3i Infrastructure plc

# Annual report and accounts 2017



# Contents



The Strategic report comprises pages 1–52



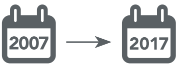
For further information, see our website
**www.3i-infrastructure.com**

The Directors' statement on pages 71 to 73 for 3i Infrastructure plc ("3i Infrastructure" or "the Company") for the year to 31 March 2017 has been drawn up in reliance upon applicable English and Jersey law and the liabilities of the Company in connection with this statement shall be subject to the limitations and restrictions provided by such law. This annual report contains statements about the future outlook for 3i Infrastructure. Although the Directors believe their expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

# Introduction

## Our strategy is to maintain a balanced portfolio of infrastructure investments delivering an attractive mix of income yield and capital appreciation for our shareholders.

We invest across mid-market economic infrastructure and greenfield projects in developed markets, with a focus on the UK and Europe.




11.6%

**In the 10 years since the IPO the Company has delivered a total shareholder return of 11.6% per annum.**

# Performance highlights

**9.4%**
Total return on opening NAV

**169.0p**
NAV per share

## Good portfolio performance drove growth in net asset value

- Total return of £146.3m for the year consistent with the 8% to 10% return target over the medium term.
- Net asset value ("NAV") of £1,735m at 31 March (2016: £1,277m).

**£479m**
Invested or committed in the year

## Success in new investment across our target markets

- Further progress made in growing and diversifying the portfolio.
- £479m of investments completed in the year: WIG, TCR, Valorem, Infinis and the Hart van Zuid and A27/A1 PPP projects.

**£86m**
Total income

## Good income progression

- Income growth driven by new investments made in the year.
- Total income of £85.6m in the year, in line with expectations. In addition, non-income cash of £18.2m was received.

**£20m**
Cash balances

**£170m**
Undrawn RCF balance

## Managed our balance sheet efficiently while maintaining a good level of liquidity to invest

- Revolving Credit Facility ("RCF") was extended to May 2019 during the year, and again to May 2020 since the year end.
- Demonstrated our flexible funding model by increasing the size of the RCF on a temporary basis during the year. The undrawn balance of the RCF was £170m at 31 March, increased to £370m since the year end, providing liquidity for new investments.

**7.55p**
Full year dividend per share

## Delivered the dividend target

- Delivered the total dividend target for FY17 of 7.55p per share, representing growth of over 4% on FY16.
- Announcing a target dividend of 7.85p per share for FY18, a 4% increase on FY17.

**£385m**
New equity raised in the year

## Raised new equity of £385m, fully deployed in the year

- £385m of new equity raised from existing and new shareholders, the offer was substantially oversubscribed.
- All of the proceeds deployed into new investments within the financial year.

# Chairman's statement

"The Company has had a strong year. In a competitive market, we completed six new investments totalling £479 million and executed a successful capital raise. We have delivered our target dividend of 7.55 pence per share for the year."

3i Infrastructure provides its shareholders with a clear investment proposition, delivering an attractive mix of income yield and capital appreciation.

The Company has continued to deliver its objectives during the year, due to the quality of its portfolio and the advice it receives from the Investment Adviser. This has been a very busy year, including the largest equity raise in the sector since the initial public offering of the Company in 2007 and a record level of new investment to deploy that additional capital. I am grateful to the Board and the Investment Adviser for their support during this busy time, and in my first full year as Chairman.

## Performance

The Company generated a total return of £146 million in the year ending 31 March 2017, or 9.4% of opening NAV (adjusted on a time weighted average basis for the capital raise), in line with the target of 8% to 10% per annum to be achieved over the medium term. The NAV per share increased to 169 pence. The portfolio is performing in line with expectation. We delivered a Total Shareholder Return ("TSR") of 16.1% in the period (FTSE 250: 15.3%). Since IPO, the Company's annualised TSR was 11.6%, comparing favourably with the broader market (FTSE 250: 7.9% annualised over the same period). The Company has achieved this performance with relatively low share price volatility.

## Capital raise and liquidity

We were delighted with the results of our capital raise, which was significantly oversubscribed. There was a high take up from existing investors through the open offer and strong interest was received from new investors in the placing and intermediary offers. The equity raise proceeds were fully deployed within seven months.

We manage our balance sheet actively, seeking efficiency through low levels of uninvested cash with a range of funding options available to the Company for further investment as described in the Financial review.

**Richard Laing**
Chairman, 3i Infrastructure plc
10 May 2017

## Investment activity

The infrastructure market remains highly competitive, driven by the sustained low interest rate environment and availability of debt finance on attractive terms. Against this backdrop, the Investment Adviser has sourced and completed a number of new investments during the year at what we consider to be attractive risk adjusted returns. These new investments are performing well and have helped deliver income in line with expectations for the year. The Investment Adviser's review describes the investments made during the year, alongside portfolio developments, in more detail.

## Dividend

Following the payment of the interim dividend of 3.775 pence per share in January 2017, the Board is recommending a final dividend for the year of 3.775 pence per share, meeting our target for the year of 7.55 pence per share. We expect the final dividend to be paid on 10 July 2017. Consistent with our progressive dividend policy, we are announcing a total dividend target for the year ending 31 March 2018 of 7.85 pence per share, representing a year-on-year increase of 4%.

## Corporate governance

The Board aims to uphold the highest standard of corporate governance. Shareholders can find further detail in the improved Governance section of this report. Philip Austin MBE, the Senior Independent Director of the Company, stepped down from the Board on 31 December 2016 having been a Director since 16 January 2007. We are extremely grateful to Phil for his valuable contribution to the Board over the past 10 years and since the Company's initial public offering. Paul Masterton was appointed as Senior Independent Director with effect from 1 January 2017. The Company's Annual General Meeting was held on 7 July 2016. All resolutions were approved by shareholders, including the election and re-election of all Directors to the Board. This year's AGM will be held on 6 July 2017.

## Outlook

The infrastructure market continues to offer attractive investment opportunities which the Investment Adviser is well placed to deliver. The portfolio is now larger and more diversified, by number, country, sector and currency. This underpins a steady return profile for investors, with a good balance of dividend income and capital growth. We remain confident in our business model and our ability to continue to deliver on our objectives and strategic priorities. The Investment Adviser has identified a healthy pipeline of investment opportunities across our target markets, and we have the funding options and market access to continue to invest selectively.

Investment Adviser's review **page 11**, Financial review **page 38** and Governance section **page 53**.

**£146m**
**total return**

**169.0p**
**NAV per share**

**7.85p**
**target dividend for FY18**

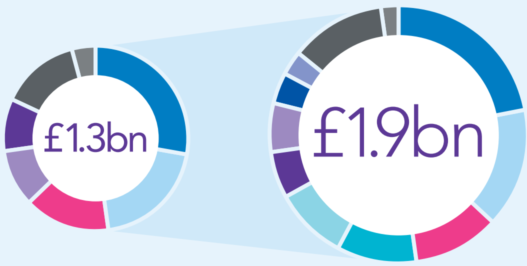
# Our portfolio

## A larger and more diverse portfolio

The portfolio has a good balance of country, sector, currency, yield and growth opportunities.

**Portfolio value by investment[1]**
at 31 March 2016

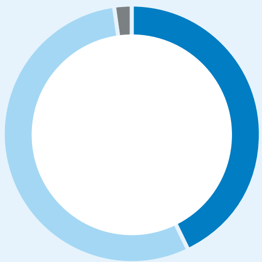
**Portfolio value by investment[1]**
at 31 March 2017




| At 31 March 2016 | |
|---|---|
| Elenia | 28% |
| AWG | 20% |
| Oystercatcher | 15% |
| ESVAGT | 10% |
| XLT | 9% |
| Projects | 14% |
| India | 4% |

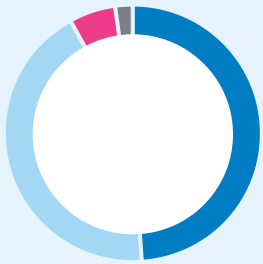
| At 31 March 2017 | |
|---|---|
| Elenia | 22% |
| AWG | 15% |
| Oystercatcher | 11% |
| Infinis | 10% |
| TCR | 9% |
| XLT | 6% |
| ESVAGT | 6% |
| WIG | 4% |
| Valorem | 3% |
| Projects | 12% |
| India | 2% |

**Portfolio value by geography[1]**
at 31 March 2017



| | |
|---|---|
| UK and Ireland | 43% |
| Continental Europe and Singapore | 55% |
| India | 2% |

**Portfolio value by currency[1]**
at 31 March 2017



| | |
|---|---|
| EUR | 49% |
| GBP | 43% |
| DKK | 6% |
| INR | 2% |

**28**
**investments**

**£1,879m**
**investment value including commitments**

| | 31 March 2017 Valuation (£m) | 31 March 2017 % of portfolio | 31 March 2016 Valuation (£m) | 31 March 2016 % of portfolio |
|---|---|---|---|---|
| **Economic infrastructure businesses** | **1,622** | **86%** | 1,035 | 81% |
| Elenia | 413 | | 362 | |
| Anglian Water Group ("AWG") | 281 | | 255 | |
| Oystercatcher | 203 | | 187 | |
| Infinis | 184 | | – | |
| TCR | 164 | | – | |
| Cross London Trains ("XLT") | 126 | | 109 | |
| ESVAGT | 113 | | 122 | |
| Wireless Infrastructure Group ("WIG") | 78 | | – | |
| Valorem[1] | 60 | | – | |
| **Projects** | **216** | **12%** | 193 | 15% |
| Primary projects[1] | 63 | | 59 | |
| Operational projects | 153 | | 134 | |
| **India Infrastructure Fund** (five investments) | **41** | **2%** | 53 | 4% |
| **Total investments and commitments** | **1,879** | **100%** | 1,281 | 100% |
| **Total cash balances** | **20** | | 50 | |

1 Includes investment commitments.

## Economic infrastructure businesses

Dynamic businesses that own their asset base in perpetuity.

**Elenia**
**Finland:** regulated electricity distribution

**Anglian Water Group**
**UK:** regulated water utility

**Oystercatcher**
**Belgium, the Netherlands, Malta and Singapore:** oil product storage terminals

**Cross London Trains**
**UK:** passenger train fleet for the Thameslink franchise

**ESVAGT**
**Denmark:** emergency rescue and response vessels and wind farm maintenance support vessels

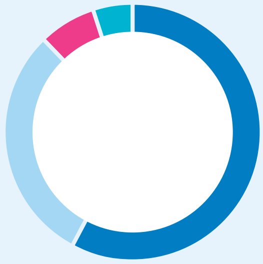
**Infinis**
**UK:** generator of electricity from landfill gas (new investment in the year)

**TCR**
**Belgium:** ground support equipment in airports (new investment in the year)

**Wireless Infrastructure Group**
**UK:** communication towers (new investment in the year)

**Valorem**
**France:** onshore wind developer (new investment in the year)

**Economic infrastructure businesses by sector[1]**
at 31 March 2017




## Greenfield Projects

Concession-based projects in construction ("primary") or in operation.

**Primary projects**

**A9** and **A27/A1,** two road projects in the Netherlands

**Condorcet Campus,** an educational facility project in France

**Hart van Zuid,** a social accommodation project in the Netherlands

**La Santé,** a secure accommodation project in France

**Mersey Gateway,** a bridge project in the UK

**RIVM,** a government project in the Netherlands

**Operational projects**

**A12**, a road project in the Netherlands (operational status in the year)

**Ayrshire College**, an educational facility project in the UK (operational status in the year)

**Dalmore Capital Fund**, an operational PFI portfolio in the UK

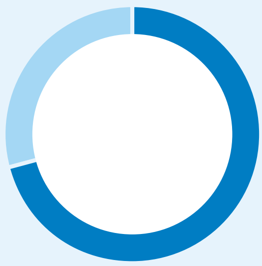
**Elgin**, a portfolio of 16 school and community health care facilities in the UK

**National Military Museum** ("NMM"), a museum facilities project in the Netherlands

**Octagon**, a healthcare facilities project in the UK

**West of Duddon Sands** ("WODS"), an offshore electricity transmission project in the UK

**Projects by type[1]**
at 31 March 2017




1 By value, includes investment commitments.

# Our objectives and strategic priorities

## Our objectives

Our objectives are to provide shareholders with a total return of 8% to 10% per annum, to be achieved over the medium term, with a progressive annual dividend per share.

We aim to achieve this by maintaining a balanced portfolio of infrastructure investments delivering a mix of income yield and capital growth.

The Company invests in businesses where the downside risk protection inherent in infrastructure investments is complemented by an acceptable level of demand risk or by appropriate growth opportunities.

We drive value by adding new investments selectively, through our engaged asset management approach and by maintaining an efficient balance sheet.

The Company typically invests with a long-term hold perspective, although it may realise investments when we believe a sale would maximise value for shareholders.

## Clear strategic priorities

### Maintaining a balanced portfolio

Delivering an attractive mix of income yield and capital growth for our shareholders

Investing in a diversified portfolio in developed markets, with a focus on the UK and Europe

### Disciplined approach to new investment

Focusing selectively on investments that are value enhancing to the Company's portfolio and with returns consistent with our objectives

### Managing the portfolio intensively

Driving value from our portfolio through our engaged asset management approach

Delivering growth through platform investments

### Maintaining an efficient balance sheet

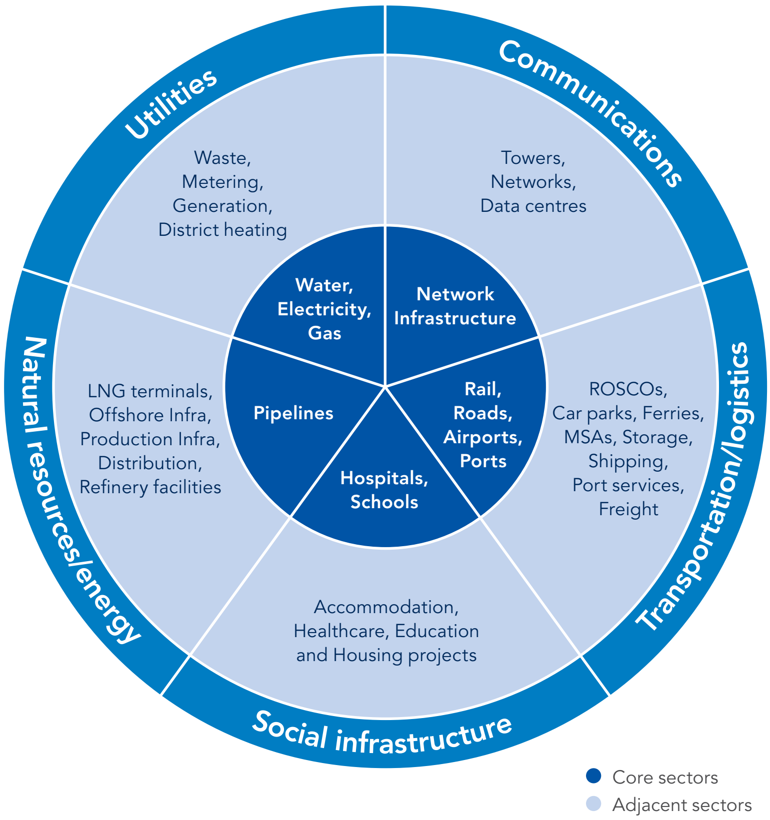
Minimising return dilution to shareholders from holding excessive cash, while retaining a good level of liquidity for future investment

# The infrastructure asset class

## Infrastructure assets typically have a low correlation with other asset classes, including listed equities, real estate and fixed income.

The quality and predictability of their cash flows tend to provide for stable returns to shareholders over time.

We aim to invest across a range of economic infrastructure sectors and in greenfield projects.




## Target investment characteristics

### Asset intensive or long-term concessions

Businesses with a significant asset base that they own in perpetuity, or long-term concessions backed by robust regulatory frameworks, generating stable long-term cash flows

### Essential services

Businesses that provide essential services to the communities in which they operate, or to other businesses operating in markets with high barriers to entry and providing some downside protection

### Acceptable element of market/usage risk

Downside protection from limited competition

Potential upside through an acceptable level of demand risk

### Opportunities to enhance value

Partnering with management teams and/or operational partners to deliver enhancements to the current business plan or to develop appropriate growth opportunities

### Target sectors

For economic infrastructure – focus on investments within the core and adjacent sectors outlined in the diagram above

For projects – focus on greenfield projects

### Geographical focus

Developed markets, principally the UK and Europe

# Market conditions

The sustained low interest rate environment and macro-economic uncertainty have continued to drive demand for long duration assets with stable cash flows.

Over recent years, this has resulted in significantly increased competition for infrastructure assets, where cash yields and the relative insensitivity to economic cycles make the asset class attractive for investors.

Competition for new investments in infrastructure assets comes from existing specialist financial investors and fund managers, as well as from large pension funds, sovereign wealth funds and insurance companies, a number of which have direct investment capabilities. Underlying investors continue to increase their allocations to the infrastructure sector and overall remain under-invested relative to target allocations.

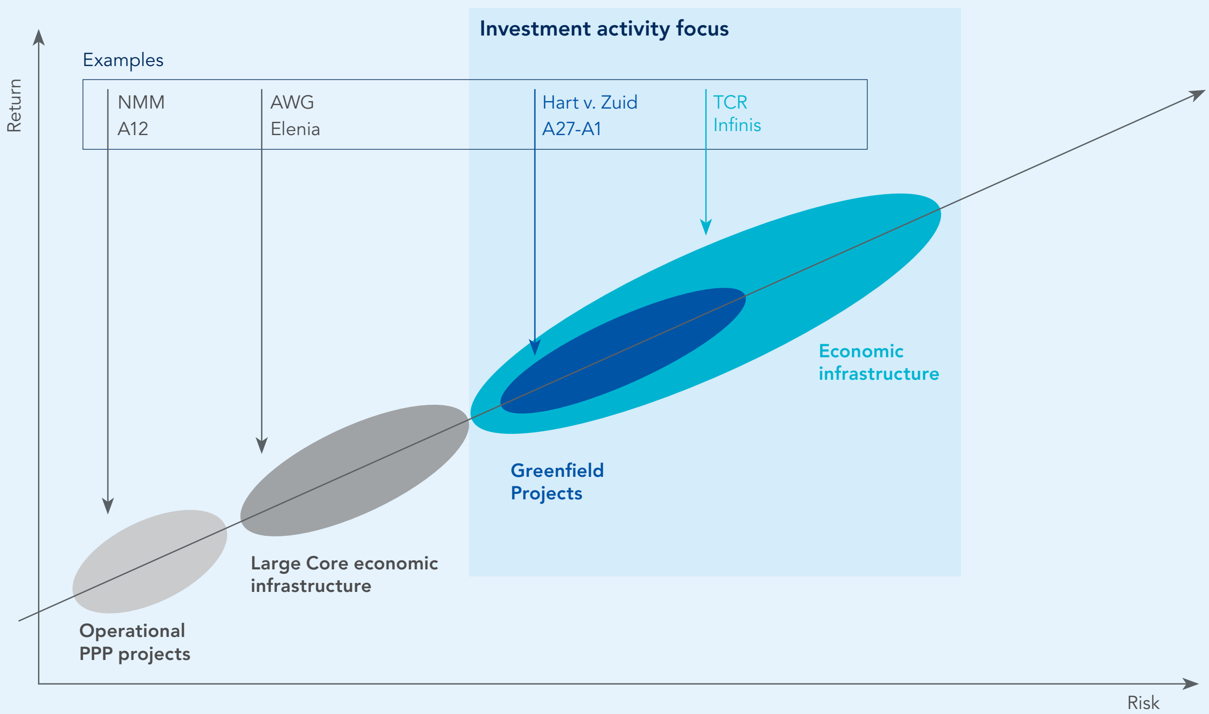
This increase in demand, combined with the availability of debt finance for infrastructure investment on attractive terms, has driven the price of infrastructure assets materially higher and therefore projected returns lower.

This trend has been most evident in the market for large core economic infrastructure assets. Over the recent past, this compression in returns has had a materially positive impact on the value of the Company's investments, many of which were purchased in a more favourable projected returns environment.

## Market conditions have shaped our investment activity to focus on:

- mid-market economic infrastructure businesses in the core and adjacent sub-sectors shown on page 7;
- economic infrastructure businesses with characteristics that can be managed to enhance value over the period of ownership, including for example some level of demand or market risk; and
- greenfield projects.

