual asset valuation at 31 March 2011.

Elgin

Cost	£38.5m
Value	£40.2m

Equity interest	49.9%
Income in the year	£3.3m
Asset total return in the year	£4.8m
Valuation basis	DCF

Description

Elgin Infrastructure Limited ("Elgin") holds a portfolio of PFI project investments, in which Robertson Capital Projects Limited ("Robertson") retains a 50.1% holding. Robertson is a private company with activities covering construction, PFI projects, facilities management services and timber products. The Elgin portfolio comprises five schools projects and 11 community healthcare schemes, all of which are now fully operational.

Investment rationale

Exposure to social infrastructure through PFI projects is helpful in providing the Company's portfolio with lower risk, index-linked cash flows. The Elgin portfolio is fully operational, and is delivering a robust yield. In Robertson, the Company is partnering with a well-established player in the PFI market.

Developments in the year

Midlothian Hospital, Elgin's only project still in construction at the time of the acquisition, was completed and handed over to the procuring authority in August 2010, six weeks ahead of schedule. All 16 projects in the portfolio are performing in line with the investment case and the asset generated strong income in the year.

Octagon

Cost	£20.2m
Value	£31.1m

Equity interest	36.8%
Income in the year	£3.1m
Asset total return in the year	£5.4m
Valuation basis	DCF

Description

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 Foundation Trust to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Octagon subcontracts the provision of facilities services to Serco.

Investment rationale

Octagon is a social infrastructure investment in a mature asset providing the Company with a stable, long-term income stream with RPI linkage.

Developments in the year

Octagon continues to perform well financially and operationally and has maintained its strong working relationship with the NHS Trust and with Serco.

In July, the National Patient Safety Agency's Patient Environment Action Team awarded the hospital the top "excellent" rating in all three categories of assessment: catering, cleanliness, and privacy and dignity, for the third year running.

The hospital participated in a project to give young people with learning difficulties the skills to get paid employment, in partnership with City College Norwich, Serco, Remploy and Norfolk County Council. The project won the Anglian Water Most Innovative New Programme Award at the Business in the Community East of England Awards 2010.

Alpha Schools

Cost	£9.1m
Value	£17.7m

Equity interest	50.0%
Income in the year	£1.4m
Asset total return in the year	£2.9m
Valuation basis	DCF

Description

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

Investment rationale

Alpha Schools is a social infrastructure investment in a portfolio of operational assets providing the Company with a stable, long-term income stream with RPIX linkage.

Developments in the year

All schools are operating successfully and performance has been good throughout the year. Handover of the remaining sports pitches is progressing as growing conditions permit.

I^2 loan notes

Cost(1)	£31.6m
Value	£31.6m

Income in the year(2)	£2.5m
Asset total return in the year	£2.5m
Valuation basis	Cost

(1) Represents the value of the vendor loan notes on issue in 2009 and subsequent PIK notes issued.
(2) Includes capitalised interest of £1.2 million.

Description

In January 2009 3i Infrastructure sold its stake in Infrastructure Investors LP ("I^2") to Barclays Integrated Infrastructure Fund LP ("BIIF LP"), receiving part of the consideration in the form of loan notes with a principal amount of £28.2 million (the "loan notes"). At the time of the sale, I^2 owned a portfolio of equity and subordinated debt investments in over 80 PFI projects. BIIF LP now owns these projects through a corporate holding company structure, rather than through I^2.

The loan notes are unsecured, bear a fixed 8% annual interest rate (part cash pay) and are redeemable over the period to 2018. The issuer of the loan notes is BIIF IssuerCo Limited ("BIIF IssuerCo"), part of BIIF LP's corporate holding company structure for the underlying projects.

The loan notes are serviced by cash flows upstreamed from the underlying projects after servicing existing senior debt. Under the terms of the loan notes, no equity dividends can be paid by BIIF IssuerCo whilst payments of interest or principal are due and outstanding on the loan notes. 3i Infrastructure is accorded information rights similar to those of a BIIF LP senior lender, which allows the Company to monitor the performance of the underlying projects and the ongoing recoverability of the loan notes.

Developments in the year

During the year, the Company accrued interest of £2.5 million from the loan notes, half of which was capitalised in accordance with the terms of the loan notes.
The underlying projects continue to perform broadly in line with projections at the time of the sale in January 2009.

T2C

Cost	£6.5m
Value	£nil

Equity interest	16.7%
Asset total return in the year	£nil

Description

Thermal Conversion Compound ("T2C") is a special purpose company established to build, operate and maintain a waste-to-energy plant on an industrial park near Frankfurt, Germany. The plant will generate steam and power from refuse-derived fuels ("RDF"). Construction is subcontracted to Ebara, a Japanese environmental technology developer and provider, using proven technology. T2C has subcontracted project management, operation and maintenance services to Infraserv GmbH & Co. Höchst KG ("ISH"), which manages the industrial park where T2C is located. T2C has contracted long-term revenues under a 15-year fixed-price take-or-pay contract with ISH, with an upwards only price review after 10 years.

Developments in the year

A provision was taken against the value of T2C in March 2010, due principally to further delays in the completion of construction. During the year significant progress was made both in construction and commissioning of the plant. All three lines have achieved first fire in the year, and the plant is progressing towards practical completion later this year. Discussions over the necessary restructuring of T2C's financing arrangements are continuing and as a result the asset remains valued at nil.

3i India Infrastructure Fund

Cost	£93.8m
Value	£134.7m

Partnership interest	20.9%
Investment in the year	£35.2m
Asset total return in the year[1]	£1.6m
Valuation basis	LP share of funds

(1) Includes a £5.9 million foreign exchange loss.

Description

The 3i India Infrastructure Fund (the "Fund") is a US$1.2 billion fund closed in 2008 to invest in a diversified portfolio of equity (or equivalent) infrastructure investments in India, focusing on the port, airport, road and power sectors. 3i Infrastructure has committed US$250 million to the Fund. As at 31 March 2011, the Fund was 65% invested and 70% committed, having completed six investments, and 3i Infrastructure had an outstanding commitment of US$86.3 million, or £53.8 million.

Investment rationale

The macroeconomic outlook in India is favourable, with strong projected growth, and the fundamentals for infrastructure investment remain attractive, with the current infrastructure deficit in the country providing much opportunity for private investment. The investment in the Fund offers 3i Infrastructure exposure to a diversified pool of assets and larger investments than the Company could access on its own account, at no additional cost to the Company. The Fund remains well positioned, with an established presence in its market and the investment team's broad network of contacts.

Developments in the year

The Fund completed three new investments in the year, in GVK Energy, KMC Roads and in Ind-Barath Utkal, as described in more detail on pages 14 and 15. The Company's share of these investments was £35.2 million, with a further £8.7 million to be drawn for the second phase of the investment in GVK Energy.

GVK Energy is developing a power portfolio, principally gas-fuelled, comprising an operational capacity of 915MW, with a further 3,132MW under various stages of development.

KMC Roads owns a portfolio of 10 "build-operate-transfer" ("BOT") road projects. This portfolio, aggregating c.1,000 km across India, is one of the largest such portfolios in the country.

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

The three other investments in the Fund continue to perform well.

Adani Power Limited continues to make progress in building its portfolio of power generation assets. Its main project in Mundra (Mundra I) has grown significantly in both size and scope. The first five units of Mundra I (1,980MW) are now operational, with the fifth unit, a 660MW unit based on supercritical technology, receiving the "Clean Development Mechanism ("CDM") Project" certification from the United Nations Framework Convention on Climate Change ("UNFCCC"). This is the world's first project based on supercritical technology to obtain registration as a CDM Project under the UNFCCC. Construction of a further 660MW unit is currently underway. As part of a second project in Mundra (Mundra II), two additional units are being built and are due to be completed later this year. Adani Power is developing a pipeline of projects in other regions of India.

Soma Enterprise Limited is one of the fastest growing infrastructure developers in India, focused on construction and development of core infrastructure projects. Its order book, valued at over US$3 billion, comprises projects diversified across sectors such as hydro power, irrigation, railways, power transmission and urban infrastructure, and BOT road projects aggregating to approximately 800 km. Soma Enterprise is performing well, and continues to add projects to the order book.

Krishnapatnam Port Company Limited has a concession to develop, operate and maintain the port of Krishnapatnam in the state of Andhra Pradesh. Construction of the facilities is progressing well. Currently eight berths are operational, with a further two under construction.

Cargo volumes have continued to grow in line with expectations, underpinned by strong industrial development in the port's geographic region. Performance in the year was negatively affected by a temporary ban on the export of iron ore in a neighbouring state, served by the port. The ban has now been lifted by India's Supreme Court.

Returns and Risk

Key performance indicators

Total return	Dividend
Objective To provide shareholders with a total return of 12% per annum, to be achieved over the long term.	**Objective** To target an annual distribution yield of 5% of the opening NAV(1).
Measurement Total return for the period expressed as a percentage of opening shareholders' equity(1).	**Measurement** Dividend for the financial year, expressed as a percentage of opening shareholders' equity(1).
Status 9.2% total return for the year to 31 March 2011.	**Status** Total dividend of 5.72p equates to a 5% distribution on opening shareholders' equity.

(1) Opening NAV and opening shareholders' equity are net of final dividend paid in the prior year.

Table 4 – Summary of total return on an investment basis (£m)

	Year to 31 March 2011	Year to 31 March 2010	Consolidated IFRS basis Year to 31 March 2011
Realised profits over fair value on the disposal of investments	3.6	7.1	3.6
Unrealised profits on the revaluation of investments	36.5	66.8	31.8
Foreign exchange losses on investments	(7.2)	(10.4)	(0.3)
Capital return	32.9	63.5	35.1
Portfolio income			
Dividends	39.4	10.9	62.3
Income from loans and receivables	18.1	12.2	20.4
Income from quoted debt investments	6.3	7.2	6.3
Fees payable on investment activities	(1.3)	(3.0)	(1.3)
Fees receivable on investment activities	6.8	–	6.8
Interest receivable	1.5	2.4	1.5
Investment return	103.7	93.2	131.1
Advisory, performance and management fees payable	(15.4)	(11.7)	(16.5)
Operating expenses	(2.4)	(2.1)	(2.4)
Finance costs	(2.2)	(1.4)	(13.2)
Movements in the fair value of derivative financial instruments	2.1	4.5	7.3
Net income	–	–	0.3
Profit for the year	85.8	82.5	106.6
Income taxes	(0.3)	–	(0.3)
Profit after tax	85.5	82.5	106.3
Exchange difference on translation of foreign operations	–	–	(6.8)
Total comprehensive income attributable to minority interests for the year	–	–	(12.7)
Total comprehensive income ("Total Return")	85.5	82.5	86.8

For more information:
Basis of preparation – page 34

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 4. The basis of preparation for the investment basis is shown on page 34, along with an analysis of the key differences in accounting treatment to information prepared in accordance with IFRS.

Performance against KPIs

3i Infrastructure generated a total return for the year to 31 March 2011 of £85.5 million, representing a 9.2% return on opening shareholders' equity (2010: £82.5 million, 9.3%), deriving, as shown in Chart 8, from an asset return of 15.4%, driven principally by strong income generation (£69.3 million) and moderate unrealised gains (£36.5 million). The total return of 9.2% reflects costs and the dilution from holding cash balances, but the strong asset return allowed the Company to fully cover its 5% dividend objective for the year.

Chart 8 puts this year's return in context, and demonstrates that since inception the assets in the portfolio have delivered a strong asset IRR of 19%, in line with the Company's objective of delivering a net total return of 12% on full investment. This asset return, generated principally from income and realised proceeds, has underpinned the delivery of the 5% dividend objective, which has been achieved in each year since inception.