### Market segmentation and investment focus



# Our target markets for new investment

## Economic infrastructure businesses
Dynamic businesses that own their asset base in perpetuity

**Businesses generally:**
- own their asset base in perpetuity
- provide essential services
- have a strong market position
- generate stable cash flows

Some businesses may have some characteristics which, through an engaged asset management approach, can enhance returns, including:
- growth opportunities
- demand/market dynamics
- greater operational complexity

**£50–250m**
Typical range of equity investments

**9–14%**
Typical range of returns per annum

### Our approach
We originate investments through the Investment Adviser's dedicated team based in London and Paris, as well as drawing from its broader European network of offices.

We generate returns during our ownership through the Investment Adviser's engaged asset management approach.

The Investment Adviser represents the Company on the boards of our investments, engaging with senior management to support the development and execution of their strategy.

We will sell investments when a sale would maximise value for our shareholders.

## Greenfield projects
Concession-based projects in construction ("primary") or in operation

PPPs to build, commission and operate infrastructure such as government buildings, social infrastructure and roads

Low-risk energy projects, other means of energy generation, transmission and storage, telecommunications, accommodation and transportation projects

**£5–50m**
Typical range of equity investments

**9–12%**
Typical range of returns per annum

### Our approach
Our approach is to originate attractive opportunities through the Investment Adviser's relationships with project developers, including construction companies.

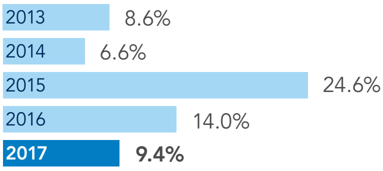
We also leverage the Investment Adviser's expertise in the assessment and management of construction risk.

We generate returns by managing greenfield projects through their construction phase and operational ramp-up.

Once projects become operational, they can be held for yield or sold to crystallise value.

# Key performance indicators

## Total return
% of opening Net Asset Value




**Target**
To provide shareholders with a total return of 8% to 10% per annum, to be achieved over the medium term.

**Outcome for the year**
Total return of 9.4% for the year to 31 March 2017.

**Performance against target**
Within target range.

### Rationale and definition
- Total return is how we measure the overall financial performance of the Company
- Total return comprises the investment return from the portfolio and income from any cash balances, net of advisory and performance fees and operating and finance costs. It also includes movements in the fair value of derivatives and taxes
- Total return, measured as a percentage, is calculated against the opening net asset value, net of the final dividend for the previous year, and adjusted (on a time weighted average basis) to take into account any equity issued and capital returned in the period

### Performance over the year
- Total return of £146 million in the year, or 9.4% on opening net asset value, adjusted for the new equity raised
- The return was driven by the good performance of the portfolio, including strong distributions from Elenia and a valuation uplift from XLT where 42 trains were accepted by the franchise holder
- The decline in sterling against the euro has benefited the Company, net of the impact of the hedging programme which continues to reduce the volatility in net asset value from exchange rates
- Costs were managed in line with expectations

## Annual distribution
pence per share


**Target**
Progressive dividend per share policy.

Targeting a full year dividend for FY17 of 7.55 pence per share.

**Outcome for the year**
Total dividend of 7.55 pence per share paid and proposed.

**Performance against target**
Target delivered.

### Rationale and definition
- This measure reflects the dividends distributed to shareholders each year
- The Company's business model is to generate returns from portfolio income and capital returns (through value growth and realised capital profits). Income, other portfolio company cash distributions and realised capital profits generated are used to meet the operational costs of the Company and distributions to shareholders
- The dividend is measured on a pence per share basis, and is targeted to be progressive

### Performance over the year
- Proposed total dividend of 7.55 pence per share, or £78 million, in line with the target set out at the beginning of the year
- Income generated from the portfolio and cash deposits, including non-income cash distributions and other income from portfolio companies, totalled £106 million for the year. Operational costs and finance costs used to assess dividend coverage totalled £31 million in the year. The resulting dividend coverage shortfall of £3 million is covered by accumulated realised profits
- Setting a total dividend target for FY18 of 7.85 pence per share

Portfolio balance was removed as a Key performance indicator during the year as the Directors considered that the value of the portfolio invested in economic infrastructure was consistently above the target of 75% of the portfolio.

# Investment Adviser's review



# Review from the Managing Partner

> We successfully deployed all of the proceeds from the capital raise, further enhancing the quality and diversity in our portfolio.

We have had a successful year, adding six new investments to the portfolio. The new investments, along with the existing portfolio, are performing well, driving growth in NAV and the continued progression of the Company's income during the year.

## 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 execution of new investments, on the management of the portfolio and on realisations, as well as on funding requirements. 3i Group was among the subscribers to the Company's Initial Public Offering in 2007 and subsequent offer in 2008 and, most recently, the £385 million capital raise completed on 10 June 2016. 3i Group owns approximately 34% of the equity in the Company.

The investment advisory team is managed as a separate business line within 3i Group and operates from offices across 3i's European network, focusing on both origination and portfolio management. The team of investment professionals has significant experience of investing in, and managing, infrastructure assets. The team also draws on 3i Group's broader network of investment professionals and relationships to originate infrastructure investment opportunities. The Investment Adviser has a dedicated team in Mumbai to manage the assets in the India Infrastructure Fund and 3i Group recently announced the launch of its North American infrastructure business.

The profiles of the key members of the investment advisory team are on **page 16**.

**Phil White**
Managing Partner, Infrastructure, 3i Investments plc
10 May 2017

## Our investment approach

The Investment Adviser aims to provide the Company with access to attractive investment opportunities focusing selectively on transactions that are value enhancing to the portfolio. We implement our investment approach through the Investment Adviser's team of approximately 25 dedicated investment professionals based in London and Paris, as well as through its broader European network of offices.

This platform provides us with a comprehensive coverage of our target markets, as well as the asset management skills to drive value from our investment portfolio.

### The Investment Adviser will:

- engage with portfolio company management at board level to define the strategic direction and business plan;
- implement an efficient and prudent capital structure to optimise funding costs and which is appropriate for the business's risk profile;
- drive operational performance and disciplined cash management to support both income yield and capital growth;
- invest in the underlying asset base to support profitable growth over the longer term;
- assess acquisitions if suitable opportunities arise;
- access its network of industry specialists and senior management to bring in expertise and/or bolster management teams; and
- apply a clear and comprehensive Responsible Investment policy which is embedded into its investment and portfolio monitoring processes.

## Implementation of our investment approach

In highly competitive markets, and in line with the Company's strategic priorities, the Board and the Investment Adviser focused on:

### Broadening the Company's portfolio with complementary investments in the Company's key target markets, investing the proceeds from the recent capital raise

The Investment Adviser has continued to target attractive risk-adjusted returns in mid-market economic infrastructure businesses as well as greenfield projects, consistent with the Company's investment focus (outlined on pages 6 to 9). Where possible, the Investment Adviser seeks to secure investments on a bilateral basis, minimising the transaction costs for the Company.

We have benefited significantly from the strength and breadth of 3i Group's network of offices and relationships across Europe, which were influential in securing several of the new investments completed this year, as well as providing valuable support to our asset management activities.

During the year, the Company invested or committed £479 million, including the proceeds from the capital raise, into its target markets. The majority of the investment in the year was into mid-market economic infrastructure businesses:

- £75 million into the independent communications infrastructure provider Wireless Infrastructure Group ("WIG");
- €189 million into TCR, Europe's largest independent owner of airport ground support equipment;
- €69 million into Valorem, the renewable energy development and operating company; and
- £185 million to acquire Infinis plc, the leading generator of electricity from landfill gas in the UK.

The Company also committed to invest approximately €5 million to acquire a significant majority stake in Coeur du Sud B.V., a vehicle created for the Hart van Zuid greenfield PPP project in Rotterdam, Netherlands.

The Company committed to invest €7 million into 3Angle, a consortium comprising the Company, Fluor and Heijmans. 3Angle will design, build, manage, maintain and finance the existing and new infrastructure of the A27 and A1 roads in the Netherlands.

These new investments have added significant diversification to the Company's portfolio, which is now much better balanced across a range of countries, sectors and risk factors. This should strengthen the Company's ability to meet its return and dividend objectives over the medium term.

# Review from the Managing Partner

continued

## Driving value from the economic infrastructure portfolio

The Company's portfolio continues to perform in line with expectations. Consistent with the strategic priorities outlined on page 6, the Investment Adviser has continued to engage with portfolio company management teams to enhance the portfolio's value.

Elenia has continued its capital expenditure programme aimed at improving network reliability, with an emphasis on weather proofing. The rate of underground cabling has reached 38%, up from 23% at the start of 2012. The company has taken advantage of its customer services capability by agreeing to provide third-party customer services to a neighbouring network operator.

£185m

**investment to acquire the whole of Infinis**

The Investment Adviser has continued to work closely with the management of Cross London Trains ("XLT"), Siemens and GTR to overcome the initial delays in the acceptance programme. The acceptance of units by GTR continued throughout the year, with 42 trains accepted and running on the Thameslink network as at the end of March 2017. The delivery programme is scheduled to complete in 2018. The Company also invested an additional £0.9 million of equity to fund its share of the cost of a variation order to fit future trains being manufactured by Siemens with wifi and seatback tables.

ESVAGT signed a binding agreement with Hess, a prominent independent energy company, to provide safety and support services at the South Arne field in the Danish sector of the North Sea for a period of 12 years, continuing a successful 17-year partnership at the field. ESVAGT's services will be performed by a new, purpose-built vessel, scheduled for delivery in 2018. The "ESVAGT Connector" vessel will provide support to Hess until the new vessel is delivered.

Since the Company's investment, 57MW of Valorem-owned projects have been commissioned or entered construction, which will add to the 142MW in operation at the time of investment. Valorem has continued to grow its pipeline of projects and has applied for permits and tariffs for 450MW of its wind pipeline under the French 2016 subsidy regime, following the approval of this regime by the EU Commission.

42

**trains accepted and running on the Thameslink network**

Infinis repaid its outstanding 7.0% senior notes due in 2019, utilising a debt facility put in place by the Investment Adviser at acquisition.

Part of the Oystercatcher bank facility was refinanced through long dated private placement funding in Singapore dollars. The refinancing extends Oystercatcher's debt maturity profile and provides a natural currency hedge for distributions from the terminal located in Singapore.

The Investment Adviser continues to work with the Company's portfolio companies to assess new investment and capital expenditure programmes, as well as value accretive acquisitions.

6

**number of new investments during the year**

### Building the investment advisory team's capabilities to broaden the Company's access to attractive investment opportunities

The investment advisory team was expanded during the year through the recruitment of a number of investment professionals, focused principally on the origination, execution and management of investment opportunities to expand the coverage of the Company's key target markets and enhance our asset management capability. The Investment Adviser also made additional hires into the finance team.

The majority of the new hires are based in London, but we also added to our Paris team and we have recently made several new appointments in New York as the foundation of our North American infrastructure business.

### Continuing to manage the assets in the India Fund

The Investment Adviser aims to realise value from the assets in the India Fund over the next few years and is making progress towards that objective. During the year, proceeds were received from the sale of Ind-Barath Energy and the Investment Adviser sold the remaining shares in Adani Power.

56

**strong investment advisory team**

## Outlook

The Company delivered a good return during the year, underpinned by the performance of the portfolio and favourable exchange rate movements.

Although the full implications of the result of the EU Referendum remain unclear, increased market and political uncertainty is continuing to drive capital towards investments in both UK and continental European infrastructure assets. With interest rates remaining at all-time lows, demand for large core economic infrastructure investments, in Europe particularly, continues to be very strong with recent transactions providing further evidence of low projected returns. This has continued to benefit the valuation of the Company's existing portfolio of economic infrastructure investments. With these market dynamics, we have retained our investment focus on areas of the infrastructure market which offer more attractive risk-adjusted returns, such as mid-market economic infrastructure businesses, as well as primary PPP projects.

The new investments completed by the Company in the year demonstrate our ability to continue to access attractive investments in our target markets. By successfully investing the proceeds from the recent capital raise, the Company has increased its geographical and sector diversification. The new investments have made a good contribution to portfolio income in the current financial year.

As our new team in North America starts to invest, we will work with the Board to evaluate the suitability for the Company of broadening its geographic focus to include that market.

We continue to see a good flow of new investment opportunities, but we remain disciplined to invest selectively and focused on maintaining a balanced and attractive portfolio for shareholders.

# Investment advisory team
## Profiles of senior members

### Phil White
Managing Partner

Phil joined 3i in 2007 and is Managing Partner and Head of 3i's Infrastructure business and a member of 3i's Executive Committee, Investment Committee and Group Risk Committee. Prior to joining 3i, he was Division Director in Macquarie's Infrastructure Funds business, where he managed investments in the transport sector. Phil has over 20 years of infrastructure investment, advisory and finance experience from earlier roles at Barclays and WestLB. Phil holds board positions at Anglian Water Group, Elenia and the Oiltanking companies.

### James Dawes
CFO

James is Chief Financial Officer for the 3i Infrastructure business and joined in January 2016. He manages the operational, financial and reporting requirements for the Infrastructure business within 3i Group, as well as performing CFO duties for 3i Infrastructure plc. Prior to joining 3i, James was with Legal & General Investment Management, where he held a number of senior finance roles, including Finance Director of LGV Capital from 2007 to 2015.

### John Cavill
Partner

John joined 3i in November 2013, following 3i's acquisition of Barclays Infrastructure Funds Management Limited ("BIFM"). He joined BIFM in 2009. He leads the portfolio management activity for the projects portfolio and is responsible for: setting the strategy for asset management activities; overseeing implementation of value protection and enhancement activities; and overseeing performance reporting. He works closely with investee company non-executive directors and Infrastructure Managers Limited, the business's main SPV management services provider. Previously John was a Director at St Modwen Properties PLC, Land Securities Trillium and Vinci Investments, where he led PPP/PFI bidding activity.

### Stéphane Grandguillaume
Partner

Stéphane is a Partner in 3i's Infrastructure team in Paris and joined 3i in November 2013, following 3i's acquisition of BIFM, which he joined in 2006. Stéphane leads 3i's infrastructure business in France and is responsible for origination and execution of investment opportunities in projects across Europe. Stéphane led the recent investment in Valorem. Previously, Stéphane was head of Egis Investment Partners.

## Nigel Middleton

**Partner**

Nigel is a Partner in 3i's Infrastructure team in London and joined 3i in November 2013, following 3i's acquisition of BIFM. He joined that business in 2002, having previously been head of PFI/PPP Advisory Services at PwC. Nigel led the involvement of that business in the formation and management of Infrastructure Investors ($I^2$), a pioneering secondary market infrastructure fund, in which BIFM had a joint venture interest alongside Société Générale and 3i. He was also instrumental in establishing, and continues to manage, BIIF, a long-term "buy and hold" PPP fund which acquired $I^2$ in 2009.

## Scott Moseley

**Partner**

Scott joined 3i in 2007 and is a Partner in the Infrastructure team, and with Bernardo leads the team's new investment origination and execution platform. He has 15 years' experience in European Infrastructure, spanning utilities, transportation and social infrastructure. Scott led the investments in ESVAGT, Elenia and Cross London Trains, as well as being a senior deal team member on Eversholt. He was also responsible for the successfully exited junior debt investments in Arqiva, Associated British Ports, Télédiffusion de France, Thames Water and Viridian. He is currently a Director on the boards of ESVAGT and Cross London Trains.

## Bernardo Sottomayor

**Partner**

Bernardo is a Partner in 3i's Infrastructure team in London and joined 3i in October 2015, and with Scott leads the team's new investment origination and execution platform. He was a senior deal team member on the recent investment by 3i Infrastructure in TCR. Bernardo was most recently a Partner at Antin Infrastructure, which manages funds investing in infrastructure opportunities across Europe. Prior to Antin, Bernardo was Managing Director, Head of Acquisitions for Deutsche Bank's European infrastructure fund. His prior experience was in utilities, as Head of M&A at Energias de Portugal, and in infrastructure advisory with UBS and Citigroup.

# Portfolio

Table 1 summarises the valuation and movements in the portfolio, as well as the return for each investment, for the year. In accordance with accounting standards, "Investments at fair value through profit or loss" as reported in the Consolidated balance sheet includes, in addition to the portfolio asset valuation, the cash and other net assets held within intermediate unconsolidated holding companies. These amounts are set out at the foot of the table below, to provide a reconciliation between the Directors' valuation of the portfolio assets and "Investments at fair value through profit or loss" reported in the Consolidated financial statements. The basis of the portfolio information set out below is consistent with analyses in previous periods.

**Table 1: Portfolio summary** (31 March 2017, £m)

| Portfolio assets | Directors' valuation 31 March 2016 | Investment in the year | Divestment in the year | Value movement | Foreign exchange translation | **Directors' valuation 31 March 2017** | Allocated foreign exchange hedging | Profit/ (loss) on disposal | Underlying portfolio income in the year | **Asset total return in the year** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic infrastructure businesses** | | | | | | | | | | |
| Elenia | 362.4 | 0.6[1] | (18.6)[1] | 41.0 | 27.7 | **413.1** | (23.9) | – | 19.5 | **64.3** |
| AWG | 255.0 | – | – | 25.8 | – | **280.8** | – | – | 7.1 | **32.9** |
| Oystercatcher | 186.9 | – | – | (5.4) | 21.8 | **203.3** | (17.8) | – | 17.1 | **15.7** |
| Infinis | – | 185.0 | – | (1.3) | – | **183.7** | – | – | 3.8 | **2.5** |
| TCR | – | 150.9 | – | 2.5 | 10.7 | **164.1** | (5.8) | – | 7.4 | **14.8** |
| XLT | 108.7 | 0.9 | – | 16.0 | – | **125.6** | – | – | 4.8 | **20.8** |
| ESVAGT | 121.6 | – | – | (18.9) | 10.0 | **112.7** | (8.6) | – | 11.5 | **(6.0)** |
| WIG | – | 74.7 | – | 3.7 | – | **78.4** | – | – | 4.1 | **7.8** |
| Valorem | – | 47.9 | – | 1.7 | 0.4 | **50.0** | (0.3) | – | 1.2 | **3.0** |
| | **1,034.6** | **460.0** | **(18.6)** | **65.1** | **70.6** | **1,611.7** | **(56.4)** | **–** | **76.5** | **155.8** |
| **Projects** | | | | | | | | | | |
| Primary projects[2] | 0.1 | – | – | – | – | **0.1** | – | – | – | **–** |
| Operational projects | | | | | | | | | | |
| Elgin | 45.7 | – | (0.2)[1] | 3.2 | – | **48.7** | – | – | 2.5 | **5.7** |
| Octagon | 42.0 | – | – | 3.6 | – | **45.6** | – | – | 2.9 | **6.5** |
| WODS | 22.4 | 0.1[1] | (0.9)[1] | 0.2 | – | **21.8** | – | – | 1.8 | **2.0** |
| Dalmore | 18.3 | – | (0.5)[1] | (0.2) | – | **17.6** | – | – | 0.5 | **0.3** |
| NMM | 6.1 | – | – | 1.9 | 0.5 | **8.5** | (0.4) | – | 0.3 | **2.3** |
| Ayrshire College | – | 4.6[3] | – | 0.4 | – | **5.0** | – | – | 0.4 | **0.8** |
| A12 | – | 4.5[3] | – | 1.5 | – | **6.0** | – | – | 0.2 | **1.7** |
| | **134.6** | **9.2** | **(1.6)** | **10.6** | **0.5** | **153.3** | **(0.4)** | **–** | **8.6** | **19.3** |
| **India Fund** | | | | | | | | | | |
| 3i India Infrastructure Fund | 52.9 | – | (13.0) | (5.7) | 6.7 | **40.9** | – | (0.6) | – | **0.4** |
| **Total portfolio** | **1,222.1** | **469.2** | **(33.2)** | **70.0** | **77.8** | **1,805.9** | **(56.8)** | **(0.6)** | **85.1** | **175.5** |
| Balance sheet adjustments related to unconsolidated subsidiaries[4] | 6.7 | – | 0.2 | 2.8 | – | **9.7** | – | – | – | **–** |
| Income statement adjustments related to unconsolidated subsidiaries[4] | – | – | – | – | – | **–** | (1.9) | – | (4.6) | **(3.7)** |
| **Reported in the Consolidated financial statements** | **1,228.8** | **469.2** | **(33.0)** | **150.6** | **–** | **1,815.6** | **(58.7)** | **(0.6)** | **80.5** | **171.8** |

1 Capitalised income and shareholder loan repaid in the year.
2 Investments in the Mersey Gateway Bridge, A9, La Santé, RIVM, Condorcet Campus, Hart van Zuid and A27/A1 primary projects.
3 Drawdown of commitment.
4 Income statement adjustments explained in Table 9 and Balance sheet adjustments explained in Table 10 in the Financial review.