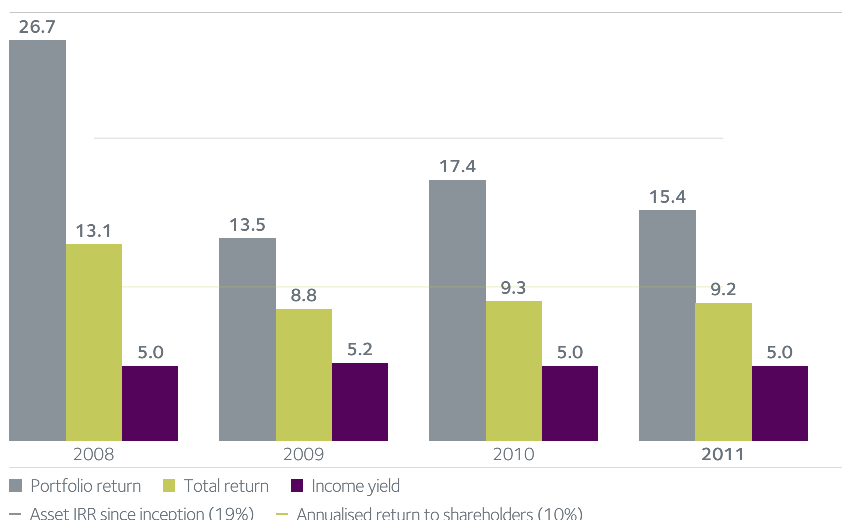
Capital return

Realised capital return

There was a realised capital return of £3.6 million (2010: £7.1 million) generated from the divestment of the Company's holding in the Viridian junior debt facility for proceeds of £46.8 million, described in more detail on page 15.

For more information:
Realisations – page 15
Unrealised value movement – page 15
Foreign exchange impact – page 16

Chart 8 – Track record – components of total return since inception (%)



Unrealised capital return

The portfolio generated an unrealised value gain of £36.5 million (2010: £66.8 million), underpinned by the solid operational performance of the portfolio assets, by gains in the mark-to-market valuation of the junior debt portfolio, and by the progress of Eversholt. Please see pages 15 and 21 for further details.

Foreign exchange impact

Movements in foreign exchange generated overall losses of £7.2 million on non-sterling assets, which were partly offset by the impact of the euro hedging programme, resulting in a net foreign exchange loss of £4.3 million. This is shown in more detail in Table 3 on page 16.

Investment return

Portfolio income

The portfolio generated strong income of £69.3 million during the year, net of fees payable and receivable on investment activity (2010: £27.3 million).

Dividends from portfolio assets totalled £39.4 million (2010: £10.9 million), driven in large part by substantial dividends received from AWG and Oystercatcher.

Income from AWG was up significantly (£27.0 million in the year, against £8.8 million last year), as the business increased its dividend following two years of restraint due to low RPI and uncertainty preceding the outcome of the regulatory review for the 2010–2015 regulatory period.

Income received from Oystercatcher was also up year on year (£13.7 million against £6.4 million last year).

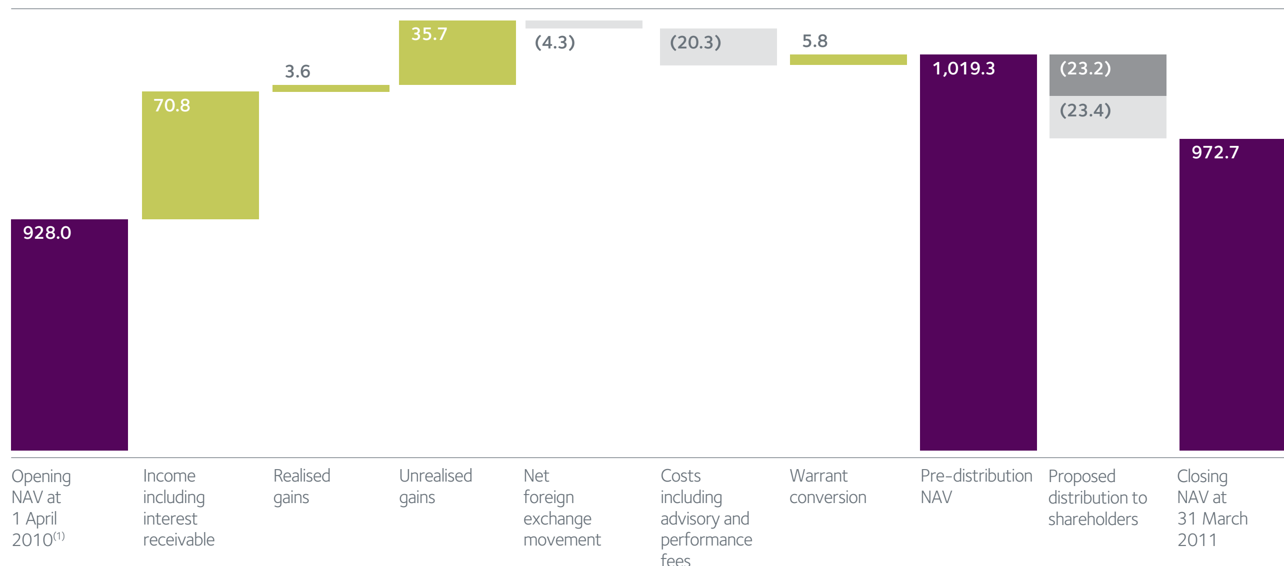
Interest income from the portfolio totalled £24.4 million (2010: £19.4 million). The increase compared to last year reflects interest income of £6.5 million received from Eversholt, which was partially offset by a decline in the interest income receivable from the junior debt portfolio, due to the sale of Viridian.

Fees payable for transaction costs in relation to deals which did not reach, or have yet to reach final completion were lower than last year at £1.3 million (2010: £3.0 million). Fees receivable of £6.8 million (2010: £nil) were due to an exceptional fee paid by Eversholt to the Company.

Interest income

Interest income from financial assets has declined compared to last year, totalling £1.5 million (2010: £2.4 million). This reflects the decline in the average amount of cash balances compared to last year. The Company's cash balances generated interest at an average rate of 0.6% during the year (2010: 0.7%).

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



(1) Net of prior year final dividend paid.

Advisory fees, performance fees and other operating costs

During the year, the Company incurred advisory and performance fees totalling £15.4 million (2010: £11.7 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 investment made during the year. The performance fee, calculated as 20% of returns above a performance hurdle of 8% per annum growth in net asset value, totalled £2.9 million (2010: £2.6 million). For a more detailed explanation of how fees are calculated, please refer to Note 20 on page 74.

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £2.4 million for the year (2010: £2.1 million).

Finance costs of £2.2 million comprise the arrangement and commitment fees for the Company's £200 million revolving credit facility.

Movements in the fair value of derivatives of £2.1 million (2010: £4.5 million) represent the fair value movements of the euro hedging programme, and included a £1.7 million gain on the settlement of derivatives at their maturity.

Balance sheet

At 31 March 2011 the Company's net assets totalled £996.1 million, or £972.7 million after the deduction of the proposed final dividend (2010: £928.0 million), comprising the asset portfolio, valued at £821.7 million (2010: £648.1 million), cash and cash equivalents of £174.6 million (2010: £313.7 million) and other net liabilities of £0.2 million (2010: £7.0 million), primarily relating to accrued income from portfolio investments and prepayments, offset by accrued fees and derivative financial instrument valuations.

A summary balance sheet is included in Table 5.

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

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

Revolving credit facility

On 15 November 2010, 3i Infrastructure signed a three-year, £200 million revolving credit facility with a syndicate of five major banks comprising Lloyds TSB Bank, the Royal Bank of Scotland, National Australia Bank, Citigroup Global Markets and Société Générale. This facility replaced the £225 million revolving credit facility signed in March 2008, which was due to expire in March 2011, and extended the Company's financial flexibility over the medium term. The Company intends to use this facility as a bridge to equity to finance future transaction activity. At 31 March 2011, and at the time of reporting, the £200 million revolving credit facility held by the Company had not been drawn.

Net asset value per share

The total NAV per share at 31 March 2011 was 121.9p (2010: 117.7p). This reduces to 119.0p after the payment of the proposed final dividend of 2.86p per share. The diluted net asset value per share, adjusted for the 65 million warrants outstanding, was 120.3p per share (2010: 116.3p), which reduces to 117.4p after the payment of the proposed final dividend.

During the year, 5.8 million warrants were converted, increasing the number of shares outstanding from 811.1 million to 816.9 million. The warrants are due to expire on 13 March 2012. The diluted NAV per share above incorporates the effect of all the warrants outstanding being exercised.

Table 5 – Summary balance sheet on an investment basis (£m)

	As at 31 March 2011	As at 31 March 2010	Consolidated IFRS basis As at 31 March 2011
Assets			
Non-current assets			
Investment portfolio	821.7	648.1	1,093.3
Current assets			
Other current assets	11.7	4.4	16.5
Cash and cash equivalents	174.6	313.7	176.3
Total current assets	186.3	318.1	192.8
Total assets	1,008.0	966.2	1,286.1
Non-current liabilities			
Borrowings	–	–	(167.9)
Derivative financial instruments	(2.2)	(5.6)	(15.7)
Total non-current liabilities	(2.2)	(5.6)	(183.6)
Current liabilities			
Trade and other payables	(6.2)	(5.2)	(6.7)
Derivative financial instruments	(3.5)	(0.6)	(3.8)
Total current liabilities	(9.7)	(5.8)	(10.5)
Total liabilities	(11.9)	(11.4)	(194.1)
Net assets	996.1	954.8	1,092.0
Equity			
Stated capital account	117.2	111.4	117.2
Retained reserves	878.9	843.4	845.4
Translation reserve	–	–	38.1
Total shareholders' equity	996.1	954.8	1,000.7
Minority interests	–	–	91.3
Total equity	996.1	954.8	1,092.0

Risk

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

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

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	
	– 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 – Plans and underlying assumptions for the Company and portfolio assets are updated continuously
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	– 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 A+ rated banks – Counterparty limits are set and monitored on a regular basis – Reviews of counterparties are undertaken regularly
Financing and interest rate risk	– Changes in interest rates affect: i) The costs of servicing Company 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 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 – The level of debt, refinancing risk and hedging requirement in the portfolio companies are monitored regularly
Currency risk	– A portion of underlying investments is denominated in euro, US dollar and (indirectly) Indian rupee and Singapore dollar – Fluctuations in foreign exchange may adversely impact returns	– The euro and Singapore dollar exposure is broadly hedged to stabilise returns – The hedging strategy is monitored regularly by the Board. Hedging involves the use of foreign exchange swaps or forward contracts
Liquidity risk	– The Company's investments require a long-term commitment of capital and are relatively illiquid – The investment rate could exceed current liquidity levels, requiring short-term funding measures to be put in place – The ability to meet financial liabilities as they fall due	– The Board regularly analyses cash resources against the investment pipeline and the repayment of existing financial liabilities or other payables – The committed £200 million revolving credit facility ensures the availability of resources in the event of a liquidity shortfall
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these	
	– Operational risks can arise from inadequate processes, people, systems, or external providers – External factors also pose risks to operations	– A framework of core values, standards and controls is operated by the Company – The Board monitors the performance and operations of key service providers – 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 Returns and Risk section, the Company's net asset value and financial results have been presented to show the return on a pro forma investment basis. This information is in addition to the consolidated financial statements as shown on pages 51 to 54, that are prepared under International Financial Reporting Standards ("IFRS"). The pro forma investment basis presentation provides an alternative representation of the Company's net asset value, shows the Company's cash utilisation for investment and differentiates between non-recourse borrowings held within asset specific acquisition companies and borrowings which may be made at the Company level. The investment basis accounts for majority investments and subsidiaries formed specifically for investment purposes in the same way as minority investments, by determining a fair value for the investment, and therefore does not consolidate these entities line-by-line as is required under IFRS.

Several adjustments were made in order to show returns on an investment basis, the main adjustments being:

3i Infrastructure holds 68.5% of 3i Osprey LP, the vehicle through which it holds its investment in AWG. 3i Infrastructure is required under IFRS to consolidate the results and balance sheet of this limited partnership into its financial statements on a line-by-line basis. The remaining 31.5% of this entity is held by 3i Group and other third parties. In the investment basis presentation, 3i Infrastructure has recognised only its share of the income and balance sheet of 3i Osprey LP. This adjustment has the effect of eliminating the minority interest entitlement shown on the statement of comprehensive income and the balance sheet on an IFRS basis.

One subsidiary of the Company, 3i Primary Infrastructure 2005-06 LP, which holds the investment in Alpha Schools, has investing partners which are entitled to a 3.75% share of profits, once certain cash hurdle criteria are met. Amounts due to this limited partnership are treated as a minority interest on a consolidated basis but are accrued as an expense in the investment basis.

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

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

Review report

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

Introduction

We have been engaged by the Directors to review the accompanying Summary of total return (see Table 4) for the year ended 31 March 2011 and the Summary balance sheet (see Table 5) as at 31 March 2011 of 3i Infrastructure plc ('the Company'), which are prepared on the basis of preparation set out in the Investment Adviser's review shown on page 34.

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

Directors' responsibilities

The Summary of total return and the Summary balance sheet are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing these statements in accordance with the basis of preparation set out in the Investment Advisor's review on page 34.

Our responsibility

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

Scope of our review

We conducted our work in accordance with the guidance contained in International Standard on Assurance Engagements ('ISAE') 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' issued by the International Federation of Accountants.

Our review work has been undertaken so that we might state to the Directors those matters we are required to state to them in a review report and for no other purpose. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland). Accordingly, we do not express an audit opinion.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Summary of total return and the Summary balance sheet set out above are not prepared, in all material respects, in accordance with the basis of preparation set out in the Investment Adviser's review on page 34.

Ernst & Young LLP
Jersey, Channel Islands
4 May 2011

Governance

Corporate responsibility report

Core values and approach to corporate responsibility

The Company's approach to corporate responsibility is commercially based and driven by 3i Infrastructure's aim to be a partner of choice for current and potential portfolio companies.

The Board, which as a whole is responsible for the definition and implementation of the Company's corporate responsibility policy, views an active approach to corporate responsibility as a genuine competitive advantage, that will help maximise long-term returns.

Core values

Our core values are to:

– be commercial and fair;

– respect the needs of our shareholders, our suppliers, the local community and the businesses in which we invest;

– maintain our integrity and professionalism; and

– strive for continual improvement and innovation.

The Board, in partnership with the Investment Adviser, reviews the approach to corporate responsibility every year, and will keep innovating in this important area.

Summary of 3i Infrastructure's corporate responsibility investment policy

As a public company, 3i Infrastructure is committed to putting its core values into effect by investing responsibly and encouraging responsible business conduct among its portfolio companies.

3i Infrastructure aims to be a top performer in corporate responsibility among infrastructure investment companies and a positive influence for sustainable social and environmental practices across its international investment portfolio.

Specifically, 3i Infrastructure is committed to:

1. Human rights

Respect the protection of international human rights and avoid complicity in human rights violations.

2. Labour/workplace rights

Uphold the right to freedom of association and collective bargaining; abolish child labour; eliminate forced and compulsory labour; and end employment discrimination.

3. The environment

Take a cautious and responsible approach to the environment; promote compliance with environmental law, improvement in management standards and the sustainable management of natural resources; and help combat climate change by supporting the development of products and services that are environmentally beneficial.

4. Anti-corruption

Avoid corruption in all its forms, including extortion and bribery, upholding compliance standards and integrity and complying with relevant anti-fraud and money-laundering regulations. The Company will have procedures in place enabling it to comply fully with the Anti-Bribery Act by the start date of 1 July 2011.

The Company sees these aspirations as going beyond corporate good governance and compliance with local and other law. The policy is not just concerned with "doing no harm" or ethical business practices, but impinges on issues of wider trust and corporate reputation, which are critically important in the new global climate of public mistrust of the financial sector.

These policies and procedures were designed to provide the Board and the Investment Adviser with a clear framework, as well as the tools, to think about and manage issues relating to corporate responsibility throughout the investment process.

Procedures at the Investment Adviser have been adopted based on a simple corporate responsibility materiality test for all investments, and a requirement for the Board and Investment Adviser to demonstrate, throughout the life of the investment through to exit, that they have taken account of the issues and understand the value opportunities and risks involved. By encouraging corporate learning and the sharing of good practice, the Board believes this process will be self-reinforcing.

Corporate responsibility in our investment activity

The Company views corporate responsibility as both an opportunity and a risk.

Opportunity

The Board and the Investment Adviser believe that an active approach to corporate responsibility has the potential to bring a wide variety of business benefits to our portfolio companies including:

- improved efficiency, reduced costs and lower waste;
- increased employee, customer and supplier engagement;
- greater access to international markets;
- new market opportunities;
- enhanced reputation;
- greater awareness and management of risks; and
- a potentially wider pool of buyers for the asset in the event of a sale.

For 3i Infrastructure, the opportunity is straightforward: supporting the sustainable growth of portfolio companies has the potential to increase their value.

Risks

The most significant corporate responsibility risks arising from the Company's investment activity are likely to relate to environmental, ethical, governance and social issues. Failure to identify or manage these risks effectively not only has the potential to undermine the success of the portfolio companies but also might compromise 3i Infrastructure's reputation and that of its Investment Adviser. Identifying and managing these risks is therefore an important part of managing risk for 3i Infrastructure.

The Company's investment process involves four key stages:

Fundraising

Investments are made using the Company's own financial resources. Interest in the degree to which public companies and investment companies consider environmental, ethical, governance and social issues has been growing among a number of investors in public markets.

The Company communicates its approach on corporate responsibility issues to investors in a variety of ways, including its website, annual report and through direct contact.

Investment assessment

While each investment is considered on its own merits, the Investment Adviser has a standard review process for all types of investments which aims to identify all of the issues that may affect the Company's decision to invest. Consideration of corporate responsibility issues is embedded as a mandatory part of this process.

The key steps in the process are:

Preliminary appraisal from the Investment Adviser – During which a decision is taken on whether to commit further resource to progress the investment opportunity and place it in formal work in progress.

Board and Investment Adviser's Partner review – Where the decision is taken to progress the opportunity after a detailed review by the Board and a group of senior and experienced investment executives in the investment advisory team. A decision is also taken at this point as to what further in-depth analysis and due diligence should be undertaken.

Due diligence and negotiation – Where alongside other commercial due diligence and negotiation an explicit review of environmental, ethical, governance and social issues is undertaken by the Investment Adviser for each investment under review.

Dealing with any corporate responsibility issues which emerge – Identifying a corporate responsibility issue in due diligence may result in 3i Infrastructure withdrawing, but not necessarily so. Confidence in the capacity of the management team of the potential investee company and their willingness to address issues satisfactorily will be a key determinant of whether the Company proceeds with an investment or not. The relationship of the Company and Investment Adviser with the potential investee company may mean that issues can be resolved and that there is full compliance before the investment is completed. Helping to resolve an issue may be an important element of the Company's and the Investment Adviser's ability to add value as well as enhance the investment opportunity.

Investment Committee and final approval – Investments are then presented by the Investment Adviser to the Board. If approval is given, it is usually subject to a number of conditions precedent which may include some relating to corporate responsibility issues, for example, a key appointment being made, or confirmation that a certain process meets a certain standard. Once all conditions precedent have been met, final approval is given and the investment is made.

3i Infrastructure operates internationally and across a broad range of sectors so it is also important that it considers issues in the context of local and sector expectations. The full international resources of the Investment Adviser will be leveraged to ensure that local and sector considerations are taken into account in the investment process.

The time taken to go through the whole investment process varies significantly and depends upon many factors, including the nature of the investment and the complexity of the issues, as well as the number and nature of the parties involved.

Experience suggests that one of the fundamental factors for investment success is the quality of the portfolio company management team. The approach the Company takes to assessing potential investments places considerable emphasis on understanding and being comfortable with the management team. Their approach to dealing with due diligence on corporate responsibility issues can be a useful indicator of quality.

Creating value

Before an investment is made, the Board and the Investment Adviser agree a clear value creation plan with the board and with the management team of the potential investee company who will be responsible for delivering the plan. This will also involve an expectation that 3i Infrastructure and the Investment Adviser will deliver on the actions they are responsible for in the plan. These may relate to strategic input, providing specific expertise or providing access to relevant relationships around the world. The initial post-investment phase will involve validation and refinement of the plan. Such a plan would also include any environmental, ethical, governance or social risks or opportunities that were identified either in due diligence or in the post-investment analysis.

Portfolio reviews take place every six months. In these reviews the Investment Adviser presents the progress and future plans to the Board. Any material corporate responsibility issues that were part of the initial plan would be included in this review until they are resolved. In addition, at least once a year, other corporate responsibility issues will be considered on the agenda.

3i Infrastructure brings a collaborative approach to the companies in which it invests. While the Board and Investment Adviser have extensive sector expertise, and despite the Investment Adviser representing the Company on the board of the investee company, the portfolio company's management's knowledge of their company and their ability to deliver on a plan cannot be matched. It is the management who, being closest to the situation, must make most decisions.

An early priority, therefore, is to help ensure that the governance of the portfolio company is as robust as possible and to help support the portfolio company's management team and board.

The Investment Adviser has dedicated programmes and activities to help build the board capacity and capability of the investee company. These include 3i Group's Active Partnership programmes and events such as CEO forums and sector events, which are opportunities for the CEOs of our portfolio companies and 3i Group investments to come together.

These provide an opportunity to learn from, and share experiences with peers in other companies either in or outside the same sector and country.

Realisation

While the Company is predominantly a very long-term investor in its assets, in situations where there are strong strategic reasons for selling an asset or where an attractive offer is received it will make pragmatic disposals.

Corporate responsibility plays an important role in every sale process, as the due diligence and valuation processes of potential buyers, be they trade or financial buyers, or any other institution, will evaluate each investment's corporate responsibility strategy, systems and performance.

Sources of expertise

The Company is able to draw upon a wide range of sources of internal and external expertise on corporate responsibility issues. These include the Investment Adviser itself, its professional services teams, which have specialised knowledge on specific issues, sectors and markets, as well as its advisers.

The Investment Adviser's scale, international reach and network also provide access to leading international consultancies on environmental, ethical and social issues for a wide variety of purposes, from compliance to creating value in portfolio companies. Portfolio companies themselves are a rich source of knowledge and through the Investment Adviser's Active Partnership programme and other means, experience sharing is encouraged.

Environment

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

Procurement

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

Transparency

3i Infrastructure wishes to comply with best market practice in terms of disclosure and transparency.

Board of Directors

Peter Sedgwick
Non-executive Chairman

Between 2000 and 2006, Peter was a member of the management committee and a Vice President of the European Investment Bank ("EIB"), one of the largest multinational lending institutions in the world. He was also a director of the European Investment Fund from 2002 to 2006. Before joining the EIB, he was a career HM Treasury civil servant in the UK. He also sits on the boards of two of 3i Infrastructure plc's Luxembourg subsidiaries, 3i Infrastructure (Luxembourg) Holdings S.àr.l. and 3i Infrastructure (Luxembourg) S.àr.l. He became a trustee and director of Dyslexia Institute Limited (trading as Dyslexia Action) in 2007. 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. In 2006, he joined Equity Trust where he had direct responsibility for Jersey, Guernsey and Switzerland as well as being a Member of the Group Executive Committee. He retired from Equity Trust at the end of 2009. 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 Navigation Company plc. He has also served as Chairman of the Advisory Committee on Business and the Environment, Chairman of the DTI's Energy Advisory Panel, Chairman of the DTI/ DEFRA's Sustainable Energy Policy Advisory Board, President of the Energy Institute and as a Governor of Wellington College. Resident in Guernsey.

Florence Pierre
Non-executive Director

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

Charlotte Valeur
Non-executive Director

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

Paul Waller
Non-executive Director

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

Membership of Board Committees

The Audit Committee comprises all Board members with the exception of Peter Sedgwick and Paul Waller.

The Remuneration Committee comprises all Board members with the exception of Paul Waller.

The Nominations Committee's membership is Peter Sedgwick, Philip Austin and Sir John Collins.

Directors' report

This section of the Directors' report contains statutory and corporate governance information for the year to 31 March 2011 ("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 75 and the Company's principal subsidiaries are shown on page 74.

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 51 to 54. Total comprehensive income for the year attributable to equity holders of the parent was £86.8 million (2010: £81.2 million). An interim dividend of 2.86p (2010: 2.2p) per share in respect of the year to 31 March 2011 was paid on 10 January 2011. The Directors recommend a final dividend of 2.86p (2010: 3.3p) per share be paid in respect of the year to 31 March 2011 to shareholders on the register at the close of business on 17 June 2011.

The Company has historically paid two fifths of its dividend objective as an interim dividend, with the balance paid as a final dividend, depending on the results for the full year. Due to the strong portfolio income generated in the first half of the year, the Board decided to distribute 50% of the Company's dividend objective as the 2010 interim dividend. The distribution of the dividend payments will continue to be 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. In December 2010, the agreement was extended by three years to 13 March 2015. Under this agreement, the appointment of the Investment Adviser may, inter alia, be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing to expire no earlier than 13 March 2015 (provided that either party may terminate the agreement on 12 months' notice at any time, in the event that the Investment Adviser ceases to be a member of 3i Group), or with immediate effect by either party in the event of the insolvency or material or persistent breach of the agreement's terms by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

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

3i Group was among the subscribers to 3i Infrastructure's IPO and to the subsequent Placing and Open Offer and currently owns 32.9% 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 20 "Related parties" on page 74. For information on the performance evaluation of the Investment Adviser, please see page 44.