# Investment and realisation activity

## Investment

The Company invested a total of £468.5 million in the year, comprising £458.5 million in four mid-market economic infrastructure businesses, a £0.9 million follow on investment in XLT and £9.1 million in two existing projects, Ayrshire College and A12, which became operational in the year.

In a competitive market, the new investments are a strong endorsement of the Company's investment strategy and the Investment Adviser's ability to source investment opportunities that are capable of delivering attractive risk-adjusted returns, in line with the Company's objectives.

## Economic infrastructure businesses

On 9 June 2016, the Company completed the acquisition of a 36% economic interest in WIG, investing approximately £75 million. WIG is an independent communications infrastructure provider headquartered in Scotland. The business builds and operates communication towers and other wireless infrastructure, mainly in the UK, to enable the connection between networks and the communities that rely on their services.

On 27 July 2016, the Company completed an investment of €189 million in TCR. Headquartered in Brussels, TCR is Europe's largest independent owner of airport ground support equipment and operates in over 100 airports. The equipment that TCR provides to its clients is critical infrastructure, without which some of Europe's busiest airports could not operate.

On 12 September 2016, the Company completed a €57 million investment in the renewable development and operating company Valorem. Headquartered in Bègles, France, Valorem is a leading independent renewable energy development and operating company, having developed over 480MW of capacity over the last 10 years. Valorem benefits from a critical mass of operating assets and a strong pipeline of further projects at a well advanced development stage. The Company has committed to provide €12 million of further capital to support Valorem's growth strategy.

On 8 December 2016, the Company completed the acquisition of Infinis for £185 million. Infinis is the leading generator of electricity from landfill gas in the UK. Infinis has 121 operating sites and seven outsourced sites dispersed across the UK with installed generation capacity of over 300MW.

On 23 January 2017, the Company invested a further £0.9 million in XLT to support the installation of wifi and seatback tables on new trains to be manufactured by Siemens.

## Greenfield projects

The Company announced on 29 April 2016 that it had committed to invest approximately €5 million to acquire a significant majority stake in Coeur du Sud B.V., a vehicle created for the Hart van Zuid greenfield project in Rotterdam, Netherlands. The €200 million project involves the renewal and revitalisation of the area surrounding the Zuidplein and Ahoy centres in Rotterdam.

The Company announced on 5 October 2016 that it had committed to invest approximately €7 million in the A27/A1 greenfield project in the Netherlands. This is a €220 million project for the reconstruction of the A27 motorway between Utrecht North and the Eemnes junction, as well as of the A1 motorway between the Eemnes junction and the Bunschoten-Spakenburg interchange.

For further information on Infinis, please go to **page 26**.

For further information on TCR, please go to **page 30**.

For further information on XLT, please go to **page 31**.

For further information on WIG, please go to **page 33**.

For further information on Valorem, please go to **page 34**.

For further information on Hart van Zuid and A27/A1, please go to **page 35**.

# Movements in portfolio value

As set out in Chart 1, the portfolio assets were valued at £1,805.9 million at 31 March 2017, compared to £1,222.1 million at the beginning of the financial year. The movement in portfolio value was driven principally by investments during the year, as well as by good value growth in the portfolio and by foreign exchange translation.

## Capital repayments and divestment proceeds

During the year, the Company received a total of £33.2 million from capital repayments and divestments. Of this amount, £18.6 million was received from Elenia, £0.9 million from WODS, £0.2 million from Elgin and £0.5 million from Dalmore in respect of previously capitalised income or loan repayments.

These proceeds arose from cash generated in the underlying companies, rather than the sale of assets. A further £12.4 million of proceeds were received from the India fund during the year, following the sale of the remaining investment in Adani Power in the year and receipt of the proceeds from the sale of Ind-Barath Energy in the previous financial year, in aggregate £0.6 million below the opening carrying value.

## Unrealised value movement

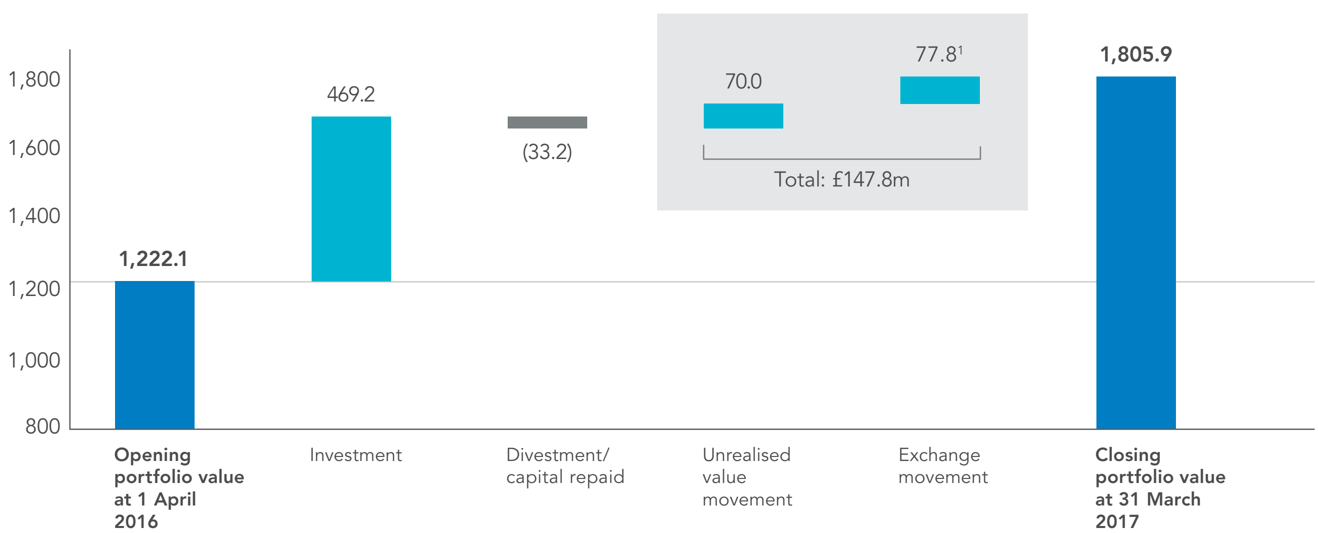
The unrealised value movement in the year, before foreign exchange impacts, totalled £70.0 million (2016: £138.6 million). Unrealised value movement represents the change in the portfolio valuation within a measurement period. Changes to portfolio valuations arise due to several factors, as shown in Table 2.

Planned value growth was the key driver of the increase in portfolio value during the year. Other asset performance, particularly in relation to regulatory regimes, had an adverse impact on value. Discount rate movements and macro-economic assumptions had a favourable impact on the total value movement in the year.

## Economic infrastructure portfolio

The economic infrastructure portfolio was valued at £1,611.7 million at 31 March 2017 (2016: £1,034.6 million) and generated an unrealised value gain of £65.1 million in the year (or £135.7 million including exchange movements). This was driven by the good operational performance of the underlying investments, in particular Elenia and AWG.

**Chart 1: Reconciliation of the movement in portfolio value** (year to 31 March 2017, £m)




1 Excludes movement in the foreign exchange hedging programme (see Table 3).

**Elenia** was valued at £413.1 million at March 2017 (2016: £362.4 million), including foreign exchange gains of £27.7 million. The business performed strongly in the year, delivering planned cash flows and distributions to the Company. The positive impact of an increase in the period in the 10 year Finnish Government bond yield, to which the allowed return is linked, was partially offset by a corresponding increase in the cost of debt. In addition, Elenia has continued to take advantage of the favourable credit market conditions and, since March 2016, has issued €207 million of new bonds with maturities between 2029 and 2034. The proceeds were used to fund capital expenditure.

**AWG** was valued at £280.8 million at March 2017 (2016: £255.0 million). The business performed well during the year, with operational performance and income levels in line with expectations and the valuation benefited from higher expectations of UK RPI. The business is on track to deliver well against its regulatory settlement for the 2015-2020 regulatory period, or AMP6.

**Oystercatcher** was valued at £203.3 million at March 2017 (2016: £186.9 million), including foreign exchange gains of £21.8 million. The five terminals continue to perform well both operationally and financially, with capacity substantially let and a good level of throughput. However, we have moderated certain assumptions for future growth and pricing. The valuation of Oystercatcher is exposed to the euro and Singapore dollar exchange rate, and the value gain included positive currency movements in the year. The euro and Singapore dollar exposures are partially hedged, as described in Table 3.

**Infinis** was valued at £183.7 million at March 2017, consistent with the investment of £185.0 million in December 2016 and the anticipated long-term decline in value as the landfill gas resource depletes. Ofgem's recently published "minded to decision" to reduce the value of certain embedded benefits that the business currently receives would if implemented reduce future revenues, and the valuation reflects our view of the expected outcome.

**TCR** was valued at £164.1 million at March 2017. The value increased since the investment of £150.9 million in July 2016 principally because of currency movements, which were partially offset by the currency hedging programme.

**Table 2: Components of value movement** (year to 31 March 2017, £m)

| Value movement component | Value movement in the year | Description |
|---|---|---|
| Planned value growth | 70.1 | Net value movement resulting from the passage of time, consistent with the discount rate and cash flow assumptions at the beginning of the year less distributions received in the year. |
| Other asset performance | (31.0) | Net movement arising from actual performance in the year and changes to future cash flow projections, including financing assumptions and changes to regulatory determination assumptions. |
| Discount rate movement | 14.1 | Value movement relating to changes in the discount rate applied to the portfolio cash flows. |
| Macro-economic assumptions | 16.8 | Value movement relating to changes to macro-economic out-turn or assumptions, eg inflation, interest rates on deposit accounts and taxation rates. This includes changes to regulatory returns that are directly linked to macro-economic variables. |
| **Total value movement before exchange** | **70.0** | |
| Foreign exchange translation | 77.8 | Movement in value due to currency translation to year-end rate. |
| **Total value movement** | **147.8** | |

# Movements in portfolio value

continued

**XLT** was valued at £125.6 million at March 2017 (2016: £108.7 million). The discount rate has been reduced following the delivery and acceptance of 42 trains and the corresponding reduction in risk in the project.

**ESVAGT** was valued at £112.7 million at March 2017 (2016: £121.6 million). ESVAGT is continuing to make good progress in the offshore wind segment. In addition, new contract wins, including the contract with Hess to provide safety and support services to the South Arne field in the North Sea, and cost savings have partly offset pressure on day rates in contract renewals for certain types of vessel. However, the low oil price environment has the potential to impact long-term demand for ERRV services. As a result, we have increased the discount rate to reflect this increased uncertainty.

**WIG** was valued at £78.4 million at March 2017, broadly in line with the investment of £74.7 million in June 2016.

**Valorem** was valued at £50.0 million at March 2017, increased from the investment of £47.9 million in September 2016, partly through currency movements.

## Projects portfolio

The projects portfolio was valued at £153.3 million at March 2017 (2016: £134.6 million). The increase in value reflects the investment of £9.1 million in the Ayrshire College and A12 projects which have reached operational status, and the good operational performance of the portfolio. We reduced slightly the discount rate for valuing UK operational projects during the year to reflect discount rate compression observed in the UK secondary PPP project market.

## 3i India Infrastructure Fund

The India Fund was valued at £40.9 million at March 2017 (2016: £52.9 million), after exchange gains of £6.7 million as the Indian rupee strengthened against sterling in the year, as shown in Table 3. Continued delays in project execution and funding constraints for the road projects, and the pricing and availability of fuel for the investments in the power sector, have resulted in a fall in value of £5.7 million in the year. The sale of the holding in Adani Power gave rise to a small loss on disposal of £0.6 million.

## Foreign exchange impact

As shown in Table 3, the reported net foreign exchange gain on investments of £21.0 million included a gain of £6.7 million from the Company's exposure to the Indian rupee, which is not hedged and gained in value by 10% against sterling in the year.

There was a £77.8 million foreign exchange gain as sterling weakened against other currencies in the year. This was partially offset by a £56.8 million loss on the hedging programme. The hedging programme has been designed to reduce the volatility in the net asset value of the Company from currency movements.

During the year, the Company's hedging programme was expanded to include the new investments in TCR and Valorem. The target hedge ratio of the investment in TCR, a euro investment, has been set to reflect a proportion of underlying cash flows which are in sterling.

**Table 3: Impact of foreign exchange movements on portfolio value** (year to 31 March 2017, £m)

| | £/rupee | £/€/SGD/DKK | Net impact |
|---|---|---|---|
| Translation of unhedged assets (£/rupee) | 6.7 | – | 6.7 |
| Translation of partially hedged assets (£/€/SGD/DKK) | – | 71.1 | 71.1 |
| **Reported foreign exchange gains on investments** | **6.7** | **71.1** | **77.8** |
| Movement in the fair value of derivative financial instruments (€/SGD/DKK hedging) | – | (56.8) | (56.8) |
| **Net foreign exchange gains** | **6.7** | **14.3** | **21.0** |

## Summary of portfolio valuation methodology

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

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

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

- earnings multiples;
- recent transactions;
- quoted market comparables; and
- regulated asset base multiples.

Chart 2 shows the movement in the weighted average discount rate applied to the portfolio at the end of each year since the Company's inception and the position as at March 2017. During the year, the weighted average discount rate was updated to reflect the addition of the investments in Infinis, WIG, TCR and Valorem in the portfolio.

### 3i India Infrastructure Fund and Dalmore Capital Fund

The Company's investments in the India Fund and in the Dalmore Capital Fund were valued as the Company's share of net assets held by those funds.

Within the India Fund valuation, Krishnapatnam Port was valued on the basis of estimated settlement proceeds. All other investments were valued on an underlying DCF basis.

All of Dalmore Capital Fund's underlying investments were valued on a DCF basis.

## Investment track record

As shown in Chart 3 on page 24, since its launch in 2007, 3i Infrastructure has built a portfolio that has provided:

- significant income, supporting the delivery of an increasing annual dividend;
- consistent capital growth; and
- strong capital profits from realisations.

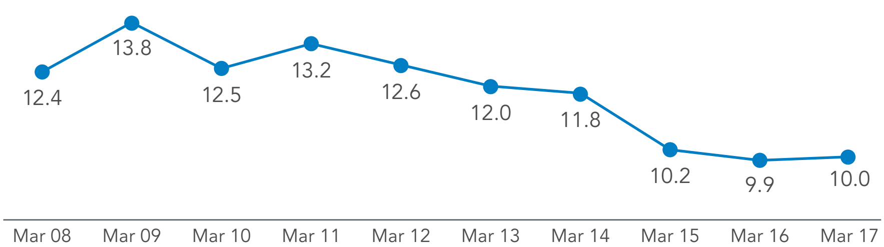
These have underpinned a 17% annualised asset IRR since the Company's inception. The european portfolio generated strong returns, in line with, or in many cases ahead of, expectations.

These returns were underpinned by substantial cash generation in the form of income or capital profits. Indeed, most investments have returned a significant proportion of their cost through income in a relatively short time.

The value created through this robust investment performance was crystallised in a number of instances through well managed realisations, shown as "Realised assets" in Chart 3. While the Company is structured to hold investments over the long term, it has sold assets where compelling offers have generated additional shareholder value. This was the case with Eversholt Rail in 2015, which generated an IRR in excess of 40%.

The valuation of the India Fund has continued to be affected by currency and macro-economic issues, as well as a number of issues related to specific investments.

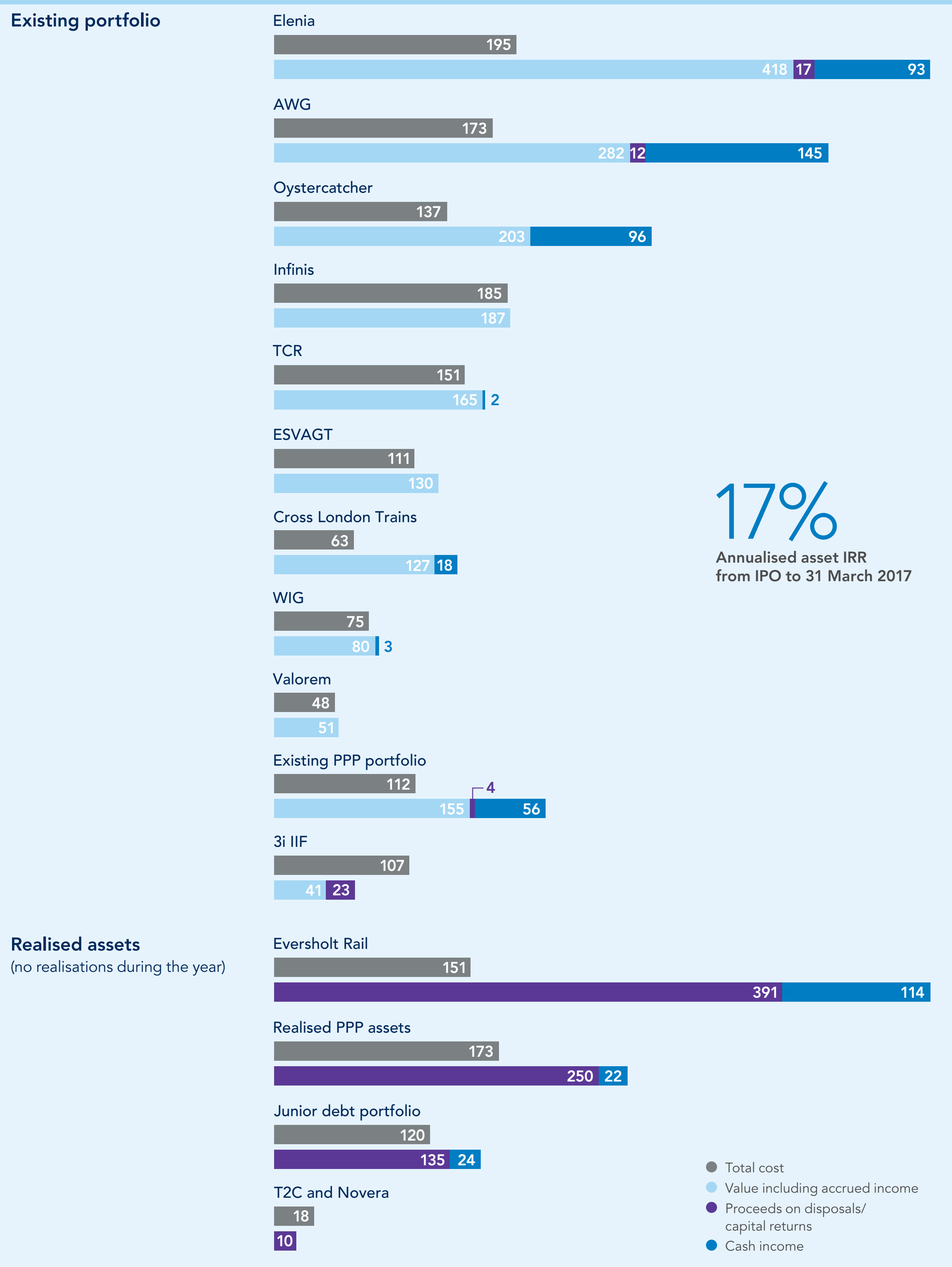
**Chart 2: Portfolio weighted average discount rate** (31 March 2017, %)



# Movements in portfolio value

continued

**Chart 3: Portfolio asset returns throughout holding period** (since inception, £m)



# Review of investments



# Infinis – new investment

New investment in the second half of the year, providing further diversification to the portfolio and a strong yield.

## Performance

| | |
|---|---|
| Cost | £185.0m |
| Closing value | £183.7m |

| | |
|---|---|
| **Ownership** | 100% |
| **Date invested** | December 2016 |
| **Management team HQ** | Northampton, UK |
| **Country** | UK |
| **Currency** | GBP |
| **Sector** | Utilities |

## Infinis and its market

Infinis, a new investment completed in the year, is the largest generator of electricity from landfill gas ("LFG") in the UK, with a portfolio of 121 landfill sites and total installed capacity of over 300MW.

LFG is produced by decomposing organic matter in landfill sites. If released into the atmosphere unchecked, LFG contributes to pollution and is a potent greenhouse gas. By extracting LFG from landfill sites, Infinis fulfils an essential role in helping landfill operators meet their environmental compliance obligations. By using the collected LFG to generate electricity, Infinis supplies distribution networks with a consistent source of baseload power.

## Investment rationale

The investment in Infinis is foremost a yield play. Its front-ended cashflows balance other recent investments by the Company in more growth-oriented businesses. Revenues are underpinned by the inflation-linked UK Renewables Obligation Certificate ("ROC") regime until 2027.

Infinis could also become a platform to make new investments in activities such as distributed power generation from other gas sources, distributed energy storage by exploiting the business's spare engine and grid connection capacity, and additional landfill gas sites.

## Developments since acquisition

Infinis repaid its outstanding 7.0% senior notes due 2019, utilising a debt facility put in place by the Investment Adviser at acquisition. The new facility was provided by BNP Paribas Fortis S.A./N.V., Lloyds Bank PLC and The Royal Bank of Scotland.

For further information about our Infinis investment, see our website **www.3i-infrastructure.com**

# Elenia


## Performance

| | |
|---|---|
| Cost | £194.8m |
| Closing value | £413.1m |

| | |
|---|---|
| **Ownership** | 39.3% |
| **Date invested** | January 2012 |
| **Management team HQ** | Tampere, Finland |
| **Country** | Finland |
| **Currency** | EUR |
| **Sector** | Utilities |

## Developments in the year

Overall, both of Elenia's businesses (electricity distribution and district heating) continued to perform well operationally and financially.

During the year, Elenia continued its capital expenditure plans aiming at improving network reliability. Since acquisition in January 2012, Elenia has invested approximately €500 million, with a particular emphasis on improving weather proofing: the rate of underground cabling reached 38% as at 31 December 2016.

In parallel, Elenia has continued to take advantage of the favourable credit market, issuing new bonds during the financial year with maturities between 2029 and 2034 on attractive terms.

During the year, Elenia concluded an agreement to provide third-party customer services to Jyväskylän Energia ("JE"), a neighbouring operator and six JE employees transferred to Elenia at the start of 2017.

## Electricity Market Act amendments

On 3 June 2016, the Finnish Energy Ministry issued a draft bill capping tariff increases at 15% per 12-month period. The proposed amendment is expected to become law in 2017 following the ongoing review by Parliament. The amendment as currently drafted would not impact Elenia's business plan.

## Outlook

As announced on 15 January 2016, the shareholders in Elenia are undertaking a strategic review of their interests in the business. The shareholders continue to evaluate options and no decisions have been made.

For further information about our Elenia investment, see our website **www.3i-infrastructure.com**

# Anglian Water Group ("AWG")


## Performance

| | |
|---|---|
| Cost | £161.9m |
| Closing value | £280.8m |

| | |
|---|---|
| **Ownership** | 10.3% |
| **Date invested** | March 2007 |
| **Management team HQ** | Huntingdon, UK |
| **Country** | UK |
| **Currency** | GBP |
| **Sector** | Utilities |

## Developments in the year

AWG continues to perform well, with operational performance and income levels in line with expectations. There have been no major operational incidents during the year and water resource levels are normal for this point in the year despite a dry winter. The company remains focused on implementing its cost efficiency and capital spending programmes to drive value through the current regulatory period (2015–2020).

## Non-household retail market opening

AWG was ready for the split of the retail and wholesale businesses, when the non-household retail market opened on 1 April 2017. The company has agreed to enter into a joint venture with Northumbrian Water to exploit opportunities in this market.

For further information about our investments, see our website
**www.3i-infrastructure.com**

# Oystercatcher

Oiltanking


## Performance

| | |
|---|---|
| Cost | £137.1m |
| Closing value | £203.3m |

| | |
|---|---|
| **Ownership** | 45% |
| **Date invested** | August 2007 and June 2015 |
| **Management team HQ** | Various |
| **Country** | Netherlands, Belgium, Malta and Singapore |
| **Currency** | EUR |
| **Sector** | Transportation/ Logistics |

## Developments in the year

Overall, the five terminals are performing well, with revenues in line with or above budgeted levels. Each terminal has a strong market position as well as a highly regarded operator (Oiltanking). As a result, capacity at each location remains substantially let and contract renewals are agreed on good terms.

In Singapore, continued growth in demand for oil products across Asia underpins strong demand for the storage facilities. A new marine jetty is being constructed at the terminal and is due to come on line in summer 2017. This will improve service levels for the terminal's customers.

## Refinancing

During the year, part of the Oystercatcher bank facility was refinanced through a long dated private placement funding in Singapore dollars. The refinancing extends Oystercatcher's debt maturity profile and provides a natural currency hedge for distributions from the terminal located in Singapore.

## Opportunities for further growth

We are considering a number of opportunities to invest further in upgrading facilities, alongside our partner Oiltanking.

For further information about our investments, see our website **www.3i-infrastructure.com**

# TCR

## Performance

| | |
|---|---|
| Cost | £150.9m |
| Closing value | £164.1m |

| | |
|---|---|
| **Ownership** | 46% |
| **Date invested** | July 2016 |
| **Management team HQ** | Brussels, Belgium |
| **Country** | Active in 11 European countries and in Malaysia |
| **Currency** | EUR |
| **Sector** | Transportation/ Logistics |

## TCR and its market

TCR is a new investment which completed in the year. TCR is Europe's largest independent asset manager of airport ground support equipment ("GSE") and operates at c.100 airports. Since inception, TCR has defined the market for leased GSE, providing high quality assets and a full service leasing, maintenance and fleet management offering to its clients, which are predominantly independent ground handling companies, airlines and airports. The GSE that TCR provides is critical infrastructure, without which some of Europe's busiest airports could not operate.

## Investment rationale

TCR fits with the Company's strategy of investing in companies with good asset backing, strong market positions and barriers to entry, yet with operational levers to achieve attractive returns for shareholders through engaged asset management.

TCR experiences a high level of renewal of its contracts, which are aligned with the ground handlers' contracts with the airlines and are typically three to five years in duration. The business is present across 12 countries with a diverse contract and customer base.

## Developments since acquisition

Since the completion of the transaction in July, the revenues and EBITDA of TCR have been in line with our investment case. TCR made good progress on its international expansion in the year, in particular in the Asia Pacific region. Two senior hires have joined the business to help deliver TCR's strong pipeline of opportunities. The acquisition debt facilities were syndicated successfully and a management incentive plan was put in place.

For further information about our investments, see our website **www.3i-infrastructure.com**

# Cross London Trains ("XLT")

## Performance

| | |
|---|---|
| Cost | £62.7m |
| Closing value | £125.6m |

| | |
|---|---|
| **Ownership** | 33% |
| **Date invested** | June 2013 |
| **Management team HQ** | London, UK |
| **Country** | UK |
| **Currency** | GBP |
| **Sector** | Transportation/ Logistics |

## Developments in the year

The Siemens train manufacturing programme remains on schedule. 76 trains have been manufactured, out of which 55 are in the UK undertaking mileage tests or have been accepted. As at 31 March 2017, XLT had 42 trains accepted and running on the Thameslink network. Minor performance issues have been reported, in line with expectations when introducing a new train fleet to a network. The programme aims to deliver the contracted fleet (115 trains) by the end of 2018.

## Additional investment

The trains still to be manufactured by Siemens will now be fitted with wifi and seatback tables. The Company has invested an additional £1 million of equity to fund its share of the cost of the variation order, which will earn a return consistent with the original investment.

For further information about our investments, see our website **www.3i-infrastructure.com**

# ESVAGT

## Performance

| | |
|---|---|
| Cost | £111.1m |
| Closing value | £112.7m |

| | |
|---|---|
| **Ownership** | 50% |
| **Date invested** | September 2015 |
| **Management team HQ** | Esbjerg, Denmark |
| **Country** | Denmark, Norway and UK |
| **Currency** | DKK |
| **Sector** | Natural Resources/ Energy |

## Developments in the year

The market conditions in which ESVAGT operates remain challenging. The low oil price environment has reduced production profitability and is negatively impacting exploration investment in the North Sea. This particularly affected ESVAGT's exploration associated revenues in the last quarter of 2016, albeit there have since been signs of improvement in customer demand. We view the current oil price environment as an opportunity for ESVAGT to streamline its cost base and consolidate its market leading position.

The cost reduction project started in 2016 is resulting in material cost savings which we expect to maintain following any market recovery.

ESVAGT signed a binding agreement with Hess, a prominent independent energy company, to provide safety and support services at the South Arne field in the Danish sector of the North Sea for a period of 12 years, continuing a successful 17-year partnership at the field. ESVAGT's services will be performed by a new, purpose-built vessel, scheduled for delivery in 2018.

## Off-shore wind business

ESVAGT continues to make good progress in the wind segment. In addition to the new contract with MHI Vestas won in 2016, management is pursuing a number of further contracts with other wind farm operators.

Wind is expected to represent a growing share of ESVAGT revenues in the future.

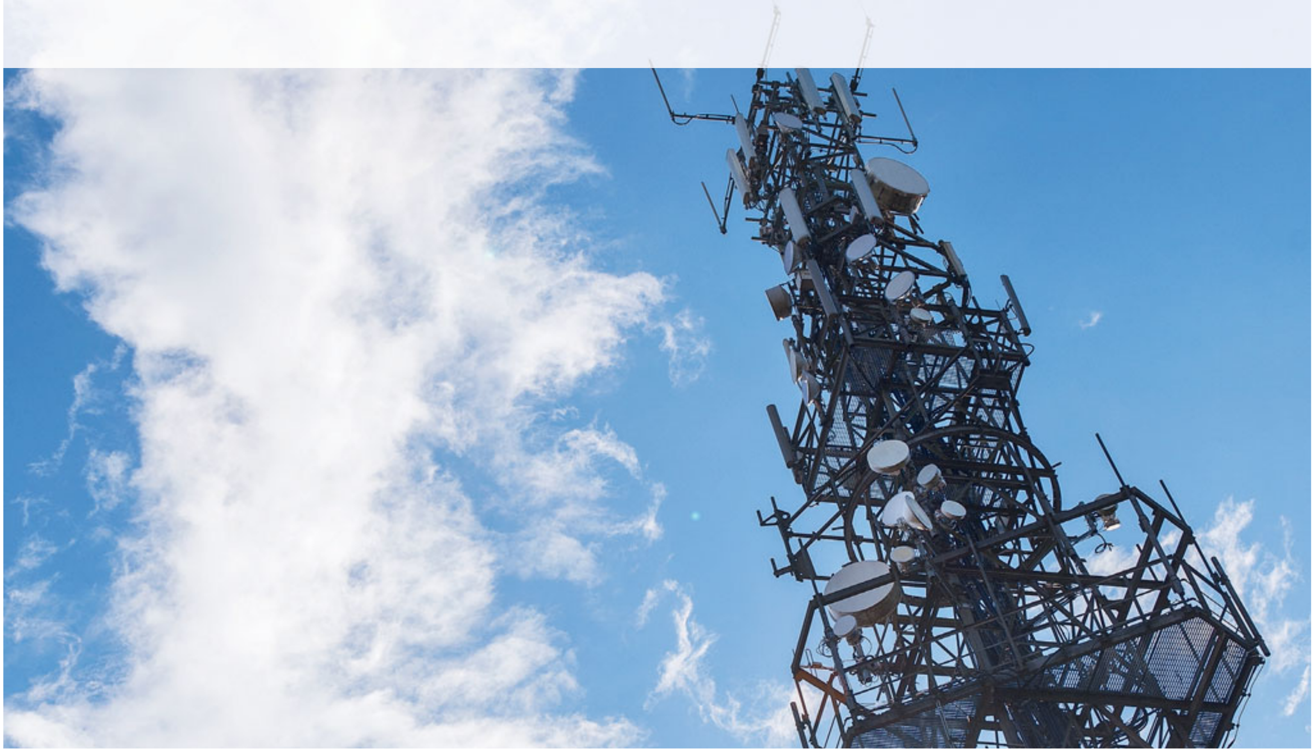
## Management changes

In October 2016, Rene Just was appointed CFO. Rene brings strong financial management expertise and a different perspective to the business, having previously been CFO at a private equity-owned Danish business.

In March 2017, Soren Karas was appointed Chief Commercial Officer, a newly created position. Soren joins from Maersk Supply Services.

For further information about our investments, see our website **www.3i-infrastructure.com**

# Wireless Infrastructure Group ("WIG")



## Performance

| | |
|---|---|
| Cost | £74.7m |
| Closing value | £78.4m |

| | |
|---|---|
| **Ownership** | 31%, 36% economic interest |
| **Date invested** | June 2016 |
| **Management team HQ** | Bellshill, UK |
| **Country** | UK |
| **Currency** | GBP |
| **Sector** | Communications |

## WIG and its market

WIG is a new investment which completed in the year. WIG is the UK's second largest independent tower company and the largest to focus solely on telecom towers. It operates c.2,000 towers and other wireless infrastructure assets, representing c.7% of the UK market. WIG is independent of any network operator and invests in shareable infrastructure that is made available to all networks. The business has recently expanded into the Netherlands and Ireland.

The market outlook is favourable for tower companies as they support network customers in their projects to expand coverage in rural areas and densify networks in urban and suburban areas. Policy makers and mobile operators are becoming increasingly aware of the benefits of independently operated communications infrastructure and the market share of the independent tower sector continues to rise across Europe. The independent tower sector is also set to play a major role in supporting the deployment of 5G and the additional infrastructure this will require.

## Investment rationale

This investment diversifies the Company's portfolio with exposure to a growing communications infrastructure business. Communication towers are critical pieces of infrastructure that are largely agnostic to technological change. The cash flows generated by the business are inflation-linked and are underpinned by long-term contracts.

With its scalable platform and track record of building new infrastructure and making accretive acquisitions, WIG is well placed to target further growth in the UK and across Europe.

## Developments since acquisition

WIG is performing well operationally. In particular, the core infrastructure services business outperformed our base case as it supports customers' network expansion projects.

For further information about our investments, see our website **www.3i-infrastructure.com**

# Valorem

## Performance

| | |
|---|---|
| Cost | £47.9m |
| Closing value | £50.0m |

| | |
|---|---|
| **Ownership** | 28.5% |
| **Date invested** | September 2016 |
| **Management team HQ** | Begles, France |
| **Country** | France |
| **Currency** | EUR |
| **Sector** | Utilities |

## Valorem and its market

Valorem is a new investment which completed in the year. Valorem is a leading independent renewable energy development and operating company. It is one of the largest onshore wind developers in France, having developed over 480MW of capacity over the last 10 years.

The French power market is experiencing a major transition as it looks to reduce its reliance on nuclear generation and to increase generation from renewable sources of energy such as wind and solar.

The energy transition has been continuously supported by the French governments over the past decade. With in-house capabilities across the entire project cycle and a strong local footprint, Valorem is well positioned to benefit from this shift in energy mix.

## Investment rationale

This investment diversifies the Company's portfolio with exposure to a growing renewables business in one of the most attractive European markets, and provides recurring, inflation-linked cash flows underpinned by a robust regulatory regime.

Led by its experienced management team, Valorem is a best-in-class developer, being the fourth largest French wind developer and the largest independent one. It has a significant pipeline of projects at an advanced stage of development that it expects to convert into operating assets, with further projects at earlier stages to bring through the development process.

## Developments since acquisition

The installed capacity continues to develop well. Since our acquisition, 57MW of Valorem-owned projects have been commissioned or entered construction and will add to the 142MW in operation at the time of the acquisition. The pipeline remains healthy with c.150MW of projects at advanced development stage. In December 2016, Valorem applied for permits and tariffs for 450MW of its wind pipeline under the French 2016 subsidy regime, following the approval of this regime by the EU Commission.

For further information about our investments, see our website www.3i-infrastructure.com

# Projects portfolio

### Performance

| | |
|---|---|
| Cost | £109.8m |
| Closing value | £153.3m |

## New projects

**Hart van Zuid** is a PPP project with the Municipality of Rotterdam involving the renewal and revitalisation of the area surrounding the Zuidplein and Ahoy centres. The Ahoy convention centre will be expanded to include an international conference centre, a music hall, a cinema and a hotel. An art building with a library and theatre will be constructed on the new Plein op Zuid square. In addition, the Zuidplein shopping centre will be renovated and expanded and the new Charlois swimming pool will be incorporated into the current city hall. Furthermore, the metro and bus transportation hubs will be renewed. Construction works commenced in the second quarter of 2016 and are due for completion in December 2019.

**A27/A1** is a PPP project involving the reconstruction, management and maintenance of the A27 motorway between Utrecht North and the Eemnes junction, as well as of the A1 motorway between the Eemnes junction and the Bunschoten-Spakenburg interchange. The project includes the widening of the A27 from two to three lanes, as well as the widening of the A1 from two to four lanes. Construction is due for completion by the end of 2018 when the 25-year maintenance period will commence.

## Developments in the year

All assets in the operational PPP portfolio performed well during the period, delivering good levels of income. The discount rate used to value the Ayrshire College and A12 projects was reduced during the year to reflect their transition to fully operational projects.

Ayrshire College is now fully operational with the college in use by students. There is minimal snagging and the project is generating revenues in full.

A12 is now fully operational and the first distribution was received at the end of December 2016. Operational performance has been very good with no material issues.

In the Company's greenfield projects portfolio, construction is proceeding broadly to plan and budget. However, the construction timetable of the RIVM project has been significantly delayed due to a technical issue with the original design. Construction has now started. We are working with the SPV management team to agree contractual changes to extend the construction timetable and address the financial consequences of delay, together with the Authority and the construction contractor.

For further information about our investments, see our website **www.3i-infrastructure.com**

# 3i India Infrastructure Fund

## Performance

| | |
|---|---|
| Cost | £76.5m |
| Closing value | £40.9m |

| | |
|---|---|
| **Ownership** | 20.9% |
| **Date invested** | March 2008 |
| **Management team HQ** | Mumbai |
| **Country** | India |
| **Currency** | US Dollars |
| **Sector** | Power and transportation |

## Portfolio

The India fund portfolio is being managed for realisation over the next few years. The portfolio contains five remaining investments following the realisation of Adani Power during the year and receipt of proceeds from the sale of Ind-Barath Energy during the previous year.

**Krishnapatnam Port** has a concession to develop, operate and maintain the port of Krishnapatnam in the state of Andhra Pradesh.

**KMC Roads** has a portfolio of "build-operate transfer" ("BOT") road projects, comprising projects which are both operating and under construction, among the largest portfolios of its kind in India.

**Supreme Roads** is building a portfolio of BOT road projects.

**Soma Enterprise** is an infrastructure developer in India, which focuses mainly on BOT road projects, but also on projects in the hydro power, irrigation, railways, power transmission and urban infrastructure sectors.

**GVK Energy** is developing a portfolio of power generation projects (4,047MW), diversified by fuel type, stage of development and geography.

The India fund now represents only 2% of the Company's portfolio.

For further information about our investments, see our website **www.3i-infrastructure.com**

# Financial review, risk and corporate responsibility



# Financial review

> “The Company has proven its flexible funding model during the year. We have been successful in building income and the Company maintains an efficient balance sheet.”

**Key financial measures** (year to 31 March)

| | 2017 | 2016 |
|---|---|---|
| Total return[1] | **£146.3m** | £166.2m |
| Net asset value per share | **169.0p** | 161.0p |
| Total income[1] | **£85.6m** | £64.1m |
| Portfolio asset value[1] | **£1,805.9m** | £1,222.1m |
| Cash balances[1] | **£20.0m** | £49.9m |
| Total liquidity[2] | **£189.7m** | £326.5m |

1 Reconciliation of measures to the financial statement balances is set out in Tables 9 and 10 on page 45.
2 Includes cash balances of £20.0 million and £169.7 million undrawn balances available under the Company’s revolving credit facility.