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 20 on page 74.

State Street Secretaries (Jersey) Limited (formerly Mourant & Co. Secretaries Limited) has been appointed as the Administrator and Company Secretary to the Company.

Business review

Observing the FSA's Disclosure and Transparency Rules requires the Company to set out in this report a fair review of the business of the Company during the financial year ended 31 March 2011, 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 page 2;

– a description of the principal risks facing the Company, see page 32;

– the development and performance of the Company's business during the year, see page 29;

– the position of the Company's business at the end of the year, see page 30;

– financial key performance indicators, see page 28;

– other key indicators, see page 2;

– main trends and factors likely to affect the future development, performance and position of the Company, see page 11;

– environmental matters and policy, including the impact of the Company's business on the environment, see page 36;

– references to, and additional explanations of, amounts included in the Company's annual financial statements, see page 28.

Risk management objectives

A description of the risk management objectives and policies is included in Note 11 to the financial statements and in the Returns and Risk section on pages 28 to 34.

Share capital

Ordinary shares

The issued share capital of the Company as at 31 March 2011 was 816,911,161 ordinary shares (2010: 811,082,581). The increase in the number of ordinary shares outstanding is attributable to the exercise of 5,828,580 warrants in the year to 31 March 2011.

Warrants

Under the IPO, for every 10 shares purchased, one warrant was issued. Each warrant entitles 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, 5,828,580 (2010: 500) warrants were converted into shares.

At 31 March 2011 there were 64,721,900 (2010: 70,550,480) warrants remaining in issue. No additional warrants were issued during the year.

In the period from 31 March 2011 to 28 April 2011, a total of 31,200 warrants were converted.

Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company as at 28 April 2011.

Interests in ordinary shares	%	Number of ordinary shares[1] as at 28 April 2011
3i Group plc[2]	33.09	270,309,907
BT Pension Scheme Trustees Limited	12.24	100,000,000
Norges Bank	4.91	40,088,768
Newton Investment Management Limited	3.51	28,668,518

(1) Each ordinary share carries the right to one vote.
(2) 3i Group plc held 33.09% of the issued share capital of 3i Infrastructure as per the last official notification. Since then, the percentage of the issued share capital held by 3i Group has declined to 32.9%.

Directors' interests

Directors' interests in the shares of the Company as at 31 March 2011 are shown below:

Directors' interests and beneficial interests[1]	Ordinary shares at 1 April 2010	Ordinary shares at 31 March 2011	Warrants at 1 April 2010 and 31 March 2011
Peter Sedgwick	49,653	**49,653**	–
Philip Austin	10,000	**10,000**	–
Sir John Collins	19,215	**19,215**	–
Florence Pierre[2]	–	**–**	–
Charlotte Valeur	–	**–**	–
Paul Waller	231,424	**244,639**	–
Steven Wilderspin	10,000	**10,000**	–

(1) No options have ever been granted since the inception of the Company.
(2) Appointed as a Director on 1 September 2010.

In the period from 1 April 2011 to 28 April 2011, there were no changes in the interests of each Director.

Directors' authority to buy back shares

The Company did not purchase any shares for cancellation during the year. The current authority of the Company to make market purchases of up to 14.99% of the issued ordinary share capital expires on 5 July 2011. The Company will seek to renew such authority until the end of the Annual General Meeting ("AGM") in 2012 specifying the maximum and minimum price at which shares can be bought back. Any buyback of ordinary shares will be made subject to Jersey law and the making and timing of any buybacks will be at the absolute discretion of the Directors. Such purchases will also only be made in accordance with the Listing Rules of the FSA which provide that the price paid must not be more than 5% above the average middle market quotations for the ordinary shares for the five business days before the shares are purchased.

Directors' re-election

The Company's Articles of Association provide for:

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

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

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

During the year, the Financial Reporting Council ("FRC") has updated and reissued the UK Corporate Governance Code (the "Code", formerly known as the Combined Code). Under the new Code, all directors of FTSE 350 companies should be subject to annual election by shareholders. These new provisions will be adopted for the AGM to be held on 5 July 2011, at which all Directors will retire and offer themselves for re-election.

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

Directors' indemnities

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

Statement of Directors' responsibilities

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

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

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

In preparing these financial statements, the Directors should:

– select suitable accounting policies and then apply them consistently;

– make judgments and estimates that are reasonable and prudent;

– specify which generally accepted accounting principles have been adopted in their preparation; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and 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 Company and 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 39.

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 6 to 17, in the Returns and Risk section on pages 28 to 34, and in the financial statements and related notes on pages 51 to 74. 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 51 to 74. In addition, Note 11 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 considerable liquid financial resources and a strong investment portfolio providing 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 despite the current uncertain economic outlook.

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
4 May 2011
Registered Office:
22 Grenville Street, St Helier, Jersey
Channel Islands JE4 8PX

Corporate governance statement

The Company's approach to corporate governance

The Company is committed to upholding the highest standards of corporate governance. It observes the requirements of the Combined Code on Corporate Governance published by the UK Financial Reporting Council in June 2008 (the "Combined Code"), a copy of which is available from the Financial Reporting Council website (www.frc.org.uk), as modified by Listing Rule 15.6.6(2) and to the extent applicable to the Company, given that it has no Executive Directors.

During the year, the Financial Reporting Council has updated the Combined Code on Corporate Governance (now called the UK Corporate Governance Code), which will apply to all companies with a premium listing on the London Stock Exchange, irrespective of their country of incorporation, for all financial years beginning on or after 29 June 2010.

Following the publication of the new Code in late June 2010, the Board conducted a thorough appraisal of its provisions, and has implemented a number of changes to its procedures to ensure that it is fully compliant to all rules and provisions applicable to a company of its type (with no executive management and no employees). Such changes include the provision for the annual re-election of all Directors, as well as the creation of a Remuneration Committee. The Company will comply with all the applicable provisions of the new Code for the financial year ending 31 March 2012.

For the financial year under review, the Company observed the applicable provisions of section 1 of the Combined Code, and set up a Remuneration Committee on 28 September 2010. Before a Remuneration Committee was set up, the Board as a whole reviewed the scale and structure of the Directors' remuneration, taking into account the interests of shareholders and the performance of the Company. These responsibilities were delegated to the Remuneration Committee upon its establishment, and a report from the Remuneration Committee is included on page 45.

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;

– 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 eight scheduled main Board meetings was agreed at the start of the year. Due to the nature of the Board's close involvement in the operation of the Company and in making investment related decisions, a number of further meetings are arranged at shorter notice. During the year, there were eight main meetings of the Board of Directors. In addition to these meetings, there was one full Board meeting arranged at short notice and four meetings of specifically formed committees (constituted from the Channel Islands based Directors) to execute decisions from full Board meetings. The Directors' attendance at main Board meetings is set out in the table below:

Directors' attendance	Number of meetings while a Director	Attendance
Peter Sedgwick	8	8
Philip Austin	8	8
Sir John Collins	8	8
Florence Pierre[1]	5	5
Charlotte Valeur	8	8
Paul Waller	8	6
Steven Wilderspin	8	8

(1) Appointed with effect from 1 September 2010.

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

– the Company's strategy, including market positioning and investment strategy;

– approval of the Company's budget and review of financial resources, including the renewal of the Company's revolving credit facility and review of its terms;

– the Company's capital structure, balance sheet efficiency and taxation arrangements;

– the re-negotiation of the Investment Advisory Agreement, including the extension of the investment exclusivity arrangements;

– approval of investment and divestment decisions;

– review of portfolio asset performance;

– review of the UK Corporate Governance Code and the requirements for the Company;

– review of Board's committee structure and decision to establish a Remuneration Committee;

– review of counterparty exposure and limits;

– review of the Company's foreign exchange hedging strategy;

– review of regular reports from the Investment Adviser relating to the infrastructure market and early stage work-in-progress;

– review of the recommendations of the Investment Adviser on the valuation of investments;

– review of the Company's share price performance and shareholder perceptions following the release of financial information;

– review of the risk management arrangements, internal controls and the investment approval process;

– review of the performance of the Investment Adviser and of key service providers to the Company;

– review of the independence of Directors; and

– updates to UK and Jersey law and their impact on the Company.

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:

– 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;

– 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 gave personal views to the Chairman and the Chairman gave feedback to the Board.

All three elements of this review were externally facilitated by Dr Tracy Long from Boardroom Review, a specialist consultancy, which is fully independent from the Board, the Company and any other related party.

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 increase the availability of general Infrastructure market trend information for Directors; and

– to promote the willingness of the Chairman and Senior Independent Director to engage directly with shareholders.

Investment Adviser

All independent non-executive Directors (eg all Directors with the exception of Paul Waller) conduct an annual review of the performance of the Investment Adviser, thereby conducting the business that would be the responsibility of a Management Engagement Committee. The Directors believe that the continued appointment of the Investment Adviser on the terms set out on page 74 is in the interest of shareholders, based on the performance of the Investment Adviser in the past year.

The Chairman

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

Senior Independent Director

Philip Austin is the Senior Independent Director. In accordance with the Combined 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 39. Peter Sedgwick, Philip Austin, Sir John Collins, Charlotte Valeur, Paul Waller and Steven Wilderspin served throughout the year under review. Florence Pierre served as a Director from 1 September 2010.

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. Charlotte Valeur, Paul Waller and Steven Wilderspin, were elected or re-elected at the 2010 AGM.

It is anticipated that appointment letters for Directors will be refreshed following the Company's Annual General Meeting in July 2011 in order to bring them into line with the requirements of the UK Corporate Governance Code which envisages annual re-election of Directors, a fixed term appointment of three years and a three-month notice period. Following the formal appraisal process of Directors, and in accordance with Section B.7.2 of the new Code, the Chairman will propose their re-election at the forthcoming AGM.

Appointment letters are available from the Company Secretary upon request.

The Directors' appointment can be terminated, without compensation for loss of office, in accordance with the Articles of Association. Under the Articles, their appointments can (inter alia) be terminated on notice from the other members of the Board, and also on ceasing to be a Director if they fail to be re-elected at the Annual General Meeting. All Directors will retire and seek re-election at the AGM taking place on 5 July 2011.

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

Remuneration Committee report on the Directors' remuneration

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 2011, the Directors were due the following:

Directors' fees	**Amount paid (£) in the year ending 31 March 2011**	Amount paid (£) in the year ending 31 March 2010
Peter Sedgwick	**130,000**	130,000
Philip Austin	**50,000**	50,000
Sir John Collins	**45,000**	45,000
Florence Pierre[1]	**30,274**	–
Charlotte Valeur[2]	**45,000**	22,745
Peter Wagner[3]	**–**	61,950
Paul Waller[4]	**42,000**	42,000
Steven Wilderspin	**49,500**	46,500

(1) Appointed on 1 September 2010.
(2) Appointed on 29 September 2009.
(3) Served until 5 February 2010.
(4) Paul Waller's remuneration was paid directly to 3i Group plc for making available his services.

Directors' fees are calculated on the following basis:

	Annual fee (£) (year ending 31 March 2011)	Annual fee (£) (year ending 31 March 2010)
Chairman's fee	**130,000**	130,000
Non-executive director base fee	**42,000**	42,000
Additional fee for the Senior Independent Director	**5,000**	5,000
Additional fee for the Audit Committee chairman	**10,000**	5,000
Additional fee for Audit Committee members	**3,000**	3,000

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

During the year, the Remuneration Committee considered the remuneration of Directors. There have been no increases in Directors' remuneration since 1 October 2008 (except for the addition of a fee for the chairmanship of the Audit Committee from 1 July 2009, which was further increased with effect from 1 October 2010). In March 2011 the Remuneration Committee appointed Kepler Associates Partnership LLP, an independent board remuneration specialist, to review the fees of the Chairman and non-executive Directors (for a fee of £7,500). Following this review the Remuneration Committee has proposed that, from October 2011, an additional fee of £10,000 be paid to the Chairman, reflecting increased time dedicated to the fulfilment of his duties. In addition, the Remuneration Committee has also proposed that, from October 2011, the Directors resident in Jersey receive an additional fee of £3,000, in relation to their requirement to attend additional meetings in respect of investment implementation, emergency and standing committees. Changes to the fee arrangements will be subject to the approval of shareholders at the AGM to be held on 5 July 2011.