**James Dawes**
CFO, Infrastructure
10 May 2017

We have been successful in building income. Total income was £85.6 million, an increase of 34% on the prior year, with income sourced from a more diversified portfolio. The Company's dividend is now covered from the second half of FY17.

## Returns

The Company's performance is assessed by the Board based on the following measures:

- capital return: unrealised value movements due to changes to the carrying valuation of assets across the year (or since acquisition, if shorter) including the impact of foreign exchange movements relating to portfolio assets; or realised capital profits or losses generated from the sale or partial sale of portfolio assets above or below their carrying valuation;
- movement in fair value of derivatives for foreign currency hedging;
- total income: interest and dividends from underlying portfolio assets, interest on cash holdings and transaction fees receivable;
- costs: advisory and performance fees, Board and other operating costs, transaction fees payable and finance costs relating to the Company's revolving credit facility; and
- other net income/costs: includes other income and foreign exchange movements principally relating to euro balances held on deposit in relation to future commitments to fund investment.

Table 4 shows an analysis of these elements of the return. The financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) for its reporting. The non-material adjustments required to reconcile this analysis to the financial statements are shown in Table 9.

## Total return

3i Infrastructure generated a total return for the year of £146.3 million, representing a 9.4% return on opening shareholders' equity, adjusted on a time weighted average basis for the capital raise of £378.8 million net of costs on 10 June 2016 (2016: £166.2 million, 14.0%).

The return was underpinned by the good performance of the portfolio and enhanced by the net impact of foreign exchange movements, which were substantially offset by the Company's hedging programme (see page 22).

**Table 4: Summary total return** (year to 31 March, £m)

| | 2017 | 2016 |
|---|---|---|
| Capital return | **147.2** | 187.5 |
| Movement in fair value of derivatives | **(56.8)** | (44.6) |
| **Net capital return** | **90.4** | 142.9 |
| Total income | **85.6** | 64.1 |
| Costs | **(34.3)** | (43.9) |
| Other net income/(costs) including exchange movements | **4.6** | 3.1 |
| **Total return** | **146.3** | 166.2 |

# Financial review

continued

## Capital return

Total capital return for the year was £147.2 million (2016: £187.5 million) of which £147.8 million was an unrealised value gain (2016: £187.3 million) offset by a realised loss on disposals of £0.6 million (2016: gain of £0.2 million).

### Unrealised value movement, including foreign exchange movements

The portfolio generated an unrealised value gain of £147.8 million in the year to 31 March 2017 (2016: £187.3 million). This comprised a £70.0 million value increase (2016: £138.6 million) and a £77.8 million foreign exchange gain (2016: £48.7 million).

The portfolio achieved good returns, driven by valuation uplifts for the Company's holding in Elenia, AWG, XLT and the Projects portfolio. There was a valuation reduction of £8.9 million in ESVAGT, including foreign exchange movements. These value movements are described on pages 20 to 23.

### Realised return

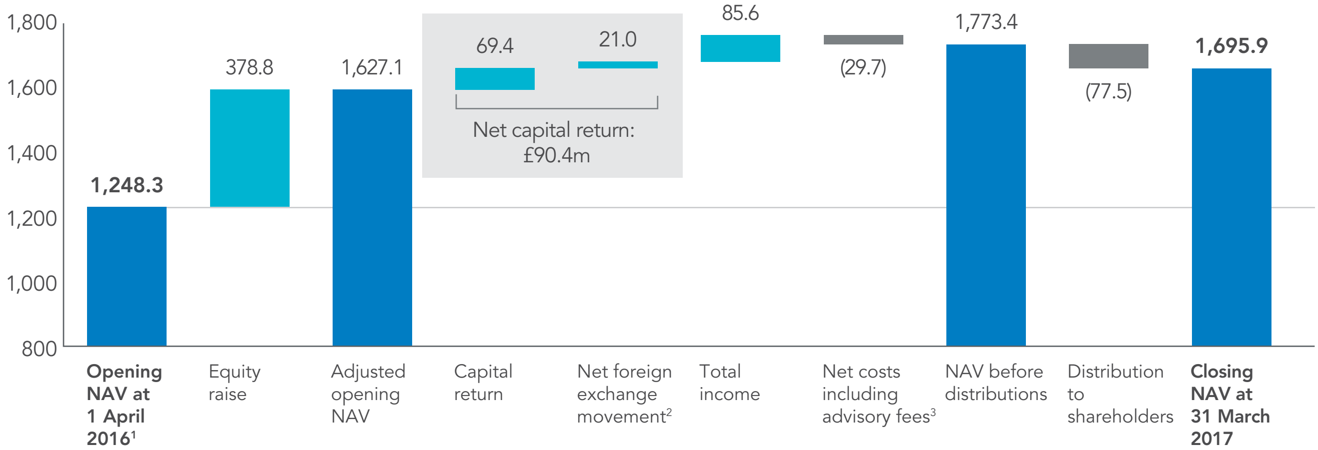
3i Infrastructure generated a realised capital loss of £0.6 million in the year (2016: gain of £0.2 million) from the disposal of shares in Adani Power held through the India Infrastructure Fund.

### Net capital return

Net capital return, including the loss of £56.8 million in the fair value of foreign currency hedging derivatives, was £90.4 million (2016: £142.9 million), as shown in Chart 4 below.

Movements in the fair value of derivatives represents a loss of £56.8 million (2016: loss of £44.6 million) in the fair value of the euro, Singapore dollar and Danish krona hedging programme. This significantly offsets the foreign exchange gain in the European portfolio of £71.1 million (2016: £48.9 million).

**Chart 4: Reconciliation of the movement in net asset value** (year to 31 March 2017, £m)




1 Net of final dividend for the prior year.
2 Foreign exchange movements are described in Table 3 on page 22.
3 Includes non-portfolio exchange.

## Income

### Total income

Total income of £85.6 million (2016: £64.1 million) comprises portfolio income of £85.1 million (2016: £63.2 million), interest receivable on cash balances of £0.4 million (2016: £0.7 million) and transaction fees receivable of £0.1 million (2016: £0.2 million).

### Portfolio income

The portfolio generated income of £85.1 million in the year (2016: £63.2 million). Of this amount, £21.9 million was through dividends (2016: £24.0 million) and £63.2 million through interest on shareholder loans (2016: £39.2 million). The most significant reason for the year-on-year increase was the contribution of £16.5 million from the new investments in Infinis, TCR, WIG and Valorem in the year.

The Company accrued interest of £19.5 million from Elenia in the year (2016: £18.8 million). The small year-on-year increase is due to the impact of foreign exchange movements as the EUR denominated loan has actually declined due to the partial repayment of the loan in the intervening period.

AWG paid dividends of £2.3 million in the year (2016: £6.3 million); the Company also accrued interest of £4.8 million (2016: £4.8 million). The dividend was lower than the dividend received in the comparable period last year, in line with AWG's plan to reduce gearing.

The Company received dividends of £17.1 million from Oystercatcher in the year (2016: £14.2 million). The uplift is partly attributable to income received from the new investments in the OTT and OTG terminals that were acquired during the prior year.

Interest income of £11.5 million was accrued from ESVAGT in the year (2016: £5.4 million), following a full period of income from this investment. The new investments in Infinis, WIG, TCR and Valorem contributed £16.5 million to interest income.

The Company received interest payments of £4.8 million from XLT, in line with last year.

The Projects portfolio generated income of £8.6 million (2016: £8.2 million). Of this amount, £2.5 million was through dividends (2016: £3.5 million) and £6.1 million was through interest (2016: £4.7 million).

### Interest receivable on cash balances

Interest income from cash and cash equivalents totalled £0.4 million (2016: £0.7 million), reflecting a decrease in the average cash balances held during the year compared to last year. The Company's cash balances generated interest at an average rate of 0.4% in the year (2016: 0.5%). At 31 March 2017, the Company's cash balance was £20.0 million (2016: £49.9 million).

**Table 5: Breakdown of portfolio income** (year to 31 March, £m)

| | 2017 | | 2016 | | |
|---|---|---|---|---|---|
| | **Dividends** | **Interest** | Dividends | Interest | **Comments** |
| Eversholt Rail | **–** | **–** | – | 0.7 | Sold in April 2015 |
| Elenia | **–** | **19.5** | – | 18.8 | Higher due to exchange movements in the year |
| AWG | **2.3** | **4.8** | 6.3 | 4.8 | In line with the company's plan to reduce gearing |
| Oystercatcher | **17.1** | **–** | 14.2 | – | Addition of two new terminals to the portfolio in June 2015 |
| TCR | **–** | **7.4** | – | – | New investment in the year |
| ESVAGT | **–** | **11.5** | – | 5.4 | New investment in September 2015 |
| XLT | **–** | **4.8** | – | 4.8 | |
| Infinis | **–** | **3.8** | – | – | New investment in the year |
| WIG | **–** | **4.1** | – | – | New investment in the year |
| Valorem | **–** | **1.2** | – | – | New investment in the year |
| Projects portfolio | **2.5** | **6.1** | 3.5 | 4.7 | Higher interest income following the investment in WODS in August 2015 |
| **Total** | **21.9** | **63.2** | 24.0 | 39.2 | |

# Financial review

continued

## Costs

### Advisory fees and performance fees

During the year to 31 March 2017, the Company and its unconsolidated subsidiaries incurred advisory fees of £24.3 million (2016: £15.0 million). The increase is due to new investment activity in the year. The advisory fee, payable to 3i plc, is calculated as 1.5% of the Gross Investment Value, which is based on the opening portfolio value and the cost of any new investments or commitments made during the year. The advisory fee for new projects investments is 1.0%. For non-projects investments the advisory fee reduces from 1.5% to 1.25% for any proportion of an asset held for more than five years. As several of the Company's investments have been held for more than five years, the advisory fee rate chargeable for those investments (eg AWG, three of the five terminal investments held within Oystercatcher, Elenia from January 2017, Octagon, Elgin and various assets within the 3i India Fund) is 1.25%.

An annual performance fee is also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the growth in net asset value per annum, adjusting for the impact of share capital raised and subject to a high watermark requirement. This hurdle was exceeded for the year ending 31 March 2017, resulting in a performance fee payable to 3i plc in respect of the year ending 31 March 2017 of £3.9 million (2016: £19.5 million) and a total return of 9.4%. For a more detailed explanation of how advisory and performance fees are calculated and of the high watermark definition, please refer to Note 18 on page 99.

### Fees payable

Fees payable on investment activities include costs for transactions that did not reach, or have yet to reach, completion and the reversal of costs for transactions that have successfully reached completion and were subsequently borne by the portfolio company. For the year to 31 March 2017, fees payable totalled a credit balance of £1.0 million (2016: debit of £1.9 million). Before the reversal of costs for transactions that have successfully reached completion, the fees payable in the year totalled £0.7 million (2016: £1.7 million).

### Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £2.6 million in the year (2016: £2.7 million). The decrease reflects an ongoing focus on costs.

Finance costs of £4.5 million (2016: £4.8 million) in the year comprised £4.1 million of arrangement, commitment and utilisation fees for the Company's £300 million revolving credit facility, together with £0.4 million in relation to the arrangement and commitment fees for the additional £200 million accordion increase in the facility which was arranged and subsequently cancelled during the year. The prior year costs included £1.5 million associated with cancelling the previous credit facilities.

### Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in the table below, against the average net asset value over the reporting period.

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ("AIC") recommended methodology, and was 1.71% for the year to 31 March 2017 (2016: 1.36%). The ongoing charges ratio is higher in periods where new investment levels are high and new equity is raised.

The AIC methodology does not include performance fees or finance costs. However, the AIC recommends that the impact of performance fees on the ongoing charges ratio is noted, where performance fees are payable. The cost items that contributed to the ongoing charges ratio are shown below. The ratio including the performance fee was 1.96% (2016: 2.86%).

**Table 6: Ongoing charges** (year to 31 March, £m)

| | 2017 | 2016 |
|---|---|---|
| Investment Adviser's fee | **24.3** | 15.0 |
| Auditor's fee | **0.3** | 0.3 |
| Directors' fees and expenses | **0.5** | 0.5 |
| Other ongoing costs | **1.8** | 1.8 |
| Total ongoing charges | **26.9** | 17.6 |
| **Ongoing charges ratio** | **1.71%** | 1.36% |

## Balance sheet

The net asset value at 31 March 2017 was £1,734.6 million (2016: £1,277.0 million). The principal components of the net asset value are the portfolio assets, cash holdings, other financial assets, borrowings, the fair value of derivative financial instruments and other net assets and liabilities, principally relating to accrued interest.

The financial statements require cash or other net assets and liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and total aggregate cash and net assets/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 10.

At 31 March 2017, the Company's net assets after the deduction of the final dividend were £1,695.9 million (2016: £1,248.3 million). A summary balance sheet is included in Table 7.

### Cash and other assets

Cash balances at 31 March 2017 totalled £20.0 million (2016: £49.9 million), including £2.9 million (2016: £2.4 million) of unrestricted cash balances held within intermediate unconsolidated holding companies. In addition, an amount of £32.1 million (2016: £36.7 million), held on the balance sheet as "Other financial assets", comprises predominantly cash held on deposit in third-party bank accounts on behalf of the Mersey Gateway Bridge and A9 projects. The balance reduced in the year following the Company's investment in the Ayrshire College project.

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

The movement in Other net assets and liabilities from the prior year, represents a decrease in the performance fee accrual and an increase in portfolio income accrued.

### Borrowings

The Company has a £300 million revolving credit facility ("RCF") in order to maintain a good level of liquidity for further investment whilst minimising returns dilution from holding excessive cash balances. This is a three-year facility, and the maturity date was extended in April 2016 by one year to May 2019 and further extended in April 2017 to May 2020. The Company has the right to increase the size of the Facility by up to a further £200 million, provided that existing lenders have a right of first refusal.

In April 2016, the Company increased the size of the Facility from £300 million to £500 million on a temporary basis to December 2016. This increase was cancelled in July 2016 following receipt of the capital raise proceeds.

At 31 March 2017, the RCF was cash drawn by £100 million, which was primarily used to fund the investment in Infinis in December 2016, and had been used to issue letters of credit for undrawn commitments to projects comprising €6.6 million (£5.6 million) for the A27/A1 project, €4.8 million (£4.2 million) for the RIVM project, €11.7 million (£10.0 million) for the La Santé project, €7.9 million (£6.7 million) for the Condorcet project and €4.5 million (£3.8 million) for the Hart van Zuid project. During the year the letter of credit relating to the A12 project was cancelled following the Company's investment in the project.

In April 2017, the Company again increased the size of the facility from £300 million to £500 million on a temporary basis to March 2018. The undrawn balance of the RCF is £370 million after this increase.

**Table 7: Summary balance sheet** (as at 31 March, £m)

| | 2017 | 2016 |
|---|---|---|
| Portfolio assets | **1,805.9** | 1,222.1 |
| Cash balances | **20.0** | 49.9 |
| Other financial assets | **32.1** | 36.7 |
| Borrowings | **(100.0)** | – |
| Derivative financial instruments | **(52.5)** | (24.4) |
| Other net assets/(liabilities) | **29.1** | (7.3) |
| **Net asset value** | **1,734.6** | 1,277.0 |

# Financial review

continued

## Capital raise

In June 2016, the Company successfully completed a substantial capital raise, with gross proceeds of £385 million by way of an open offer, placing and intermediaries offer at 165 pence per share. This was increased from the original target size of £350 million. The offer was significantly oversubscribed and the final size was set so as to ensure that the Company continues to maintain an efficient balance sheet whilst at the same time having sufficient liquidity to bid for new investment opportunities. A total of 233,333,333 new ordinary shares were admitted to trading on the London Stock Exchange main market for listed securities on 10 June 2016. The Company now has a total of 1,026,549,746 shares in issue.

All applications made by existing shareholders under open offer entitlements were met in full, and the Company was able to admit a number of new shareholders to the register.

## Net asset value per share

The total net asset value per share at 31 March 2017 was 169.0p (2016: 161.0p). This reduces to 165.2p (2016: 157.4p) after the payment of the final dividend of 3.775p (2016: 3.625p). There are no dilutive securities in issue.

The movement in NAV per share in the year includes a 1.1 pence per share increase resulting from raising capital in June 2016 at a premium to the NAV per share at the time of the capital raise.

## Dividend and dividend cover

The Board has proposed a dividend for the year of 7.55 pence per share, or £77.5 million in aggregate (2016: 7.25 pence; £57.5 million). This is in line with the Company's target announced in May last year.

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

Table 8 below shows the calculation of dividend coverage and dividend reserves. The final dividend cover shortfall of £3.3 million (2016: £13.1 million), which was expected following the capital raise and accommodated in the Company's cash flow planning, is covered from retained amounts available for distribution. The Board is therefore proposing that the final dividend payment is made in line with the Company's FY17 full year dividend target. The retained amount available for distribution, following the payment of the final dividend, will be £42.4 million (2016: £55.0 million).

**Table 8: Dividend cover** (year to 31 March 2017)

| | £m |
|---|---|
| Total income, other income and non-income cash | 105.6 |
| Operating costs including advisory fees | (31.4) |
| Dividends paid and proposed | (77.5) |
| **Dividend shortfall for the year** | **(3.3)** |
| Dividend reserves brought forward from prior year | 55.0 |
| Realised profits or losses over cost on disposed assets | (5.4) |
| Performance fees | (3.9) |
| **Dividend reserves carried forward** | **42.4** |

## Reconciliation of summary total return and summary balance sheet

### Table 9: Reconciliation of summary total return (year to 31 March 2017, £m)

| | Underlying portfolio asset aggregate returns and costs | Adjustments for transactions in unconsolidated subsidiaries | Financial statements |
|---|---|---|---|
| Capital return | 147.2[1] | 2.8[2,3] | 150.0 |
| Movement in fair value of derivatives | (56.8) | (1.9)[2] | (58.7) |
| **Net capital return** | **90.4** | **0.9** | **91.3** |
| Total income | 85.6 | (4.6)[3] | 81.0 |
| Costs | (34.3) | 5.2[3] | (29.1) |
| Other net income/(costs) | 4.6 | (1.5) | 3.1 |
| **Total return** | **146.3** | **–** | **146.3** |

1 Capital return includes a £77.8 million foreign exchange gain.

2 Movement in fair value of derivatives relating to hedging specific to the Oystercatcher subsidiary, reclassified as capital return, as it is monitored by the Board as part of the unrealised value movement in Oystercatcher.

3 Costs of £5.2 million were incurred within unconsolidated subsidiaries, comprising predominantly fees paid directly to 3i Group (£4.5 million), operating expenses (£0.3 million) and transaction fees (£0.4 million). These are reflected in capital returns or income as they have reduced either the carrying value, or the income distributed from these subsidiaries.

### Table 10: Reconciliation of summary balance sheet (as at 31 March 2017, £m)

| | Underlying portfolio asset aggregate returns and costs | Adjustments for transactions in unconsolidated subsidiaries[1] | Financial statements |
|---|---|---|---|
| Portfolio assets | 1,805.9 | 9.7 | 1,815.6[2] |
| Cash balances | 20.0 | (2.9)[3] | 17.1 |
| Financial assets | 32.1 | – | 32.1 |
| Borrowings | (100.0) | – | (100.0) |
| Derivative financial instruments | (52.5) | (3.6)[4] | (56.1) |
| Other net assets | 29.1 | (3.2) | 25.9 |
| **Net asset value** | **1,734.6** | **–** | **1,734.6** |

1 "Investments at fair value through profit or loss" in the financial statements includes £2.9 million of unrestricted cash balances and £3.2 million of other net liabilities with or within intermediate unconsolidated holding companies and a £3.6 million reclassification of derivative liabilities relating to the Oystercatcher subsidiary. These adjustments reclassify these balances to show the underlying value of the portfolio assets, the total cash holdings and other net assets/(liabilities) position, as monitored by the Board.

2 Described as "Investments at fair value through profit or loss" in the financial statements.

3 Cash balances held in unconsolidated subsidiaries totalled £2.9 million.

4 A £3.6 million derivative liability relating to hedging specific to the Oystercatcher subsidiary is reclassified as Portfolio assets, as it is monitored by the Board as part of the valuation of Oystercatcher.

# Risk report

## "Effective risk management underpins the successful delivery of the Company's strategy."

### Approach to risk governance

The Board is ultimately responsible for the risk management of the Company. It seeks to achieve an appropriate balance between mitigating risk and generating attractive risk-adjusted returns for shareholders. Integrity and responsibility are embedded in the Company's approach to risk management.

The Board exercises oversight of the risk framework, methodology and process through the **Audit and Risk Committee**. The risk framework is designed to provide a structured and consistent process for identifying, assessing and responding to risks. The Committee ensures that there is a consistent approach to risk across the Company's strategy, business objectives, policies and procedures.

The Company is also 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 Board manages risks through updates from the Investment Adviser and other service providers and through representation on portfolio companies' boards of investment advisory team members.

In addition to the **Audit and Risk Committee**, a number of other committees contribute to the Company's overall risk governance structure including the **Investment Committee** and the **Management Engagement Committee**.

Further detail on these committees can be found in the Governance section of this report on **page 53**.

### Risk review process

The Company's risk review process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in its risk profile. The review includes, but is not limited to, the following:

- regular updates on the operational and financial performance of portfolio companies;
- infrastructure and broader market overviews;
- experience of investment processes;
- key macro-economic indicators and their impact on the performance and valuation of portfolio companies;
- liquidity management;
- compliance with regulatory obligations;
- analysis of the impact of international initiatives such as the OECD's Action Plan on Base Erosion and Profit Shifting and the Common Reporting Standard, the EU Alternative Investment Fund Managers Directive, and the US Foreign Account Tax Compliance Act; and
- review of the Company's risk log.

The Audit and Risk Committee uses the above to identify a number of key risks. It then evaluates the impact and likelihood of each key risk, with reference to the Company's strategy and business model. The adequacy of the mitigation plans and controls are then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

**Steven Wilderspin**
Chairman, Audit and Risk Committee
10 May 2017

The Committee maintains a risk matrix, onto which the key risks are mapped by impact and likelihood. The principal risks are identified on the risk matrix as those with the highest combination of impact and likelihood scores. The Company considers these principal risks in greater detail with regard to the assessment of the Company's viability. A number of scenarios have been developed to reflect likely outcomes should the principal risks be experienced, as well as consideration of stressed scenarios that could result in the Company ceasing to be viable. The Company is an investment company, therefore the stressed scenarios reflect cash flow from investments being reduced, such that debt covenants are breached and liabilities cannot be met. The Investment Adviser models the impact of these scenarios on the Company and reports the results to the Board. The modelling relates to the Company's investment portfolio, as the Company is an investment company and this is therefore most relevant to an assessment of viability. The resulting assessment of viability is included in this Risk report.

## Risk appetite

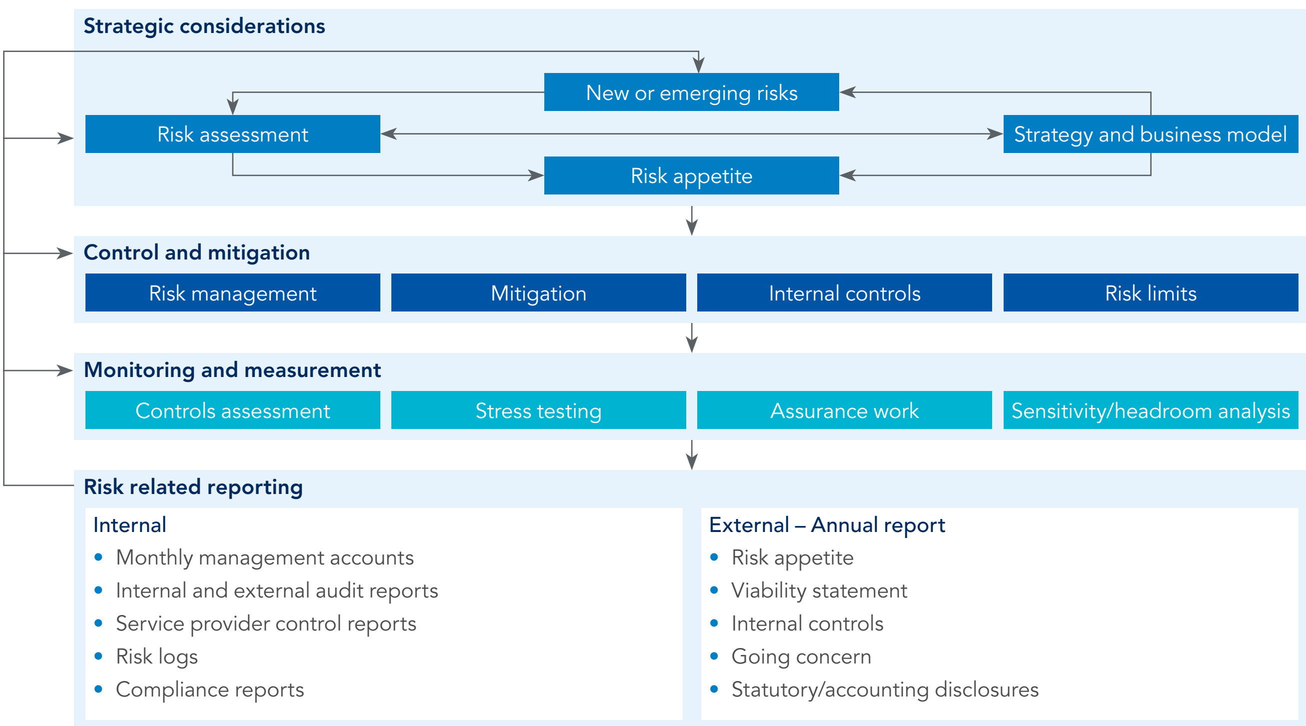
The Committee has reviewed the risk matrix, and set out the Company's appetite for each of the key risks. As an investment company, the Company seeks to take investment risk. The appetite for investment risk is described in the Investment policy and on page 8, with a risk/return graph which shows the investment focus of the Company. The Company seeks to limit or manage exposure to other risks to acceptable levels.

## Review of significant key risks

The disclosures on pages 48 and 49 are not an exhaustive list of risks and uncertainties faced by the Company, but rather a summary of significant key risks which are under active review by the Board. These significant key risks have the potential to affect materially the achievement of the Company's strategic objectives and impact its financial performance. This disclosure shows developments in these significant key risks for the year. The risks that have been identified as principal risks are described in more detail in the Principal risks and mitigations table on pages 50 and 51.

The Company's risk profile and appetite remains broadly stable.

## Risk framework



# Risk report

continued

## External risks – market and competition

The markets in which the Company seeks to invest, and in particular the European economic infrastructure market, are competitive, with strong demand for large Core assets. This has supported value gains for existing assets in the portfolio. In this challenging environment, the Investment Adviser continues to leverage its network and skills to make investments that can continue to deliver attractive risk-adjusted returns to the Company's shareholders.

The terms on which the UK will leave the EU are uncertain, and could create a generally less favourable financial environment for the Company and its investments.

UK inflation has exceeded expectations in the year, impacting the assets with inflation-linked revenues partially offset by an increase in cost. Non-UK inflation remained low in the year but increased in some countries.

Interest rates remained low throughout the year. This had positive implications for some of the portfolio assets and allowed for the favourable refinancing of debt in TCR, Elenia and Infinis. Elenia has continued to take advantage of the favourable credit market conditions and, since April 2016, has issued €207 million of new bonds with maturities between 2029 and 2034. The proceeds were used to pay down the revolving capital expenditure facility.

There was significant currency volatility in the year, with sterling depreciating by 8.0% against the euro in response to the UK referendum result on leaving the European Union. The Company's objective is to hedge substantially its euro, Danish krona and Singapore dollar exposure (associated with the investment in Oiltanking Singapore within the Oystercatcher valuation). The revaluation of the hedging programme for the euro, Singapore dollar and Danish krona is impacted by movements in forward exchange rates which are not necessarily matched exactly by an equivalent change in the spot exchange rate at which the assets are translated.

The exposure to the Indian rupee remains unhedged. In relation to this exposure, the Board's assessment remains that the cost of hedging the exposure would outweigh the potential benefits, primarily due to the significant interest rate differential between sterling and rupee. The Board monitors the effectiveness of the Company's hedging policy on a regular basis. Overall, 73% of the foreign exchange gains were offset by movements in the foreign exchange hedging derivatives.

The revenues of Infinis are underpinned by the inflation-linked UK Renewables Obligation Certificate ("ROC") regime until 2027, while the valuation of the business is also dictated by the evolution of long-term power prices and to fluctuations in the power price. This has fallen since our investment and is reflected in the valuation.

## External risks – regulatory and tax

On 3 June 2016, the Finnish Energy Authority, which regulates electricity distribution in Finland, issued a draft government bill which, if enacted, will amend the Electricity Market Act by implementing certain restrictions on price increases by Distribution System Operators ("DSOs"). According to the draft bill, DSOs, including Elenia, will be restricted from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12-month period. The new regulation will apply with respect to both consumer and corporate customers. The proposed amendment is expected to become law during 2017.

The Company and the Investment Adviser continue to monitor, and where relevant contribute to, the development of tax changes recommended by the OECD's Base Erosion and Profit Shifting ("BEPS") project. Of the 15 "BEPS Actions" comprising the BEPS project, the two which have been identified as most relevant to the Company and its investments are Action 4 – "Limit base erosion via interest deductions", and Action 6 – "Prevent treaty abuse".

The UK is well advanced in its plans to introduce new tax rules to give effect to the recommendations of BEPS Action 4. The Investment Adviser has been involved in contributing to representations made by infrastructure bodies in the development of these rules. The expected impact of the new UK interest deductibility rules has been reflected in the valuation of the Company's UK investments as at 31 March 2017. A number of European jurisdictions have tax regimes which already limit interest deductions and further changes are not therefore expected to have a material impact.

In November 2016, the BEPS project group published a Multilateral Instrument ("MLI") which provides countries with a mechanism to amend their tax treaties for several of the BEPS recommendations including the BEPS Action 6 related recommendations concerning the prevention of instances of treaty abuse. A first "MLI signing ceremony" is planned at the beginning of June 2017 when a number of countries are expected to sign. The Company and the Investment Adviser will continue to monitor relevant tax treaty changes which may impact the Company's existing investment holding structures and, where necessary, will consider relevant options for mitigating any adverse impacts. This is expected to be a significant area of activity for the Company and the Investment Adviser over the next year.

The Company's investment in Infinis is exposed to regulatory risk around "embedded benefits". Ofgem has proposed that the most important of these benefits to Infinis should be phased out by 2021. If this occurred earlier than assumed in the valuation of Infinis, this would adversely impact value. However, Ofgem has subsequently indicated that it is contemplating launching a Significant Code Review, which could delay implementation by as much as two years.

### Strategic risks

During the year, the Company had to balance the funding requirements of its pipeline of investments with the objective of running its balance sheet efficiently. The Board assessed the Company's liquidity requirements regularly. The Company announced in May 2016 that it had negotiated an extension to the RCF for a further year. The Facility includes a temporary accordion feature, allowing for an increase in the Facility of a further £200 million. The Company utilised this feature from April 2016 to July 2016 and had aggregate short-term borrowing facilities of £500 million available to position it to continue to make commitments to potential new investments. In April 2017, the Company again increased the size of the facility from £300 million to £500 million on a temporary basis to March 2018.

### Investment risks

The Company made six new investments during the year, in Infinis, WIG, TCR, Valorem, the A27/A1 and Hart van Zuid primary PPP projects and a follow-on in XLT.

Following these investments, the Company has a larger and more diverse portfolio. In line with the Company's investment focus, described on page 8, these new investments have characteristics which may increase volatility in returns from time to time, for example from exposure to market power prices or demand risk.

The performance of the investments in the India Fund remained weak. The India Fund sold its holding in Adani Power during the year. The remaining portfolio is being managed for realisation.

### Operational

The key areas of operational risk include the loss of key personnel at the Investment Adviser, and whether the Investment Adviser's team can continue to support the delivery of the Company's objectives. The Board monitors the performance of the Investment Adviser through the Management Engagement Committee. It also monitors the performance of key service providers, receiving reports of any significant control breaches. The Board reviewed its own reporting on cyber risk during the year, assessed its service providers and considered cyber risk within portfolio companies.

## Viability statement

The Directors have assessed the viability of the Company over a three-year period to March 2020. The Directors have taken account of the current position of the Company, and the principal risks it faces which are documented in this Risk report.

The Directors have considered the potential impact on the Company of a number of scenarios in addition to the Company's business plan and recent forecasts, which quantify the financial impact of the principal risks occurring. These scenarios represent severe but remote circumstances that the Company could experience, including a significant impairment in the value of the portfolio and a reduction in the cash flows available from portfolio companies from a variety of causes.

The assessment was conducted over several months, during which the scenarios to be analysed were evaluated by the Board, the assumptions set, and the analysis conducted and reviewed. The analysis included the impact of changes in taxation under the OECD's BEPS initiative, a Brexit outcome that is unfavourable to the Company, consideration of dramatic political events and widespread economic turmoil, and the loss of a large investment. The implications of changes in the inflation, interest rate and foreign exchange environment were also considered, separately and in combination.

The results of this stress testing showed that the Company would be able to withstand the impact of these scenarios occurring over the three-year period. The Directors also considered scenarios that would represent a serious threat to its liquidity in the time period. These scenarios were considered to be remote.

The Directors consider that a three-year period to March 2020 is an appropriate period to review for assessing the Company's viability. This reflects greater predictability of the Company's cash flows over that time period, the term of the Company's Revolving Credit Facility, and increased uncertainty surrounding economic, political and regulatory changes over the longer term.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to March 2020.

# Risk report

continued

## Principal risks and mitigations

| Principal risks | Risk description | Risk mitigation |
|---|---|---|
| **External** | | |
| **Legal, tax, compliance and accounting** | Changes to the following areas may impact upon the operation of the Company:<br>• Legal – changes to listing rules<br>• Tax – changes to the rules which affect the Jersey nil rated regime<br>• Compliance – increased regulation eg AIFMD, FATCA<br>• Accounting rules pertaining to disclosure/consolidation<br>• Regulatory – changes to the regulatory regime of the Company, the Investment Adviser and portfolio companies can impact the operating model and/or profitability | • Company has retained legal advisers and the Investment Adviser has in-house lawyers<br>• Tax advice taken on transactions and at other times as necessary<br>• Investment Adviser has an in-house Compliance team to provide advice on regulatory issues<br>• Accounting advice and updates provided by external firms if required |
| **OECD BEPS initiative** | • Changes to the tax regime applicable to the Company, subsidiaries or portfolio companies that increase tax leakage and/or affect the Company's relative attractiveness as an investment vehicle due to the OECD BEPS initiative or associated UK and EU initiatives | • The impact on the portfolio or investment strategy of changes to applicable standards and regulation is closely monitored<br>• Tax regimes exist in other jurisdictions which limit tax leakage for investment companies |
| **Market/economic** | • Macro-economic or market volatility flows through to pricing, valuations and portfolio performance<br>• Fiscal tightening impacts market environment<br>• Risk of sovereign default lowers market sentiment and increases volatility<br>• Misjudgement of inflation and/or interest rate outlook | • Advice of Investment Adviser on deal-making, asset management and hedging solutions to market volatility<br>• Periodic legal and regulatory updates on the Company's markets and in-depth market and sector research from other advisers |
| **Competition** | • Increased competition for the acquisition of assets in the Company's strategic focus areas<br>• Deal processes more competitive and prices increase<br>• New entrants compete with a lower cost of capital | • Continual review of market data and review of Company return target compared to market returns<br>• Origination experience of Investment Adviser<br>• Strong track record and strength of 3i Infrastructure brand |

| Principal risks | Risk description | Risk mitigation |
|---|---|---|
| **Strategic** | | |
| **Unbalanced portfolio** | • Failure to ensure adequate spread of assets invested to minimise concentration risks (eg by geography, sector, demand driver, regulator) and fulfil investment policy<br>• Difficulty in maintaining geographical diversity, or sale of large assets, may lead to unbalanced portfolio<br>• Misjudgement of risk when entering new sectors, industries or geographies | • Investment process explicitly addresses questions of geographical/sector balance in the portfolio<br>• Portfolio concentration measures are reviewed periodically by the Board<br>• The Investment Adviser undertakes a concentration review for each new investment |
| **Investment** | | |
| **Inappropriate rate of investment** | • Failure to achieve new investment impacts shareholder perception, returns and growth prospects<br>• Excess "vintage risk" magnifies the impact of poor performance from a vintage of investments<br>• Poor management of investment pipeline | • Efficient balance sheet maintained and monitored regularly by the Board<br>• Portfolio concentration measures are reviewed periodically by the Board<br>• The Investment Adviser undertakes a concentration review for each new investment |
| **Operational** | | |
| **Loss of senior Investment Adviser staff** | • Members of the deal team at Investment Adviser leave and "deal-doing" and portfolio management capability in the short to medium term is restricted | • Benchmarked compensation packages and deferred remuneration<br>• Notice periods within employment contracts<br>• Size of the senior team and strength of the 3i brand |
| **Cyber** | • Unauthorised access of information and operating systems<br>• Regulatory and legal risks from failure to comply with cyber related laws and regulations, including data protection | • Regular review of the Company and key service providers<br>• Regular review and update of cyber due diligence for potential investments<br>• Review of portfolio companies for cyber risk management and incident readiness |

# Corporate responsibility

The Board's aim is to invest responsibly. The Board is responsible for the definition and implementation of the Company's corporate responsibility policy, however in practice it relies heavily on the relevant policies and procedures put in place by 3i Group that apply to the Investment Adviser and, consequently, to the Company.

For more information on 3i Group's corporate responsibility policies, please refer to its website: www.3i.com/corporate-responsibility. The Board believes that these policies meet the Company's objectives in this area.

## Responsible Investment policy

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

The Investment Adviser's philosophy on RI can be summarised as follows:

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

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

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

The main features of the policy include:

- clear statements of the commitment to mitigate adverse environmental and social impacts and uphold high standards of business integrity and good corporate governance;
- an exclusion list of businesses and activities in which investment is precluded;
- a referral list of businesses and activities which may be particularly sensitive and may require additional scrutiny; and
- a set of minimum ESG standards that portfolio companies should meet, either at the time of investment or within a reasonable period thereafter.

Details of the Investment Adviser's RI policy are available on 3i Group's website: www.3i.com/corporate-responsibility/responsible-investor.

## Governance

Good corporate governance is fundamental to 3i Infrastructure and its activities. For full details of the Company's governance structure, please see the Governance section of this report and visit the Governance and CSR section of the Company's website at www.3i-infrastructure.com.

## Bribery Act

The Company does not offer, pay or accept bribes and is committed to working only with third parties whose standards of business integrity are substantively consistent with its own. The Company also expects the businesses it invests in to commit to avoiding corruption in all its forms and to comply with anti-bribery, anti-fraud and anti-money laundering laws applicable to them. The Company has an anti-bribery policy and is fully compliant with the provisions of the UK Bribery Act.

## Environment

As an investment company with no employees, governed by a non-executive Board of Directors, 3i Infrastructure has no material direct impact on the environment. Its carbon emissions are negligible, and limited to Board members' travel to and from Jersey to attend Board meetings.

## Procurement

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

## Prompt Payment Code

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

## Modern Slavery Act

The Board is committed to investing responsibly and notes the statement made by 3i Group plc under Section 54 of the Modern Slavery Act 2015 ("MSA"), which applies to the Company's Investment Adviser. The Company itself is not subject to the MSA as it is a Jersey company.

Please go to www.3i.com to view 3i's statement under section 54 of the Modern Slavery Act 2015 in respect of the financial year ended 31 March 2016.

This Strategic report is approved by order of the Board Authorised signatory

**Capita Financial Administrators (Jersey) Limited**

Company Secretary
10 May 2017

# Governance and accounts



# Introduction to Governance

"The Board remains committed to upholding the high standard of corporate governance that underpins the management and long-term success of the business."

Good governance is a fundamental part of how we do business. Following recommendations made by the Nomination Committee, it is the responsibility of the Board to procure the right balance of skills amongst the Directors to ensure we can be responsible to shareholders for the overall management and oversight of the Company, for agreeing its strategy, monitoring its financial performance, setting and monitoring its risk appetite and maintaining an effective system of internal controls.

The Board recognises the importance of maintaining a purposeful relationship with shareholders. It is my responsibility to ensure that there is the opportunity for shareholders to enter into dialogue with the Board on strategy and corporate governance and I welcome the opportunity to meet with shareholders as required. I am grateful to all our shareholders for their continued support and to those who have given feedback.