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, rather than applying rigid criteria in a mechanistic manner. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial year that was significant in relation to the business of the Company.

As a non-independent Director, Paul Waller did not participate in the Board's evaluation of the performance of the Investment Adviser, nor in the approval of the extension to the Investment Advisory Agreement.

The new UK Corporate Governance Code identifies Director cross-directorships as a matter to consider when determining independence. During the year, Steven Wilderspin and Charlotte Valeur held a cross-directorship until Charlotte Valeur resigned from that company's board on 18 March 2011. The Board does not consider that the existence of this cross-directorship influenced the independence of either Director. The Company has put in place a policy to prevent cross-directorships in the future.

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

During the year, Florence Pierre received induction training and coaching.

The Directors received training, briefing and advice on the following:

- infrastructure market review from an external adviser independent of the Investment Adviser;
- review of the London investor community from an independent market specialist;
- changes to the UK corporate governance framework and the new UK Corporate Governance Code;
- 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 the review of the Code and other governance issues, and also received presentations on specific aspects of the Company's business. The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

The Board's committees

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

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

Remuneration Committee

Due to the structure of the Company, having no employees or executive management, the Company did not have a Remuneration Committee until one was set up on 28 September 2010, in conformity with the provisions of the new Code. The Remuneration Committee, chaired by Philip Austin, is charged with reviewing the scale and structure of the non-executive Directors' remuneration, and is constituted by all the independent non-executive Directors (Peter Sedgwick, Philip Austin, Steven Wilderspin, Sir John Collins, Charlotte Valeur and Florence Pierre). The Remuneration Committee has had two meetings in the year to 31 March 2011, both attended by all members.

Nominations Committee

The Nominations Committee, chaired by Peter Sedgwick, also comprises Philip Austin and Sir John Collins. All members served throughout the year. The Committee has held three meetings in the year to 31 March 2011, all attended by all members, and considered and recommended the appointment of Florence Pierre to the Board. The services of Inzito, an external search agency, were used in the recruitment of Florence Pierre.

The Committee has been charged with interviewing potential candidates, but final decisions on nominations will be taken by the entire Board. The Nominations Committee normally avails itself of the services of external search consultancies, as was the case for the appointment of Florence Pierre, where an external agency with a broad network which covered Europe was engaged. The process did not include open advertisement as the search was conducted in a number of European countries, and as such the use of an external search agency was preferred.

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

The Committee also reviews succession planning to ensure that processes and plans are in place with regards to Board appointments dealing with succession.

Audit Committee

The Audit Committee, chaired by Steven Wilderspin, also comprises Philip Austin, Sir John Collins and Charlotte Valeur. All members served throughout the year. The qualifications of the members of the Audit Committee are set out in the biographical details of the Directors on page 39. All the members of the Audit Committee are independent non-executive Directors. The Board is satisfied that the Audit Committee chairman, Steven Wilderspin, has recent and relevant financial experience.

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

During the year, the Audit Committee:

- reviewed the effectiveness of the internal control environment of the Company and the Company's compliance with its regulatory requirements;
- reviewed and recommended to the Board the accounting disclosures comprised in the half yearly and annual financial statements of the Company;
- reviewed the scope of the annual external audit plan and the external audit findings;
- received relevant reports from internal audit, control and compliance functions of key service providers;
- oversaw the Company's relations with its external auditors, including assessing independence and objectivity, recommending the auditors' reappointment and approving the auditors' fees;
- reviewed the calculation of the advisory and performance fees of the Investment Adviser with advice from the auditors, in line with the policy of the Audit Committee concerning conflicts of interest and the payment of fees for non-audit services;
- reviewed the Company's compliance with its regulatory obligations in Jersey; and
- met with the external auditors in the absence of the Investment Adviser.

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

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

During the year the auditor, Ernst & Young LLP, provided non-audit services for fees totalling £14,500 for the year to March 2011 (2010: £14,500). In addition, 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 were borne by the underlying investee companies, and therefore are not included in the expenses of the Group.

Investment Committee

As outlined on page 43, the Board as a whole acts as the Investment Committee.

The Company Secretary

The Company has appointed State Street Secretaries (Jersey) Limited (formerly Mourant & Co. Secretaries Limited) as Company Secretary. On 1 April 2010, State Street Corporation acquired, from Mourant Limited, the companies that conduct Mourant International Finance Administration's business including Mourant & Co. Limited and Mourant & Co. Secretaries Limited; the entities which were engaged by the Company to provide administrative and secretarial services. State Street Corporation is headquartered in Boston, Massachusetts, USA and trades on the New York Stock Exchange under the symbol "STT". As a result of this acquisition, the names of certain of the companies were changed on 1 June 2010 to reflect the fact that the companies no longer formed part of the Mourant group.

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.

In December 2010, the Board approved, subject to approval from the Jersey Financial Services Commission, an amended Corporate Administration agreement with State Street Jersey Limited incorporating State Street's terms and conditions. Approval from the Jersey Financial Services Commission is pending. There have been no material changes to the services provided as a result of the change of ownership.

Relations with shareholders

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

Senior members of the investment advisory team also meet with the Company's principal institutional shareholders to discuss relevant issues as they arise.

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

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the AGM, business presentations are made by the Chairman and senior members of the investment advisory team. The chairman of the Audit Committee is also available to answer shareholders' questions. The Notice of AGM for 2010 was dispatched to shareholders not less than 20 working days before the meeting. At that meeting, voting on each resolution was taken on a poll and the results were made available on the Company's website.

Portfolio management and voting policy

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

Internal control

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

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

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

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

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

Principles and processes

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

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

Financials and other information

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

We have audited the consolidated financial statements (the 'financial statements') of 3i Infrastructure plc and its subsidiaries (together 'the Group') for the year ended 31 March 2011 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity, the Consolidated and Company balance sheet, the Consolidated and Company statement of cash flows, the Significant accounting policies and Notes to the accounts 1 to 21. 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 Statement of Directors' Responsibilities on page 42, 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 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 Company'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 Performance highlights, Our business, A closer look at our business, the Chairman's statement, the Investment adviser's review, the Review of investments, the Returns and Risk, Governance, the Investment policy, the Portfolio valuation methodology and Information for shareholders, 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 and Company's affairs as at 31 March 2011 and of the Group's 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 June 2008 Combined Code specified for our review.

Geraint Davies
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
4 May 2011

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 2011 £m	Year to 31 March 2010 £m
Realised gains over fair value on the disposal of investments		**3.6**	7.8
Unrealised gains on the revaluation of investments	2	**31.8**	76.8
Foreign exchange losses on investments		**(0.3)**	(1.1)
		35.1	83.5
Portfolio income			
Dividends receivable		**62.3**	23.4
Income from loans and receivables		**20.4**	16.1
Income from quoted debt investments		**6.3**	7.2
Fees payable on investment activities		**(1.3)**	(3.0)
Fees receivable on investment activities		**6.8**	–
Interest receivable		**1.5**	2.4
Investment return		**131.1**	129.6
Advisory, performance and management fees payable	3	**(16.5)**	(12.8)
Operating expenses	4	**(2.4)**	(2.2)
Finance costs	5	**(13.2)**	(13.6)
Unrealised movements in the fair value of derivative financial instruments	6	**6.0**	4.5
Realised gains/(losses) over fair value on the settlement of derivative financial instruments	6	**1.3**	(2.6)
Other net income		**0.3**	0.3
Profit before tax		**106.6**	103.2
Income taxes	7	**(0.3)**	–
Profit after tax and profit for the year		**106.3**	103.2
Other comprehensive income			
Exchange losses on translation of foreign operations		**(6.8)**	(9.1)
Total comprehensive income for the year		**99.5**	94.1
Profit after tax and profit for the year attributable to:			
Equity holders of the parent		**93.6**	90.3
Minority interests		**12.7**	12.9
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**86.8**	81.2
Minority interests		**12.7**	12.9
Earnings per share			
Basic earnings per share attributable to equity holders of the parent (pence)	16	**11.5**	11.1
Diluted earnings per share attributable to equity holders of the parent (pence)	16	**11.4**	11.1

Consolidated and Company statement of changes in equity

For the year to 31 March

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

Group for the year to 31 March 2010	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Minority interest £m	Total equity £m
Opening balance	111.4	755.3	54.0	920.7	132.3	1,053.0
Total comprehensive income	–	90.3	(9.1)	81.2	12.9	94.1
Net capital returned to minority interests	–	–	–	–	(30.1)	(30.1)
Acquisition of interests held by minorities	–	–	–	–	(24.9)	(24.9)
Dividends paid to Company shareholders during the year	–	(43.8)	–	(43.8)	–	(43.8)
Closing balance	111.4	801.8	44.9	958.1	90.2	1,048.3

Company for the year to 31 March 2011	Stated capital account £m	Retained reserves £m	Total equity £m
Opening balance	**111.4**	**719.6**	**831.0**
Total comprehensive income	**–**	**54.1**	**54.1**
Conversion of warrants to ordinary shares	**5.8**	**–**	**5.8**
Dividends paid to Company shareholders during the year	**–**	**(50.0)**	**(50.0)**
Closing balance	**117.2**	**723.7**	**840.9**

Company for the year to 31 March 2010	Stated capital account £m	Retained reserves £m	Total equity £m
Opening balance	111.4	747.5	858.9
Total comprehensive income	–	15.9	15.9
Dividends paid to Company shareholders during the year	–	(43.8)	(43.8)
Closing balance	111.4	719.6	831.0

Consolidated and Company balance sheet

As at 31 March

	Notes	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Assets					
Non-current assets					
Investments					
Unquoted investments	8	**723.6**	668.7	**25.2**	23.7
Debt investments held at fair value through profit and loss	8	**90.2**	123.7	**–**	–
Loans and receivables	8	**279.5**	134.1	**144.2**	–
Investment portfolio		**1,093.3**	926.5	**169.4**	23.7
Interests in Group entities	9	**–**	–	**492.0**	501.7
Total non-current assets		**1,093.3**	926.5	**661.4**	525.4
Current assets					
Trade and other receivables	10	**15.8**	8.6	**21.7**	6.3
Derivative financial instruments	12	**0.7**	–	**0.4**	–
Cash and cash equivalents		**176.3**	314.0	**167.3**	308.9
Total current assets		**192.8**	322.6	**189.4**	315.2
Total assets		**1,286.1**	1,249.1	**850.8**	840.6
Liabilities					
Non-current liabilities					
Loans and borrowings	13	**(167.9)**	(169.6)	**–**	–
Derivative financial instruments	12	**(15.7)**	(25.0)	**(2.5)**	(5.6)
Total non-current liabilities		**(183.6)**	(194.6)	**(2.5)**	(5.6)
Current liabilities					
Trade and other payables	14	**(6.7)**	(5.2)	**(4.2)**	(3.4)
Derivative financial instruments	12	**(3.8)**	(1.0)	**(3.2)**	(0.6)
Total current liabilities		**(10.5)**	(6.2)	**(7.4)**	(4.0)
Total liabilities		**(194.1)**	(200.8)	**(9.9)**	(9.6)
Net assets		**1,092.0**	1,048.3	**840.9**	831.0
Equity					
Stated capital account		**117.2**	111.4	**117.2**	111.4
Retained reserves		**845.4**	801.8	**723.7**	719.6
Translation reserve		**38.1**	44.9	**–**	–
Total equity attributable to equity holders of the parent		**1,000.7**	958.1	**840.9**	831.0
Minority interests		**91.3**	90.2	**–**	–
Total equity		**1,092.0**	1,048.3	**840.9**	831.0

Directors

4 May 2011

Consolidated and Company statement of cash flows

For the year to 31 March

	Group		Company	
	Year to 31 March 2011 £m	Year to 31 March 2010 £m	Year to 31 March 2011 £m	Year to 31 March 2010 £m
Cash flow from operating activities				
Purchase of investments	**(186.3)**	(46.3)	**(187.2)**	(71.2)
Proceeds from realisations of investments	**46.8**	52.2	**46.8**	25.5
Income received from loans and receivables	**11.7**	13.2	**30.1**	11.7
Income from quoted debt investments	**6.3**	6.7	**–**	–
Dividends received	**62.6**	23.2	**22.8**	4.5
Fees received on investment activities	**6.8**	–	**6.8**	–
Fees paid on investment activities	**(1.1)**	(3.0)	**(1.1)**	(3.0)
Operating expenses paid	**(2.0)**	(2.0)	**(2.0)**	(1.7)
Interest received	**1.6**	2.2	**1.6**	2.2
Advisory, performance and management fees paid	**(15.6)**	(10.0)	**(13.2)**	(7.4)
Carried interest paid	**–**	(1.5)	**–**	–
Income taxes paid	**(0.3)**	–	**–**	–
Other income	**0.4**	0.2	**–**	–
Net cash flow from operations	**(69.1)**	34.9	**(95.4)**	(39.4)
Cash flow from financing activities				
Proceeds from the issue of share capital from conversion of warrants	**5.8**	–	**5.8**	–
Proceeds from the redemption of shares in subsidiary	**–**	–	**–**	12.2
Interest paid	**(10.0)**	(11.0)	**–**	–
Short-term loan repaid by subsidiary undertaking	**–**	–	**–**	6.5
Fees paid on financing activities and the settlement of derivative contracts	**(3.2)**	(4.7)	**(2.0)**	(4.2)
Dividends paid	**(50.0)**	(43.8)	**(50.0)**	(43.8)
Acquisition of investments held by minority interests	**–**	(24.9)	**–**	–
Net capital returned to minority interests	**(11.6)**	(30.1)	**–**	–
Net cash flow from financing activities	**(69.0)**	(114.5)	**(46.2)**	(29.3)
Change in cash and cash equivalents	**(138.1)**	(79.6)	**(141.6)**	(68.7)
Cash and cash equivalents at the beginning of the year	**314.0**	393.7	**308.9**	377.6
Effect of exchange rate fluctuations	**0.4**	(0.1)	**–**	–
Cash and cash equivalents at the end of the year	**176.3**	314.0	**167.3**	308.9

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 2011 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). Separate financial statements of the Company are also presented, with the exception of a Company level statement of comprehensive income, as this is not required under Jersey Company Law where consolidated information is presented. The accounting policies of the Company are the same as for the Group, except where separately disclosed.

The financial statements were authorised for issue by the Directors on 4 May 2011.

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

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

Key estimates and judgments

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

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

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

The adoption of certain accounting policies by the Group also requires the use of certain critical accounting estimates in determining the information to be disclosed in the financial statements. Areas where assumptions are significant to the consolidated and individual financial statements include:

(i) Valuation of the investment portfolio – Certain assets in the investment portfolio are valued on a discounted cash flow basis which requires assumptions to be made regarding the growth in future cash flows and the discount rate to be applied to these cash flows. Refer to Note 8 and Note 11 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 balances 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

The following new or amended standards have been issued by the International Accounting Standards Board (IASB).

In 2009, the IASB issued IFRS 9, Financial Instruments – Classification and Measurement, the first part of a replacement standard for IAS 39, Financial Instruments: Recognition and Measurement. An update to this standard was issued in October 2010 and provided greater clarity on the application of certain provisions in the standard. This is applicable for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period. On adoption, will require the Group to review the classification of certain investments while allowing the Group to retain the fair value measurement option as necessary. This standard is expected to have a significant impact on the Company and the Group once it becomes effective.

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

IFRS 1, First Time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (effective for periods commencing on or after 1 July 2011);

IFRS 7, Disclosures – Transfers of Financial Assets (effective for periods commencing on or after 1 July 2011), Improvements to IFRS's (2010) (effective for periods commencing on or after 1 January 2011);

IAS 12, Deferred Tax – Recovery of Underlying Assets (effective for periods beginning on or after 1 January 2012); and

IAS 24, Related Party Disclosures (effective for periods commencing on or after 1 January 2011).

Interpretations issued but not yet effective

The following new and amended interpretations have been issued by International Financial Reporting Interpretation Committee. The following interpretations are not expected to have a significant impact on the Company or the Group.

IFRIC 1, (Amendment) Limited Exemption from Comparative IFRS7, Disclosures for First Time Adopters (effective for periods commencing on or after 1 July 2010).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, was issued in November 2009 and is applicable for accounting periods beginning on or after 1 July 2010.

A Basis of consolidation

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

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

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

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

(v) Minority interests – Minority 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 minority interests is shown as a separate component within the statement of comprehensive income and the balance sheet. Movements in the net assets attributable to minority interests during the year arising from distributions payable to minority interests or movements in the proportion of capital held by minorities 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 Group entity 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 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 sterling using exchange rates ruling at the date the fair value was determined.

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

C Investment portfolio

(i) Recognition and measurement – Investments are recognised and derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investments. The Group manages its investments with a view to profiting from the receipt of interest and dividends and changes in 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.

Investments held in subsidiaries in the separate financial statements of the Company are accounted for at cost less provision for impairment.

C Investment portfolio continued

(ii) Income

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

(b) Unrealised profits on the revaluation of investments is the movement in the fair value of investments between the start and end of the accounting period, or the investment acquisition 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 to the extent that dividends paid out of pre-acquisition reserves adjust the fair value of the equity investment;
- 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 20.

(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 20.

(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 statement of cash flows, cash and cash equivalents comprise cash and short-term deposits as defined above. Interest receivable on cash and cash equivalents is recognised on an accruals basis.

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

(iii) Derivative financial instruments – Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations of portfolio income, the valuation of the investment portfolio and changes in interest rates on its 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 remeasured to the fair value at each reporting date. All changes in the fair value of derivative financial instruments are taken to the statement of comprehensive income. The maturity profile of derivative contracts is measured relative to the financial contract settlement date of each contract and the fair value of the derivative contracts is disclosed accordingly.

F Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. The cost of such assets or liabilities is considered approximate to their fair value. They 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 cost 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 proceeds received.

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

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

I Income taxes

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

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

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

Notes to the accounts

1 Segmental analysis

The Directors of the Company review the financial performance of the Group on the "investment basis". However, the Directors also review information on a regular basis that is analysed by geography and is consistent with the consolidated accounting basis. In accordance with IFRS 8, the segmental information provided below uses this geographic analysis of results as it is the most closely aligned with IFRS reporting requirements. The Group only operates in one service line, being that of an investment holding company. Therefore no segmental analysis by service line has been produced. The Group is an investment holding company and does not consider itself to have any customers. However, the Company received 70% (2010: 55%) of its portfolio income in the year from investments held in the UK and a further 30% (2010: 45%) of portfolio income from investments held in Europe. The Group received income from its investment in AWG of £39.5 million, which represents 30% of the investment return. There was no other income entitlement during the year that represented more than 10% of investment return.

For the year to 31 March 2011	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains over fair value on the disposal of investments	3.6	–	–	3.6
Unrealised profits/(loss) on the revaluation of investments	24.6	(0.3)	7.5	31.8
Foreign exchange losses on investments	–	(0.3)	–	(0.3)
Portfolio income	66.3	28.2	–	94.5
Interest receivable	1.5	–	–	1.5
Investment return	96.0	27.6	7.5	131.1
Interest expense	–	(10.0)	–	(10.0)
Other income/(expenses)	(18.7)	4.2	–	(14.5)
Profit before tax	77.3	21.8	7.5	106.6

	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Balance sheet				
Fair value of investment portfolio	620.6	338.0	134.7	1,093.3
Cash and cash equivalents	170.2	5.2	0.9	176.3
Other assets	12.7	3.8	–	16.5
Assets	803.5	347.0	135.6	1,286.1
Loans and borrowings	–	(167.9)	–	(167.9)
Derivative financial instruments	(5.3)	(14.2)	–	(19.5)
Other liabilities	(6.3)	(0.2)	(0.2)	(6.7)
Liabilities	(11.6)	(182.3)	(0.2)	(194.1)
Net assets	791.9	164.7	135.4	1,092.0

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

1 Segmental analysis continued

For the year to 31 March 2010	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	7.8	–	–	7.8
Unrealised profits on the revaluation of investments	50.0	16.4	10.4	76.8
Foreign exchange losses on investments	–	(1.1)	–	(1.1)
Portfolio income	24.1	19.6	–	43.7
Interest receivable	2.4	–	–	2.4
Investment return	84.3	34.9	10.4	129.6
Interest expense	–	(11.0)	–	(11.0)
Other expenses	(11.3)	(4.1)	–	(15.4)
Profit before tax	73.0	19.8	10.4	103.2
Balance sheet				
Fair value of investment portfolio	487.0	341.6	97.9	926.5
Cash and cash equivalents	309.8	4.2	–	314.0
Other assets	5.1	3.5	–	8.6
Assets	801.9	349.3	97.9	1,249.1
Loans and borrowings	–	(169.6)	–	(169.6)
Derivative financial instruments	(6.2)	(19.8)	–	(26.0)
Other liabilities	(5.2)	–	–	(5.2)
Liabilities	(11.4)	(189.4)	–	(200.8)
Net assets	790.5	159.9	97.9	1,048.3

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

2 Unrealised gains on the revaluation of investments

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

	Year to 31 March 2010			
	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
Movement in assets held at fair value through profit or loss	54.2	29.7	–	83.9
Provisions and loan impairments	(3.4)	–	(3.7)	(7.1)
	50.8	29.7	(3.7)	76.8

Provisions have been recognised where it is considered there is a 50% (or higher) risk of failure. All other value movements are included within the movement in the fair value of equity. There have been no provisions or loan impairments during the year. In 2010, T2C was fully provided for, creating a fair value loss of £7.1 million.

3 Advisory, performance and management fees payable

	Year to 31 March 2011 £m	Year to 31 March 2010 £m
Advisory fee	**(12.5)**	(9.1)
Performance fee	**(2.9)**	(2.6)
Management fees	**(1.1)**	(1.1)
	(16.5)	(12.8)

The performance fee for the year of £2.9 million includes £0.1 million relating to the finalisation of the performance fee for the year ended 31 March 2010.

Note 20 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 2011 £m	Year to 31 March 2010 £m
Audit fees	**0.2**	0.2
Directors' fees and expenses	**0.4**	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 2011 £m	Year to 31 March 2010 £m
Audit services			
Statutory audit	Company	**0.14**	0.12
	UK subsidiaries	**0.05**	0.05
	Overseas subsidiaries	**0.02**	0.03
		0.21	0.20

Non-audit services

Ernst & Young LLP provided non-audit services totalling £14,500 for the year to 31 March 2011 (2010: £14,500). In addition to the non-audit services described above, 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 were borne by the underlying investee companies and, therefore, are not included in the expenses of the Group. The Company's policy for engaging the auditor for non-audit services is set out on page 47.

5 Finance costs

	Year to 31 March 2011 £m	Year to 31 March 2010 £m
Interest payable on loans and borrowings	**(10.0)**	(11.0)
Fees associated with the arrangement of debt financing	**(3.2)**	(2.6)
	(13.2)	(13.6)

6 Movements in the fair value of derivative instruments

	Year to 31 March 2011 £m	Year to 31 March 2010 £m
Unrealised movement in the fair value of forward foreign exchange contracts	**2.3**	5.9
Unrealised movement in the fair value of interest rate swaps	**3.7**	(1.4)
	6.0	4.5
Realised gains/(losses) over fair value on the settlement of forward foreign exchange contracts	**1.3**	(2.6)

7 Income taxes

	2011 £m	2010 £m
Current year charge	**0.2**	–
Prior year under provision	**0.1**	–
	0.3	–

Profits arising in the Company are subject to tax at the standard rate in Jersey of 0% (2010: 0%).

Subsidiaries of the Company have provided for taxation at the appropriate rates in the countries in which they operate. As the returns of these subsidiaries are largely exempt from tax, in the relevant countries where they are subject to tax, the total tax provided in respect of them is minimal.

Reconciliation of income taxes in the statement of comprehensive income

The tax charge for the period differs from the standard rate of corporation tax in Jersey, currently 0% (2010: 0%) and the differences are explained below:

	As at 31 March 2011 £m	As at 31 March 2010 £m
Profit before tax	**106.6**	103.2
Profit before tax multiplied by the rate of corporation tax in Jersey, currently 0% (2010: 0%)	**–**	–
Effects of:		
Foreign taxes for the current period	**0.2**	–
Foreign taxes underprovided for prior periods	**0.1**	–
Total income taxes in the statement of comprehensive income	**0.3**	–

8 Investment portfolio

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

	Group As at 31 March 2010				
	Quoted equity investments £m	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
Opening fair value	3.8	640.7	91.9	126.0	862.4
Additions	–	25.5	5.2	17.8	48.5
Disposals and repayments	(3.8)	(32.5)	(2.3)	(5.8)	(44.4)
Unrealised gains/(losses) on investments	–	50.8	29.7	(3.7)	76.8
Foreign exchange losses	–	(15.8)	(0.8)	(0.2)	(16.8)
Closing fair value	–	668.7	123.7	134.1	926.5

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 are held at fair value through profit or loss.