This section describes how the Company is governed. It explains how the Board is organised and operates, including the roles and composition of each of its Committees, and provides details on our Board members and how they are remunerated.

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

The Directors' statement contains the corporate governance statement required by FCA Disclosure and Transparency Rule 7.2.

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

The Company complied with all the provisions of the Code for the financial year ending 31 March 2017 except as set out below:

a) the role of the chief executive
b) executive directors' remuneration
c) the need for an internal audit function
d) the Company considers Steven Wilderspin to be independent despite having served nine years on the Board.

The Board considers provisions a to c above are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

In respect of Steven Wilderspin's independence, the Company has determined that Steven has continued to demonstrate independence, character and judgment and given his experience and knowledge of the business, it is considered to be in the best interests of the Company for Steven to remain a Director.

The Board has adopted a revised code for Directors' dealings in ordinary shares following the implementation of the EU Market Abuse Regulation ("MAR") on 3 July 2016. The Board is responsible for taking all proper and reasonable steps to ensure compliance with the MAR by the Directors.

**Richard Laing**
Chairman, 3i Infrastructure plc
10 May 2017

# Leadership

## Overview

3i Infrastructure has no employees, and its investment and portfolio monitoring activities are carried out by 3i Investments plc, its Investment Adviser, under the Investment Advisory Agreement. It is the Board's responsibility to ensure that the Company has a clear strategy and that its Investment Adviser has the resources and structures to support the delivery of this strategy.

The Board also has direct access to the Company's external advisers, including the Company's corporate brokers, financial adviser and legal advisers. The Board receives advice on a range of subjects but particularly on the infrastructure market, UK and Jersey legal matters and equity market issues.

## Board of Directors and Committees

The Board is assisted in its activities by a number of standing committees of the Board and, in undertaking its duties, it delegates certain authorities and decisions to these Committees. The Board reviews the membership of these Committees on a regular basis. The Board committee structure, together with a summary of the roles and composition of the Committees, is outlined in the table below.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. He is also responsible for organising the business of the Board and setting its agenda. In addition to the Chairman, there are currently four independent, non-executive Directors and one 3i Group plc nominee, who is not considered to be independent.

The Committees have terms of reference, which are available on **www.3i-infrastructure.com**

Further details on the key responsibilities and areas of focus of the Board and its Committees, as well as details on attendance at full Board meetings, are set out on pages 57 to 70.

## Changes to the Board of Directors

On 31 December 2016, Philip Austin stepped down as a Director of the Company after 10 years' service on the Board. Paul Masterton was appointed as Senior Independent Director in his stead, effective from 1 January 2017.

## 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 and divestment decisions, taking into account the advice it receives from the Investment Adviser who provides reports and papers that 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.

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" on page 61.

### 3i Infrastructure plc Board Committees

| Audit and Risk Committee | Management Engagement Committee | Investment Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Financial reporting, risk and internal controls** | **Monitoring of the performance of the Investment Adviser** | **Acquisition, monitoring and disposal of investments** | **Director remuneration** | **Board appointments and size, balance and composition of the Board** |
| **Steven Wilderspin** (Chair)<br>Doug Bannister<br>Wendy Dorman<br>Paul Masterton | **Richard Laing** (Chair)<br>Doug Bannister<br>Wendy Dorman<br>Paul Masterton<br>Steven Wilderspin | **All Directors** | **Paul Masterton** (Chair)<br>Doug Bannister<br>Wendy Dorman<br>Richard Laing<br>Steven Wilderspin | **Richard Laing** (Chair)<br>Wendy Dorman<br>Paul Masterton |
| page 64 | page 68 | page 57 | page 69 | page 67 |

# Leadership
## Board of Directors
continued

### Richard Laing
**Non-executive Chairman**

Richard Laing was Chief Executive of CDC Group plc, from 2004 to 2011, having joined the organisation in 2000 as Finance Director. Prior to CDC, he spent 15 years at De La Rue, where he held a number of positions, in the UK and internationally, latterly as the Group Finance Director. He also worked in agribusiness and at PricewaterhouseCoopers and Marks & Spencer. His current non-executive appointments include JPMorgan Emerging Markets Investment Trust plc and Perpetual Income and Growth Investment Trust plc; Miro Forestry, which operates in Ghana and Sierra Leone and which he chairs; Leeds Castle; and Plan UK, the international children's charity. He is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA). Board member since 1 January 2016, resident in the UK.

Chairman of the Nominations Committee and Management Engagement Committee.

### Doug Bannister
**Non-executive Director**

Doug has over 25 years of experience in the transportation sector, having led businesses trading around the world for P&O Nedlloyd and Maersk Line. He became Group CEO of the Ports of Jersey (Airport & Harbours) in 2011, with responsibility for the Island's strategic aviation and maritime assets. Skilled in turnaround, restructuring and transformation of capital intense transportation businesses, he has been responsible for business improvements in a wide variety of transport and logistics activities in both the freight and passenger segments. In 2016 Doug was awarded the Institute of Directors Jersey Director of the Year for large businesses. Board member since 1 January 2015, resident in Jersey.

### Wendy Dorman
**Non-executive Director**

Wendy is a chartered accountant who began her career as an auditor and went on to specialise in financial services taxation. In 2001, she moved from London to Jersey and she led the Channel Islands tax practice of PwC until June 2015. Wendy has over 25 years' experience in taxation gained both in the UK and the offshore environment, working both in practice and in industry. Wendy was Chairman of the Jersey branch of the Institute of Directors from 2014 to 2016 and a former President of the Society of Chartered Accountants. She is a non-executive director of Jersey Electricity plc and Jersey Finance Limited and Chairman of the Audit and Risk Committee of CQS New City High Yield Fund Limited. Board member since 1 March 2015, resident in Jersey.

### Ian Lobley
**Non-executive Director**

Ian joined 3i in 1987, became a Partner in 1994 and has been an active investor and board member across Europe, Asia and the USA. In his role as Managing Partner – Asset Management, Ian has responsibility for investments in companies across a variety of sectors and is an experienced board member across multiple geographies. He is a member of the 3i Group Investment Committee and is a member of the BVCA UK and European Capital Committee. Board member since 6 May 2014, resident in the UK.

## Paul Masterton

**Non-executive Director, Senior Independent Director**

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

Chairman of the Remuneration Committee.

## Steven Wilderspin

**Non-executive Director**

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. He also sits on the boards of two of 3i Infrastructure plc's Luxembourg subsidiaries, 3i Infrastructure (Luxembourg) Holdings S.a r.l. and 3i Infrastructure (Luxembourg) S.a r.l. He is a qualified Chartered Accountant. Board member since 20 September 2007, resident in Jersey.

Chairman of the Audit and Risk Committee.

## Meetings of the Board

A calendar of seven scheduled main Board meetings was agreed at the start of the year. Due to the nature of the Board's close involvement in the operation of the Company and in making investment-related decisions, a number of further meetings are arranged from time to time at shorter notice. During the year, there were seven main meetings of the Board of Directors. In addition to these meetings, there were 11 full Board meetings arranged at short notice and two meetings of a specifically formed committee to execute decisions arising from full Board meetings. The Directors' attendance at main Board meetings is set out in the table below and these include Investment committee meetings to which all Board members are invited to attend.

| Directors' attendance (year to 31 March 2017) | Number of meetings while a Director | Attendance |
|---|---|---|
| Richard Laing | 7 | 7 |
| Philip Austin[1] | 5 | 5 |
| Doug Bannister | 7 | 6 |
| Wendy Dorman | 7 | 7 |
| Ian Lobley | 7 | 7 |
| Paul Masterton | 7 | 7 |
| Steven Wilderspin | 7 | 7 |

1 Served until 31 December 2016.

# Leadership

continued

The Board's responsibilities are set out on page 55. The principal matters considered by the Board during the year in relation to those responsibilities included the following:

## Matters reserved for the Board

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

- approval of the Company's overall strategy, plans and annual operating budget;
- approval of the Company's half-yearly and annual financial statements and changes in the Company's accounting policies or practices;
- approval of changes relating to the capital structure of the Company or its regulated status;
- approval of the appointment and removal of the Investment Adviser and annual review and continued approval of key agreements with service providers, including the Investment Advisory Agreement with 3i Investments plc; and
- approval of major changes in the nature of business operations or investment policy.

## Investment activity

- approval of new investment decisions, including the decision to invest in Infinis, TCR, Wireless Infrastructure Group, Valorem, Hart van Zuid and A27/A1;
- review of regular reports from the Investment Adviser relating to the infrastructure market and early stage work-in-progress investment opportunities; and
- ongoing review of market opportunities in a number of European and target geographies.

## Strategy and returns

An explanation of the business model and strategy for delivering the objectives of the Company is set out on pages 6 to 9.

The Board conducted a review of the Company's strategy through a series of Board meetings, taking advice from the Investment Adviser, the Company's Corporate Brokers and Financial Adviser. These meetings involved the following:

- review of the infrastructure market segments in which the Company operates, and of competitors' activity and the returns available from investing in those markets;
- approval to maintain the Company's target total return at 8–10% over the medium term;
- approval to maintain the dividend policy targeting a progressive annual dividend per share;
- approval of the dividend target for FY17 of 7.55 pence per share, as announced with the Company's full-year results to 31 March 2016;
- regular reviews of portfolio asset performance, including the underlying performance of assets within the India Fund and review of the expected future returns from the portfolio;
- review of the recommendations of the Investment Adviser on the valuation of portfolio investments, including the benchmarking of those valuations in the context of prevailing market conditions and the timing of completion of regulatory review processes; and
- regular reviews of feedback from shareholders following key strategic and financial announcements.

## Manage relations with the Investment Adviser

- a review with the Investment Adviser of its origination and asset management capabilities; and
- formal evaluation of the performance of the Investment Adviser.

## Financial management

- management of the Company's liquidity and review of the Company's liquidity policy;
- approval for the Company to raise up to £350 million in new equity through an Open Offer, Placing and Intermediaries Offer, and subsequent approval to increase the capital raise to £385 million;
- review of the Company's existing RCF, and approval in April 2016 to increase the size of the RCF by a further £200 million to December 2016 (subsequently cancelled in July 2016) and extend the maturity by an additional year. Approval in April 2017 to increase again the size of the RCF by £200 million to March 2018 and extend the maturity by a further year;
- ongoing review of foreign exchange hedging;
- review and ongoing monitoring of the OECD's Action Plan on Base Erosion and Profit Shifting;
- approval of the Company's annual budget for the year to 31 March 2018; and
- assessment of the Company's viability through consideration of scenario and stress testing.

Other matters considered by the Board included:

- succession planning;
- the impact of changes to the UK Corporate Governance Code and the impact of the introduction of the EU Market Abuse Regulations in July 2016; the Board received updates to UK and Jersey law and regulations and considered their impact on the Company; and
- the Board considered the market practice for offering a scrip dividend alternative to shareholders.

# Effectiveness

## Performance evaluation

### Board

The Company engaged Lintstock, a specialist consultancy which is independent of the Company and the Investment Adviser, during the year to undertake an evaluation of the performance of the Board of Directors and its Committees.

Lintstock engaged with the Chairman to set the context for the evaluation and to tailor the content to the specific circumstances of the Company. The Directors were then asked to complete an online survey addressing the performance of the Board, its Committees, and the Chairman, before two representatives from Lintstock conducted interviews with each Director to expand upon the issues raised in the surveys. The Managing Partner and Chief Financial Officer, Infrastructure from the Investment Adviser were also interviewed during the course of the review. The anonymity of all respondents was maintained throughout the process in order to promote the open and frank exchange of views.

Lintstock subsequently produced a report for the Board addressing the following:

- the composition of the Board, and the attributes required in new non-executive appointments;
- the relationships between Board members including the atmosphere of meetings;
- the performance of and the Board's relationship with the Investment Adviser;
- the management and focus of the Board meetings, and the quality of the information and support provided to the Board;
- the Board's oversight of risk and strategy, and the overall effectiveness of the annual strategy day;
- the Directors' views of the top strategic issues facing the company; and
- the performance of the Audit & Risk, Nomination and Remuneration Committees, the Chairman, and that of individual Directors.

The Board noted that the results of the review showed a high degree of overall satisfaction with the composition and expertise of the Board, and the dynamics between Directors. The effectiveness of the Investment Adviser was also rated very highly.

The following recommendations were made following the review:

- to continue to address the future composition and succession requirements for the Board; and
- to continue to develop the relationship with the Investment Adviser, with ongoing improvement in the information provided to the Board, and a focus on risk management and strategic issues.

It is envisaged that the Board evaluation next year will follow up on the themes and recommendations from this review to ensure that progress is assessed and measured.

### Investment Adviser

The Board has a Management Engagement Committee (comprising all Board members, with the exception of Ian Lobley, the 3i Group nominee Director who served throughout the year), which carries out the annual evaluation of the Investment Adviser required under the Listing Rules and which manages the relationship with the Investment Adviser on behalf of the Company. During the year, the Committee assessed the performance of the Investment Adviser. Following its assessment, and based on the good performance of the Investment Adviser, the Directors believe that the continued appointment of the Investment Adviser on the terms set out in Note 18 on page 99 is in the interest of shareholders.

## The Company Secretary

The Company has appointed Capita Financial Administrators (Jersey) Limited as Company Secretary.

All Directors have access to the advice and services of the Company Secretary, who advise the Board, through the Chairman, on governance matters. The Company's Articles of Association (the "Articles") and the schedule of matters reserved for the Board provide that the appointment and removal of the Company Secretary would be a matter for the full Board.

The Board reviewed the Company Secretary's performance during the year and approved its continued appointment.

## Appointment and re-election of Directors

The appointment and replacement of Directors is governed by the Articles, the Companies (Jersey) Law 1991 and related legislation. The Articles provide that at each Annual General Meeting of the Company all the directors at the date of notice convening the annual general meeting shall retire from office and each director may offer himself or herself for election. In addition, under the Code, all directors of FTSE 350 companies should be subject to annual election by shareholders. As a result, all Directors will voluntarily retire and stand for election or re-election at the 2017 AGM.

# Effectiveness

continued

## The Chairman

The Chairman, Richard Laing, leads the Board in the determination and implementation of its strategy. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman also acts as the Company's appointed member to the Advisory Board for the 3i India Infrastructure Fund. He receives no additional remuneration for this role. The Chairman facilitates the effective contribution of all the Directors and constructive relations between the Company's advisers, including the Investment Adviser, and the Directors. The Chairman maintains direct links with the Company's advisers and ensures that regular reports from them are circulated to the Directors to enable the Directors to remain aware of shareholders' views. The Chairman ensures, with the co-operation of the Investment Adviser, that a programme of effective communications is available for shareholders, including with the Chairman and Senior Independent Director, when shareholders so wish.

## Senior Independent Director

Paul Masterton is the Senior Independent Director, having replaced Philip Austin who resigned from the Board on 31 December 2016. In accordance with the Code, any shareholder 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 five non-executive Directors. Biographical details for each of the Directors are set out on pages 56 and 57. All Directors served throughout the year under review, with the exception of Philip Austin, who served until 31 December 2016.

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. Each of the Directors has an appointment letter which reflects the best practice guidelines published in December 2011 by the Institute of Chartered Secretaries and Administrators.

Following the formal appraisal process of Directors, and in accordance with Section B.7.2 of the Code, the Chairman will propose the election or re-election of all Directors at the forthcoming AGM.

Copies of the appointment letters are available from the Company Secretary upon request.

The Directors' appointments can be terminated, without compensation for loss of office, in accordance with the Articles. Under the Articles, their appointments can (inter alia) be terminated on notice from the other members of the Board, and also on ceasing to be a Director if they fail to be re-elected at any Annual General Meeting. In addition to fulfilling their legal responsibilities as Directors, the non-executive Directors are expected to bring an independent judgment to bear on issues of strategy, performance, investment appraisal and standards of conduct. They are also expected to ensure high standards of financial probity on the part of the Company. As well as papers for Board meetings, the Directors receive monthly management accounts, reports and information which enable them to scrutinise the Company's performance against agreed objectives.

## Directors' independence

All the Directors, with the exception of Ian Lobley, who was appointed as the 3i Group nominee to the Board with effect from 6 May 2014, 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. The Board have assessed the independence of Steven Wilderspin who has served on the Board of the Company since September 2007 and continue to consider him independent. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial year in relation to the business of the Company.

As a non-independent Director who is not a member of the Management Engagement Committee, Ian Lobley did not participate in the Board's evaluation of the performance of the Investment Adviser.

## Training and development

The Company has developed a framework within which training for Directors is planned, with the objective of ensuring that the Directors understand the duties and responsibilities of being a director of a listed company and the business environment of the Company. All Directors are required continually to 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, but on occasion by other advisers, including the Company's corporate brokers and financial adviser, and the Company's legal advisers.

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

This year, the Directors received presentations on aspects of the infrastructure market, including recent transactions and the returns available from investing in the economic infrastructure market, as well as the market opportunity in greenfield projects in Europe. The Board also received briefings in relation to changes to laws and regulations in Jersey and the UK, which included briefings on the EU Market Abuse Regulations and OECD Base Erosion and Profit Shifting ("BEPS").

The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

## 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 Adviser's 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 system of internal control. The Audit and Risk Committee performed its annual review of the system's effectiveness and reported its conclusions to the Board. The internal control system, which has been in place throughout the year and up to the date of approval of the Annual report, 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 and Risk Committee of the Company receives reports on the control systems and their operation from its main service providers, and is responsible for reviewing these reports for determining the effectiveness of internal controls.

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

# Effectiveness

continued

The Company's control policies and procedures, which are in accordance with the Financial Reporting Council's guidance on risk management, internal control and related financial and business reporting, have been in place throughout the financial year and up to the date this Report was approved. Key controls are outlined below:

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

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

## Principles and processes

The Company adopts a set of key controls including:

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

# Relations with shareholders

## Approach to Investor Relations

The Board recognises the importance of maintaining a purposeful relationship with shareholders and the Company has a comprehensive Investor Relations programme, devised and implemented by the Investment Adviser, to help existing and potential investors to understand its activities, strategy and financial performance. The Chairman maintains a dialogue with shareholders on strategy and corporate governance as required and shareholders are offered the opportunity to meet with the Chairman and with the Senior Independent Director. The Board receives updates from the Chairman and the Investment Adviser following shareholder meetings, as well as updates from the Company's brokers on shareholder issues. Directors are invited to attend the Company's presentations to analysts and have the opportunity to meet shareholders at the AGM.

## Board oversight

The Investment Adviser briefs the Board on a regular basis on the implementation of the Investor Relations programme and on feedback received from analysts and investors. Any significant concern raised by shareholders in relation to the Company is communicated to the Board. Research reports published by investment banks on the Company are circulated to the Board on a regular basis.

The Board also receives periodic feedback from existing shareholders and potential investors through the Company's corporate brokers and advisers: JPMorgan Cazenove, RBC Capital Markets and Scott Harris.

## Annual General Meeting

The Company uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are generally made by the Chairman and the Investment Adviser. The Senior Independent Director and chairman of the Audit and Risk Committee are also generally available to answer shareholders' questions. Business to be discussed at the Meeting is notified to shareholders in advance through the Notice of Meeting and covers matters such as the annual election of Directors, the appointment of the auditor and the dividend declaration. During the Meeting, shareholders are also asked to approve the Financial statements and report of the auditor. In addition, shareholders are asked to approve the Directors' remuneration report.

The 2016 Notice of AGM 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 poll results were made available on the Company's website.

## Institutional investor programme

### May

The Investment Adviser meets with existing and potential investors as required following the release of the Company's annual results. The Investment Adviser held regular meetings with existing and potential investors in the UK and internationally to communicate the strategy and performance of the Company. These meetings continue throughout the year, as required.

### July

The AGM is an opportunity for the Company's Directors and members of the Investment Advisory team to meet attending investors in person.

### November

Following the release of the Company's half-year results, the Investment Adviser held meetings with existing and potential investors in the UK and internationally to communicate the strategy and performance of the Company.

## Annual and half-yearly results presentations

The Chairman and Investment Adviser present the annual and half-yearly results to a broad group of analysts.