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

Elgin Infrastructure Limited was incorporated as a Special Purpose Entity in October 2009, to hold the underlying portfolio of PFI projects. As at 31 March 2011 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 (2010: £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 (i.e. as prices) or indirectly (i.e. derived from prices)	Debt investments held at fair value
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments and loans and receivables

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

The debt investments held at fair value through profit and loss had a carrying value of £90.2 million (2010: £123.7 million). In accordance with the fair value hierarchy the debt instruments held at fair value are classified as Level 2 with reference to observable market information.

8 Investment portfolio continued

The Group's investment portfolio for equity instruments and the debt investments held at fair value and loans and receivables are classified by the fair value hierarchy as the following:

	Group as at 31 March 2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unquoted equity	–	–	**723.6**	**723.6**
Debt investments held at fair value	–	**90.2**	–	**90.2**
Loans and receivables	–	–	**279.5**	**279.5**
	–	**90.2**	**1,003.1**	**1,093.3**

	Group as at 31 March 2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unquoted equity	–	–	668.7	668.7
Debt investments held at fair value	–	123.7	–	123.7
Loans and receivables	–	–	134.1	134.1
	–	123.7	802.8	926.5

This disclosure only relates to the investment portfolio, however the fair value hierarchy also applies to derivative financial instruments, which is disclosed in Note 12.

	Group as at 31 March 2011			
Level 3 fair value reconciliation	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
Opening fair value	**668.7**	–	**134.1**	**802.8**
Additions	**42.1**	–	**145.4**	**187.5**
Disposals	–	–	–	–
Unrealised gains/(losses) on investments	**21.8**	–	–	**21.8**
Foreign exchange loss	**(9.0)**	–	–	**(9.0)**
Closing fair value	**723.6**	–	**279.5**	**1,003.1**

There have been no reclassifications for assets that have been transferred in or out of Level 2 or Level 3 during the year (2010: £91.9 million).

	Group as at 31 March 2010			
Level 3 fair value reconciliation	Unquoted investments £m	Debt investments £m	Loans and receivables £m	Total £m
Opening fair value	640.7	91.9	126.0	858.6
Additions	25.5	–	17.8	43.3
Disposals	(32.5)	–	(5.8)	(38.3)
Unrealised gains/(losses) on investments	50.8	–	(3.7)	47.1
Foreign exchange loss	(15.8)	–	(0.2)	(16.0)
Transfer to Level 2	–	(91.9)	–	(91.9)
Closing fair value	668.7	–	134.1	802.8

All unrealised movements on investments and foreign exchange movements are recognised in the Statement of Comprehensive Income during the year. The foreign exchange loss of £9.0 million (2010: £16.0 million) in the Level 3 fair value reconciliation table above includes a foreign exchange loss of £8.7 million (2010: £14.9 million) relating to assets that are held by intermediary holding companies of the Group, for which sterling is not the functional currency. As a result, this exchange loss of £8.7 million (2010: £14.9 million) is recognised within Other Comprehensive Income as part of the overall loss of £6.8 million (2010: £9.1 million) arising on re-translation of foreign currency subsidiaries. All other movements are recognised within the total Investment Return of £131.1 million (2010: £129.6 million).

8 Investment portfolio continued

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 £50.5 million (2010: £45.1 million).

			Company as at 31 March 2011		Company as at 31 March 2010
	Unquoted equity £m	Loans and receivables £m	Total £m	Unquoted equity £m	Total £m
Opening fair value	**23.7**	**–**	**23.7**	–	–
Additions	**–**	**144.2**	**144.2**	23.5	23.5
Unrealised gains on investments	**1.5**	**–**	**1.5**	0.2	0.2
Closing fair value	**25.2**	**144.2**	**169.4**	23.7	23.7

The Company holds two direct investments – Loans and receivables of £144.2 million (2010: £nil) in Eversholt Investment Group SCS and unquoted equity of £25.2 million (2010: £23.7 million) in Elgin Infrastructure Limited. Both assets are considered to be in Level 3 of the investment hierarchy.

There have been no reclassification for assets that have been transferred in or out of Level 2 or Level 3 during the year for the Company (2010: £nil).

9 Interests in Group entities

			Company as at 31 March 2011
	Equity investments £m	**Debt investments £m**	**Total £m**
Opening carrying value	**0.8**	**500.9**	**501.7**
Additions	**–**	**43.2**	**43.2**
Disposals	**–**	**(42.0)**	**(42.0)**
Other movements	**–**	**(10.9)**	**(10.9)**
Closing carrying value	**0.8**	**491.2**	**492.0**

			Company as at 31 March 2010
	Equity investments £m	Debt investments £m	Total £m
Opening carrying value	0.8	484.4	485.2
Additions	–	49.9	49.9
Disposals	–	(24.8)	(24.8)
Other movements	–	(8.6)	(8.6)
Closing carrying value	0.8	500.9	501.7

Details of the principal subsidiaries of the Group are given in Note 21.
Other movements include foreign exchange movements.

10 Trade and other receivables

	As at 31 March 2011		As at 31 March 2010	
	Group £m	**Company £m**	Group £m	Company £m
Prepayments and accrued income	**10.3**	**6.5**	3.8	0.4
Other debtors	**5.5**	**1.9**	4.8	0.5
Amounts due from subsidiaries	**–**	**13.3**	–	5.4
	15.8	**21.7**	8.6	6.3

11 Financial risk management

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

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

The funding objective of the Group and Company 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 13 and the Group's and Company's equity are analysed into their 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, therefore the Directors consider that the Company has met all of its external capital requirements throughout the year.

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).

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 financial assets and liabilities. Through the year, the Group's cash and deposits were held with a variety of counterparties principally in AAA rated money market funds, as well as in short-term bank deposits with AA 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.

As at 31 March 2011, the Group's shareholder loan investment of £3.7 million in T2C was considered to be impaired (2010: £3.7 million impaired). No other assets held by the Group were considered to be impaired. The Company had no loans or receivables considered past due or impaired (2010: £nil).

	Group			Company		
	Provisions £m	Impairments £m	Total £m	Provisions £m	Impairments £m	Total £m
Balance at 31 March 2010	(3.7)	–	(3.7)	–	–	–
Charged to net profit in the year	–	–	–	–	–	–
Balance at 31 March 2011	**(3.7)**	**–**	**(3.7)**	**–**	**–**	**–**

3i Infrastructure 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 2011, 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.

11 Financial risk management continued

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 and the Company's contractual liabilities.

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

						Company
2011	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due in greater than 5 years £m	Total £m
Liabilities						
Trade and other payables	(4.2)	–	–	–	–	(4.2)
Forward currency contracts	–	(3.2)	(1.3)	(1.3)	–	(5.8)
Financial commitments	(53.8)	–	–	–	–	(53.8)
Total undiscounted financial liabilities	(58.0)	(3.2)	(1.3)	(1.3)	–	(63.8)

						Group
2010	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due in greater than 5 years £m	Total £m
Liabilities						
Loans and borrowings	–	(10.1)	(10.1)	(193.6)	–	(213.8)
Trade and other payables	(5.2)	–	–	–	–	(5.2)
Forward currency contracts	–	(1.0)	(2.2)	(4.6)	–	(7.8)
Financial commitments	(95.0)	–	–	–	–	(95.0)
Total undiscounted financial liabilities	(100.2)	(11.1)	(12.3)	(198.2)	–	(321.8)

						Company
2010	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						
Trade and other payables	(3.4)	–	–	–	–	(3.4)
Forward currency contracts	–	(0.6)	(1.9)	(3.7)	–	(6.2)
Financial commitments	(95.0)	–	–	–	–	(95.0)
Total undiscounted financial liabilities	(98.4)	(0.6)	(1.9)	(3.7)	–	(104.6)

11 Financial risk management continued

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

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 and the Company's sensitivities to these 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 (2010: 250 basis points) would lead to an approximate increase or decrease on net assets and to the net profit of £4.6 million for the Group (2010: £11.7 million). This exposure relates principally to changes in interest payable and receivable on floating rate debt instruments and cash on deposit and changes in the fair value of interest rate derivatives and fixed rate debt instruments held at year end. In addition, the Group has indirect exposure to interest rates through changes to the financial performance of portfolio companies caused by interest rate fluctuations. The Group and the Company do not hold any fixed rate debt investments or borrowings and are therefore not exposed to fair value interest rate risk.

The Company does not hold variable rate loans as assets or liabilities and is therefore only exposed to cash flow interest rate risk on its cash holdings. An increase or decrease of 250 basis points in interest rates over 12 months (2010: 250 basis points) would lead to an approximate increase or decrease on net assets and to net profit of £4.2 million for the Company (2010: £7.7 million).

(ii) Currency risk

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

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

	Company as at 31 March 2011			
	Sterling £m	Euro £m	US dollar £m	Total £m
Net assets	638.3	107.9	94.7	840.9
Sensitivity analysis				
Assuming a 10% increase in exchange rates against sterling:				
Impact of exchange movements on net profit	12.8	(10.0)	–	2.8
Impact of exchange movements on net assets	12.8	(10.0)	–	2.8

11 Financial risk management continued

	Group as at 31 March 2010			
	Sterling £m	Euro £m	US dollar £m	Total £m
Net assets	790.5	159.8	98.0	1,048.3
Sensitivity analysis				
Assuming a 10% increase in exchange rates against sterling:				
Impact of exchange movements on net profit	9.7	(3.0)	–	6.7
Impact of exchange movements on net assets	9.7	(3.0)	–	6.7
Impact of the translation of foreign operations in the translation reserve	–	(10.7)	(8.8)	(19.5)

	Company as at 31 March 2010			
	Sterling £m	Euro £m	US dollar £m	Total £m
Net assets	663.6	96.5	70.9	831.0
Sensitivity analysis				
Assuming a 10% increase in exchange rates against sterling:				
Impact of exchange movements on net profit	9.7	(10.8)	(7.5)	(8.6)
Impact of exchange movements on net assets	9.7	(10.8)	(7.5)	(8.6)

(iii) Market price risk

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

	As at 31 March 2011			As at 31 March 2010		
	Unquoted investments £m	**Debt investments £m**	**Total £m**	Unquoted investments £m	Debt investments £m	Total £m
Impact on net profit	**72.4**	**9.0**	**81.4**	66.9	12.4	79.3
Impact on net assets	**72.4**	**9.0**	**81.4**	66.9	12.4	79.3

The Company has direct exposure to market price risk through its direct unquoted equity holding in Elgin Infrastructure Limited. A 10% increase in movement in the fair value of the investment would result in a £2.5 million impact on the Company's net profit and net assets (2010: £2.0 million).

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 2011 (or at 31 March 2010), 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 and the Company's exposure to their financial risks throughout the period to which they relate.

12 Derivative financial instruments

	As at 31 March 2011		As at 31 March 2010	
	Group £m	Company £m	Group £m	Company £m
Current assets				
Forward foreign exchange contracts	**0.7**	**0.4**	–	–
Non-current liabilities				
Forward foreign exchange contracts	**(4.7)**	**(2.5)**	(6.8)	(5.6)
Interest rate swaps	**(11.0)**	**–**	(18.2)	–
	(15.7)	**(2.5)**	(25.0)	(5.6)
Current liabilities				
Forward foreign exchange contracts	**(3.8)**	**(3.2)**	(1.0)	(0.6)

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 2011, the notional amount of forward foreign exchange contracts was £177.2 million (2010: £138.4 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 2011 the notional amount of interest rate swaps was £167.9 million or €190.0 million (2010: £169.6 million, €190.0 million).

Fair value of derivatives

The following table shows financial instruments recognised at fair value, analysed into the investment hierarchy disclosed in Note 8.

				Group 2011
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Forward foreign exchange contracts	**–**	**(7.8)**	**–**	**(7.8)**
Interest rate swaps	**–**	**(11.0)**	**–**	**(11.0)**
	–	**(18.8)**	**–**	**(18.8)**

				Group 2010
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Forward foreign exchange contracts	–	(7.8)	–	(7.8)
Interest rate swaps	–	(18.2)	–	(18.2)
	–	(26.0)	–	(26.0)

Fair value has been determined using valuation techniques, as described on page 76. The Group uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The valuations are market observable, externally sourced and internally verified and are therefore included within Level 2. All derivatives held by the Company, with a fair value of £5.3 million, have been included in Level 2 (2010: £6.2 million).

13 Loans and borrowings

	As at 31 March 2011		As at 31 March 2010	
	Group £m	Company £m	Group £m	Company £m
Loans and borrowings are repayable as follows:				
Between 2-5 years	**(167.9)**	**–**	(169.6)	–
	(167.9)	**–**	(169.6)	–

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

Oystercatcher Luxco 2 S.ăr.l., a subsidiary of the Company, has borrowings from Royal Bank of Canada of €190.0 million (£167.9 million, 2010: £169.6 million). This facility has been drawn down in full and is repayable in 2014 in full. The facility has an interest rate at EURIBOR plus a fixed margin.

The loan from Royal Bank of Canada to Oystercatcher Luxco 2 has standard loan covenants including a debt service coverage ratio, an interest cover ratio and a leverage ratio. Royal Bank of Canada has security over Oystercatcher's equity stakes in the underlying operating companies of £301.1 million (2010: £308.1 million).

Oystercatcher Luxco 2 has an arrangement with Royal Bank of Canada for an additional facility of €11.0 million (2010: €60.0 million). As at 31 March 2011, Oystercatcher Luxco 2 had not drawn down against this facility.

In November 2010, the Company signed a three-year unsecured, £200 million revolving credit facility at fixed margin above LIBOR. This replaces the previous £225 million revolving credit facility which ran until March 2011. As at 31 March 2011, the Company had not drawn down against this facility. The facility has standard loan covenants, including a debt service coverage ratio and loan to value ratio.

14 Trade and other payables

	As at 31 March 2011		As at 31 March 2010	
	Group £m	Company £m	Group £m	Company £m
Trade payables	**(1.7)**	**–**	(1.3)	–
Advisory, performance and management fees	**(3.8)**	**(3.1)**	(3.1)	(2.8)
Accruals	**(1.2)**	**(1.1)**	(0.8)	(0.6)
	(6.7)	**(4.2)**	(5.2)	(3.4)

15 Issued capital

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

	As at 31 March 2011		As at 31 March 2010	
	Number	£m	Number	£m
Issued and fully paid				
Opening balance	**811,082,581**	**817.6**	811,082,081	817.6
Conversion of warrants	**5,828,580**	**5.8**	500	–
Closing balance	**816,911,161**	**823.4**	811,082,581	817.6

Under the Initial Public Offering in March 2007, 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 70.2 million warrants being issued. A further 640,980 warrants were issued as part of the over-allotment arrangement. Each warrant entitles the holder to subscribe for one ordinary share at £1.00 at any time from 13 September 2007 to 13 March 2012. As at 31 March 2011, there were 64,721,900 warrants in issue (2010: 70,550,480), with 5,828,580 warrants converted in the year for a total consideration of £5.8 million (2010: 500 warrants converted).

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.

16 Per share information

	Year to 31 March 2011	Year to 31 March 2010
Earnings per share (pence)		
Basic	**11.5**	11.1
Diluted	**11.4**	11.1
Earnings (£ million)		
Profit for the year attributable to equity holders of the parent	**93.6**	90.3
Number of shares (million)		
Weighted average number of shares in issue	**812.7**	811.1
Effect of dilutive potential ordinary shares – warrants	**8.2**	–
Diluted shares	**820.9**	811.1

Net assets per share (pence)		
Basic	**122.5**	118.1
Diluted	**120.9**	116.7
Net assets (£ million)		
Net assets attributable to equity holders of the parent	**1,000.7**	958.1

17 Dividends

	As at 31 March 2011		As at 31 March 2010	
Declared and paid during the year	Pence per share	£m	Pence per share	£m
Interim dividend paid on ordinary shares	**2.86**	**23.2**	2.20	17.8
Prior year final dividend paid on ordinary shares	**3.30**	**26.8**	3.20	26.0
	6.16	**50.0**	5.40	43.8
Proposed final dividend	**2.86**	**23.4**	3.30	26.8

18 Commitments

	Year to 31 March 2011		Year to 31 March 2010	
	Group £m	Company £m	Group £m	Company £m
Equity and loan investments	**53.8**	**53.8**	95.0	95.0

As at 31 March 2011, the Group and the Company were committed to subscribing a further £53.8 million (2010: £95.0 million) to the 3i India Infrastructure Fund. The capital is available on demand by the 3i India Infrastructure Fund.

19 Contingent liabilities

At 31 March 2011 there was no material litigation or other contingent liabilities outstanding against the Company or any of its subsidiary undertakings (2010: £nil).

20 Related parties

The Group has various related parties stemming from relationships with limited partnerships owned by the Group, its investments and its Investment Adviser. In addition, the Company has related party relationships in respect of its subsidiaries.

20 Related parties continued

Investments

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

Group Statement of comprehensive income	Year to 31 March 2011 £m	Year to 31 March 2010 £m
Unrealised profits on the revaluation of investments	**18.4**	26.5
Portfolio income	**40.7**	21.5

Balance sheet	As at 31 March 2011 £m	As at 31 March 2010 £m
Unquoted equity	**506.9**	455.5
Loans and receivables	**178.5**	34.3
	685.4	489.8

The Company holds two direct investments, a 33.3% equity stake in Eversholt Investment Group SCS, valued at £144.2 million and a 49.9% equity stake in Elgin Infrastructure Limited, valued at £25.2 million. During the year, the Company received £13.4 million of portfolio income from Eversholt (2010: £nil) and £1.3 million from Elgin Infrastructure Limited (2010: £1.6 million).

Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties of the Company, are eliminated on consolidation. Details of related party transactions between the Company and its subsidiaries are detailed below:

Company Statement of comprehensive income	Year to 31 March 2011 £m	Year to 31 March 2010 £m
Income from subsidiary undertakings	**59.5**	33.0

Balance sheet	As at 31 March 2011 £m	As at 31 March 2010 £m
Investments made in subsidiary undertakings	**43.2**	49.9
Disposals of investments held in subsidiary undertakings	**(42.0)**	(24.8)

The Company makes investments through a number of subsidiaries by providing funding in the form of capital contributions or loans, depending on the legal form of the entity making the investment. The legal form of these subsidiaries may be limited partnerships or limited companies or equivalent, depending on the jurisdiction of the investment.

The Company is not considered to have any Key Management Personnel as it has a non-executive Board and no employees. The non-executive Directors remuneration is set out on page 45 in these accounts.

Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 32.9% (2010: 33.2%) of the ordinary shares of the Company and also holds warrants which give it rights to acquire a further 32.5 million ordinary shares. This classifies 3i Group as a "substantial shareholder" of the Company as defined by the Listing Rules.

The Company has committed US$250 million to the 3i India Infrastructure Fund to invest in the Indian infrastructure market. 3i Group has also committed US$250 million for investment to this Fund. In total, commitments of US$163.7 million (£94.7 million) (2010: US$106.2 million, £58.9 million) had been drawn down at 31 March 2011 from 3i Infrastructure. At 31 March 2011, the Group's outstanding commitment to the Fund was US$86.3 million (£53.8 million).

3i Osprey GP, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, a subsidiary of the Company. During the year, £3.0 million (2010: £2.8 million) was payable to 3i Group of which £1.9 million was offset against the Advisory fee (2010: £1.7 million). As at 31 March 2011, £0.2 million remained outstanding (2010: £0.2 million).

20 Related parties continued

3i Investments, 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, provides support services to the Company.

In December 2010, the Company extended its Investment Advisory agreement with 3i Investments plc. The renegotiation extended the exclusivity arrangements between the Company and 3i Investments plc by a further £200 million and it extended the fixed duration of the Agreement by three years (subject to a backstop date of March 2015) from March 2012 to March 2015. The amendments to the Agreement were subject to approval from the Jersey Financial Services Commission. In accordance with the UK Listing Authority Rules, a fairness opinion was obtained on this transaction from an independent adviser.

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 Company 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 2011, £12.5 million was payable and £0.3 million remains due to 3i plc. For the year to 31 March 2010, £9.1 million was payable and £0.2 million remained due to 3i plc.

The Investment Advisory Agreement also provides for an annual performance fee to be payable to 3i plc. This becomes payable when the Adjusted Total Return per ordinary share (being mainly closing net asset value per share aggregated with any distributions made in the course of the financial period and any accrued performance fees relating to the financial period) for the period exceeds the Target Total Return per share, being the Net Asset Value per ordinary share equal to the opening Net Asset Value per ordinary share increased at a rate of 8% per annum ("the performance hurdle"). If the performance hurdle is exceeded, the performance fee will be equal to 20% of the Adjusted Total Return per share in excess of the performance hurdle for the relevant financial period, multiplied by the weighted average of the total number of shares in issue over the relevant financial period. For the year to 31 March 2011, £2.9 million was payable and included £0.1 million in relation to the transaction of the prior year's performance fee and at 31 March 2011, £2.8 million remains due to 3i plc. For the year to 31 March 2010, £2.6 million was payable and at 31 March 2010 remained due to 3i plc.

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 31 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 amount payable for the year to 31 March 2011 was £0.5 million (2010: £0.5 million). The outstanding balance payable as at 31 March 2011 was £0.1 million (2010: £nil).

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 as at 31 March 2011 was £40.2 million (2010: £38.7 million).

During the year, £3.3 million portfolio income was recognised in the Group from Elgin (2010: £2.0 million) with £0.5 million outstanding to the Group as at 31 March 2011 (2010: £0.5 million).

21 Principal subsidiaries

Name	Country of incorporation	Ownership interest
3i Infrastructure (Luxembourg) S.àr.l.	Luxembourg	100%
3i Infrastructure (Luxembourg) Holdings S.àr.l.	Luxembourg	100%
Oystercatcher Luxco 1 S.àr.l.	Luxembourg	100%
Oystercatcher Luxco 2 S.àr.l.	Luxembourg	100%
3i 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 as at 31 March 2011. Each of the subsidiary undertakings is included in the consolidated accounts of the Group.

Investment policy

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

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

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

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

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

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

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

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

Portfolio valuation methodology

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

Basis of valuation

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

General

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

Quoted investments

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

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

Unquoted investments

Unquoted investments are valued using one of the following methodologies:

– Discounted Cash Flow ("DCF")

– Limited Partnership share of fund net assets

– Sales basis: expected sales proceeds

– Cost less any fair value adjustments required

DCF

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

LP share of fund net assets

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

Sales basis

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

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

Cost less fair value adjustment

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

Information for shareholders

Financial calendar

Ex-dividend date for final dividend	15 June 2011
Record date	17 June 2011
Annual General Meeting	5 July 2011
Final dividend expected to be paid	8 July 2011
Half-yearly results	November 2011

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 in future, including your annual and half-yearly reports and notices of meetings, please go to

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

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

3i Infrastructure plc

Registered office:
22 Grenville Street
St. Helier
Jersey JE4 8PX
Channel Islands
Tel: +44 (0)1534 711 444
Fax: +44 (0)1534 609 333

Registered in Jersey No. 95682

Warning to shareholders – boiler room scams

Over the last few years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as "boiler rooms". These "brokers" can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

– make sure you get the correct name of the person and organisation;

– check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/pages/register

– report the matter to the FSA either by calling 0845 606 1234 or visiting www.moneymadeclear.org.uk; and

– if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml

Details of any share dealing facilities that the Company endorses will be included in the Company's mailings.

More detailed information on this or similar activity can be found on the FSA website www.moneymadeclear.org.uk

Designed and produced by **Radley Yeldar** www.ry.com

Printed by **Pureprint Group** who are a CarbonNeutral® printer certified to ISO 14001 environmental management system and registered to EMAS the Eco Management Audit Scheme. Printed using vegetable oil based inks and 100% renewable energy.

The report is printed on Amadeus 50% Silk which is FSC-certified and contains 50% recycled waste and 50% virgin fibre.

FSC – Forest Stewardship Council
This ensures that there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

ISO 14001
A pattern of control for an environmental management system against which an organisation can be accredited by a third party.

3i Infrastructure plc
22 Grenville Street, St. Helier,
Jersey, Channel Islands JE4 8PX
Telephone +44 (0)1534 711 444
Fax + (0)1534 609 333
www.3i-infrastructure.com

M70111

Annual report online

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

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