## Individual investors

Individual investors are encouraged to engage with the Company and provide feedback through the Company Secretary, who can be contacted at 3i@capita.je or by telephone on +44 (0)1534 847 410.

## Website

The Company's website provides a description of its strategy and portfolio, as well as a full archive of news and historical financial information and details of forthcoming events for shareholders and analysts.

www.3i-infrastructure.com

# Accountability
## Report of the Audit and Risk Committee

**Steven Wilderspin**
**Chairman**

"The Committee has a focus on financial reporting, risk management and auditor's independence and objectivity to support the Company in meeting its strategy."

| Members | Number of meetings while a Committee member | Attendance |
|---|---|---|
| Steven Wilderspin | 4 | 4 |
| Philip Austin | 3 | 3 |
| Doug Bannister | 4 | 3 |
| Wendy Dorman | 4 | 4 |
| Paul Masterton | 4 | 4 |

All members served throughout the year, except for Philip Austin, who resigned as a Director of the Company with effect from 31 December 2016. The qualifications of the members of the Audit and Risk Committee are set out in the biographical details of the Directors on pages 56 and 57. All the members of the Audit and Risk Committee are independent non-executive Directors. The Board is satisfied that the Audit and Risk Committee chairman, Steven Wilderspin, has recent and relevant financial experience and is a Chartered Accountant.

For Terms of Reference, see our website
**www.3i-infrastructure.com**

### Committee remit
During the year, the Audit and Risk Committee undertook its responsibilities in accordance with its Terms of Reference, as detailed on the Company's website.

### Matters reviewed in the year
The principal matters reviewed by the Audit and Risk Committee during the year are described below.

#### Financial reporting
The Committee reviewed and made recommendations to the Board regarding significant accounting matters and the accounting disclosures in the Half-yearly report and Annual report and accounts of the Company. The most significant recurring matters of judgment considered by the Committee were:

- valuation of the Company's investment portfolio – this year, the areas examined included the level of discount rates applied in valuation models and the calculation of terminal values, with a particular focus on those used for economic infrastructure assets. The Committee also reviewed changes to the assumed short-term inflation rate used in the valuation model. These matters were discussed with the Investment Adviser and the auditor, including the auditor's infrastructure valuation expert;
- investment income recognition – the Committee reviewed monthly management information for the portfolio and individual portfolio companies to identify where variances of income from expectations required further exploration;
- calculation of the advisory and performance fees payable to the Investment Adviser – as well as the review of valuations, which drive advisory and performance fees, noted above, the Committee undertook a detailed review of each step in the performance fee calculation. The Committee also had access to a review of the calculation of the performance fee carried out by the internal audit function of the Investment Adviser and engaged the auditor to perform additional work to agree that the advisory and performance fees were calculated in accordance with the underlying Investment Advisory Agreement; and
- investment entity considerations – the Committee reviewed the assessment that the Company continues to meet the criteria of an investment entity. As part of this exercise, the Committee assessed the new entities which were invested into during the year. All of these are considered to be investment holding companies or project SPVs and therefore they are held at fair value through profit or loss.

The Committee considered the requirements of the UK Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 with which it is complying voluntarily, in line with best practice reporting. The Committee specifically reviewed the Annual report and accounts to conclude whether the financial reporting is fair, balanced, understandable, comprehensive and consistent with how the Board assesses the performance of the Company's business during the financial year, as required for companies with a Premium Listing under the Code. As part of this review, the Committee considered if the Annual report and accounts provided the information necessary to shareholders to assess the Company's performance, strategy and business model and reviewed the description of the Company's Key Performance Indicators.

In addition to the above matters, the Committee reviewed the following areas:

- further segmental disclosure was added to the financial statements; and
- the Governance section of the Annual report was updated to provide greater clarity.

The Committee presented its conclusions on the above areas to the Board and advised the Board that it considered the Annual report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

## External audit

During the year, the Committee oversaw a tender process in relation to the appointment of the external auditor. By placing the audit out for tender, the Company was able to address the following objectives: statutory and regulatory compliance; appropriate technical capability and cost efficient audit. The Committee discussed the Request for Proposal ("RFP") and the key criteria for assessing the proposals received. The RFP was issued on 24 October 2016 to six audit firms. The audit firms were invited to attend workshops with members of the Committee and key stakeholders from the Investment Adviser in order to pitch for the audit and ask any questions needed to refine their proposal. Following receipt and evaluation of the RFP responses, two audit firms were asked to make formal presentations to the Committee on 30 January 2017.

Following this process, the Committee recommended to the Board that Deloitte LLP be appointed as external auditor for the year ended 31 March 2018, subject to shareholder approval at the AGM in July 2017. The Board confirms there are no matters in connection with Ernst & Young LLP's retirement as auditor which need to be brought to the attention of shareholders.

Ernst & Young LLP has been the Company's auditor since inception in 2007. No contractual obligation exists to restrict the choice of auditor of the Company. The Committee is cognisant of the requirement of governing the appointment of an external auditor, notably the requirements of the Competition and Market Authority ("CMA") in relation to the mandatory re-tendering of audit services every 10 years. The Company confirms that it has complied with the provisions of the CMA for the financial year under review.

The review of the effectiveness of the external audit process during the year was considered as part of the audit tender process.

The Committee monitors the external auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements. As part of this review, the 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 auditor's independence or objectivity. In order to safeguard auditor objectivity and independence, the chairman of the Audit and Risk Committee is required to approve all non-audit work undertaken by the auditor for the Company and its subsidiaries 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 auditor 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.

# Accountability
## Report of the Audit and Risk Committee
continued

Ernst & Young LLP provided non-audit services to the consolidated Group for fees totalling £364,156 for the year to 31 March 2017 (2016: £5,000). This related to agreed-upon procedures on the advisory and performance fees (£6,000), due diligence costs in relation to investment transactions (£215,656) and work they performed as Reporting Accountants for the capital raise (£142,500). In this financial year and previous years, 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 non-consolidated investee companies. However, the fees received by Ernst & Young LLP did not represent a significant portion of the total investment transaction costs (2016: same). The fees for these services are ordinarily borne by the underlying investee companies or unconsolidated subsidiaries, and therefore are not included in the expenses of the Group. In assessing the auditor's independence, the Committee reviews the total amount of fees paid to the auditor in accordance with the stated policy on non-audit services, regardless of whether they are borne by the Group or by the investee companies.

### Risk
During the year the Committee:

- reviewed and updated the risk matrix, where appropriate, to reflect the Company's key risks;
- conducted detailed risk reviews of BEPS and cyber security, as detailed in the Risk report on pages 48 and 49; and
- considered the presentation of risk-related matters in the Annual report and accounts.

### Other matters
Other matters reviewed by the Committee during the year were:

- the effectiveness of the internal control environment of the Company and the Company's compliance with its regulatory requirements;
- the coverage of the proposed interim and final dividends, including a review of the Board's assessment of the coverage of dividend payments through income generated by the Company, non-income cash distributions received from portfolio companies, net capital profits generated from the sale of portfolio assets and retained reserves;
- reporting obligations arising from the Company's authorisation under the Alternative Investment Fund Managers Directive during the capital raise;
- the Company's compliance with its regulatory obligations in Jersey, including a review of compliance with the Codes of Practice for Certified Funds;
- the Group structure with consideration being made to ensuring it was still appropriate for current legislation; and
- the results of the Investment Adviser's internal audit and compliance work in respect of the Investment Adviser's obligations to the Company.

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

**Steven Wilderspin**
Chairman, Audit and Risk Committee
10 May 2017

# Accountability
## Report of the Nomination Committee

**Richard Laing**
**Chairman**

"The Committee aims to ensure that the Board composition is balanced and effective."

| Members | Number of meetings while a Committee member | Attendance |
|---|---|---|
| Richard Laing | 2 | 2 |
| Wendy Dorman | 2 | 2 |
| Paul Masterton | 2 | 2 |

In addition, there were several informal discussions held between the members in relation to matters agreed at the scheduled meetings.

For Terms of Reference, see our website
**www.3i-infrastructure.com**

The Committee is responsible for adopting a formal and transparent procedure for the appointment of new directors, including interviewing potential candidates. Final decisions on nominations, however, are taken by the entire Board. The Nomination Committee can use the services of external search consultancies when new directors are being recruited. As well as seeking an appropriate balance of expertise and experience, especially in finance and infrastructure, the nominations process has to take account of the residence of directors, as the majority of directors have to be non-resident in the UK. For practical reasons relating to the conduct of the Company's affairs, most directors are resident in the Channel Islands.

### Matters reviewed in the year

The Committee has undertaken succession planning, to ensure that processes and plans are in place with regards to Board appointments dealing with succession and diversity. In particular, the Committee recommended the new Senior Independent Director and new Chair of the Remuneration Committee due to the retirement of Philip Austin at the end of 2016.

The Committee also reviewed its Terms of Reference to ensure that the Committee is still operating effectively.

# Accountability
## Report of the Management Engagement Committee

**Richard Laing**
Chairman

"Management of the relationship with the Investment Adviser is key to the performance of the Company."

| Members | Number of meetings while a Committee member | Attendance |
|---|---|---|
| Richard Laing | 4 | 4 |
| Philip Austin | 2 | 2 |
| Doug Bannister | 4 | 3 |
| Wendy Dorman | 4 | 4 |
| Paul Masterton | 4 | 4 |
| Steven Wilderspin | 4 | 4 |

All members served throughout the year, except for Philip Austin, who resigned as a Director of the Company with effect from 31 December 2016.

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

For Terms of Reference, see our website
**www.3i-infrastructure.com**

### The Committee monitored the overall relationship with the Investment Adviser and among specific topics it:

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

The Committee concluded that the continued appointment of 3i Investments plc as Investment Adviser is in the best interest of shareholders.

# Remuneration
## Report of the Remuneration Committee

### Paul Masterton
**Chairman**

"The Remuneration Committee, comprising independent non-executive Directors, sets the remuneration of the Chairman and members of the Board. The Committee undertook an external benchmarking exercise in March 2017 to review the remuneration of the Chairman and of non-executive Director fees."

| Members | Number of meetings while a Committee member | Attendance |
|---|---|---|
| Paul Masterton | 2 | 2 |
| Philip Austin | 1 | 1 |
| Doug Bannister | 2 | 2 |
| Wendy Dorman | 2 | 2 |
| Richard Laing | 2 | 2 |
| Steven Wilderspin | 2 | 2 |

The Remuneration Committee is charged with reviewing the scale and structure of the non-executive Directors' remuneration, and for the year under review was constituted by all the independent non-executive Directors. All members served throughout the year, except for Philip Austin, who resigned as a Director of the Company with effect from 31 December 2016.

Paul Masterton was appointed Chairman of the Committee with effect from 1 January 2017.

For Terms of Reference, see our website
**www.3i-infrastructure.com**

## Remuneration policy

The remuneration of each of the Directors is subject to fixed fee arrangements and none of the Directors received any additional remuneration or incentives in respect of his or her services as a Director of the Company. During the financial year to 31 March 2017, the Directors who served during that period were due the following:

| Directors' fees | Amount paid in the year ending 31 March 2017 £ | Amount paid in the year ending 31 March 2016 £ |
|---|---|---|
| Richard Laing | **140,000** | 35,000 |
| Philip Austin[1] | **45,000** | 57,917 |
| Doug Bannister | **53,000** | 50,917 |
| Wendy Dorman | **53,000** | 49,917 |
| Ian Lobley[2] | **45,000** | 43,750 |
| Paul Masterton[3] | **54,750** | 50,917 |
| Steven Wilderspin | **60,000** | 57,917 |

1 Served until 31 December 2016.
2 Fee payable to 3i Group plc.
3 Served as Senior Independent Director from 1 January 2017.

Directors' fees for the year under review were calculated on the following basis:

| Directors' fees | Annual fee for year to 31 March 2017 £ | Annual fee for year to 31 March 2016 £ |
|---|---|---|
| Chairman's fee | **140,000** | 140,000 |
| Non-executive Director base fee | **45,000** | 45,000 |
| Additional fee for the Senior Independent Director | **7,000** | 7,000 |
| Additional fee for the Audit and Risk Committee Chairman | **10,000** | 10,000 |
| Additional fee for Audit and Risk Committee members | **3,000** | 3,000 |
| Additional fee for Directors resident in Jersey | **5,000** | 5,000 |

# Remuneration
## Report of the Remuneration Committee
continued

### Remuneration review

During the year, the Committee considered the remuneration of Directors in conjunction with a review of market trends by Kepler Associates Partnership LLP ("Kepler review"), who have advised the Board on Directors' fees since 2011. Kepler Associates is a founding member of the Remuneration Consultants Group and a signatory to its Code of Conduct. The Kepler review looked at remuneration of Boards for similar sized companies or those in similar industries or sectors, taking account of the activities and time commitment of the various roles of the Board and Committee members.

The new fees set out below were recommended by the Remuneration Committee, noting that the total remuneration would still be within the aggregate limit approved by the Shareholders on 7 July 2016, and were subsequently approved by the Board:

i) The current individual base fee of £45,000 be combined with the current £5,000 for Jersey directors to establish a new base fee of £50,000.

ii) That all directors, irrespective of place of residence, receive the same base fee.

iii) That the base fee be increased by £1,000, with effect from 1 September 2017, resulting in a new base fee of £51,000 for each Director.

iv) No changes will be made to supplementary fees for the Senior Independent Director or for the Chairman of the Audit and Risk Committee.

v) No changes will be made to the fees for the Chairman of the Board.

**Paul Masterton**
Chairman, Remuneration Committee
10 May 2017

# Directors' statement



## Principal activity

The Company 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. Its unconsolidated subsidiaries are shown on page 100.

## Regulation

The Company 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.

### AIFMD

The Alternative Investment Fund Managers Directive (the "Directive") entered into force on 22 July 2013.

The Company is a non-EU Alternative Investment Fund ("AIF") and is internally managed, which means that the Board of the Company also performs the functions of an Alternative Investment Fund Manager ("AIFM") under the Directive and the AIF and the AIFM are the same entity. As a non-EU AIFM, the Company is currently outside the full scope of the Directive, but is subject to a number of the Directive's requirements when it markets the Company's securities within the EU, depending on when and how such marketing of securities is performed.

### NMPI

On 31 January 2014, the Company issued a statement noting the changes to the UK Financial Conduct Authority ("FCA") rules regarding the restrictions on the retail distribution of unregulated collective investment schemes and close substitutes ("non-mainstream pooled investments", or "NMPIs"), which came into effect on 1 January 2014.

In this statement, the Company asserted that its shares are excluded from these rules and therefore the restrictions relating to NMPIs will not apply to its shares.

It is the Board's intention that the Company will continue to conduct its affairs in such a manner that the Company's shares will continue to be excluded from the FCA's rules relating to NMPIs.

## Results and dividends

The Financial statements of the Company and its consolidated subsidiary (together referred to as the "Group") for the year appear on pages 78 to 81. Total comprehensive income for the year was £146.3 million (2016: £166.2 million). An interim dividend of 3.775 pence per share (2016: 3.625 pence) in respect of the year to 31 March 2017 was paid on 9 January 2017. The Directors recommend that a final dividend of 3.775 pence per share (2016: 3.625 pence) be paid in respect of the year to 31 March 2017 to shareholders on the register at the close of business on 16 June 2017. The distribution of the dividend payments between interim and final dividends is evaluated by the Board each year, according to the Company's performance, portfolio income generation and other factors, such as profits generated on the realisation of portfolio assets. The Company will be targeting a dividend for FY18 of 7.85 pence per share.

## Strategy, performance and principal risks

The Strategic report on pages 1 to 52 provides a review of the performance and position of the Company, together with a description of the principal risks and uncertainties that it faces.

## 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 the Company through its Infrastructure business. 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 (the "IAA"), which includes an investment exclusivity arrangement in respect of investment opportunities within the Company's investment policy.

## 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 18 on page 99.

Capita Financial Administrators (Jersey) Limited acts as the Administrator and Company Secretary to the Company.

## Revolving Credit Facility

In April 2016, the £300 million multicurrency Revolving Credit Facility term was extended by a year to 7 May 2019. In April 2017, the term was extended by a further year to 7 May 2020. The Facility is secured by a fixed and floating charge over the directly held assets of the Company, and is subject to cancellation by the Company or termination by the banks in certain circumstances, which are market standard for such a facility, including if there is a change of investment adviser to the Company. Under the Facility agreement, the Company has the right to increase the size of the Facility by up to a further

# Directors' statement

continued

£200 million on the same interest margin and other terms and conditions, with the existing lenders having a right of first refusal. The Company exercised this right and on 25 April 2016 increased the Facility size to £500 million on a temporary basis until 31 July 2016, with the increase provided by existing lenders. In April 2017 the Company again increased the size of the Facility to £500 million until 30 March 2018.

## Share capital

The issued share capital of the Company as at 31 March 2017 was 1,026,549,746 ordinary shares (2016: 793,216,413).

## Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital as at 31 March 2017 and 30 April 2017, which are disclosable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, are as follows:

| Interest in ordinary shares | Number of ordinary shares[1] as at 31 March 2017 | % of issued share capital | Number of ordinary shares[1] as at 30 April 2017 | % of issued share capital |
|---|---|---|---|---|
| 3i Group plc (and subsidiaries) | 346,892,428 | 33.79 | 346,892,428 | 33.79 |
| Schroders plc | 79,572,182 | 7.75 | 78,654,730 | 7.66 |

1 Each ordinary share carries the right to one vote.

## Directors' interests

In accordance with FCA Listing Rule 9.8.6(R)(1), Directors' interests in the shares of the Company (in respect of which transactions are notifiable to the Company under FCA Disclosure and Transparency Rule 3.1.2(R)) as at 31 March 2017 are shown below:

| Directors' interests and beneficial interests[1] | Ordinary shares at 31 March 2017 |
|---|---|
| Richard Laing | 25,384 |
| Philip Austin[2] | 14,000 |
| Doug Bannister | 12,500 |
| Wendy Dorman | 24,000 |
| Ian Lobley | 0 |
| Paul Masterton | 20,513 |
| Steven Wilderspin | 31,730 |

1 No options have ever been granted since the inception of the Company.
2 Served until 31 December 2016.

In the period from 1 April 2017 to 30 April 2017, there were no changes in the interests of each serving Director.

## Directors' authority to buy back shares

The Company did not purchase any of its own shares during the year. The current authority of the Company to make market purchases of up to 14.99% of the issued ordinary share capital expires at the next Annual General Meeting ("AGM"), to be held on 6 July 2017 ("the 2017 AGM"). The Company will seek to renew such authority until the end of the AGM in 2018, specifying the maximum and minimum price at which shares can be bought back. Any buyback of ordinary shares will be made subject to Jersey law and the making and timing of any buybacks will be at the absolute discretion of the Directors. Such purchases will also only be made in accordance with the Listing Rules of the FCA which provide that the price paid must not be more than the higher of: (i) 5% above the average middle market quotations for the ordinary shares for the five business days before the shares are purchased; and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange at such time.

## Directors' conflicts of interests

The Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association enable the 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 or her in the actual or purported execution or discharge of his or her 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 accounts in accordance with applicable law and regulations and those International Financial Reporting Standards ("IFRSs") which have been adopted by the European Union.

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

Jersey company law requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The Financial statements of the Group are required by law to give a true and fair view of the state of affairs of the Group at the period end and of the profit or loss of the 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;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the Financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

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

The Directors of the Company and their functions are listed on pages 55 to 57.

The Directors have acknowledged their responsibilities in relation to the Financial statements for the year to 31 March 2017.

## 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 Strategic report on pages 1 to 52 and in the Financial statements and related Notes on pages 87 to 101. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial statements and related Notes on pages 87 to 101. In addition, Note 9 to the Financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Company has liquid financial resources and a strong investment portfolio providing a stable and robust income yield and an expectation of medium-term capital growth. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully and to cover its dividend in the next financial year. 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

**Capita Financial Administrators (Jersey) Limited**
Company Secretary
10 May 2017

Registered Office:
12 Castle Street
St. Helier
Jersey JE2 3RT
Channel Islands

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

## Our opinion on the consolidated financial statements

In our opinion the consolidated financial statements ("the financial statements") of 3i Infrastructure plc ("the Company") and its subsidiary (together "the Group"):

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

## What we have audited

We have audited the financial statements of the Group for the year ended 31 March 2017, which comprise the:

- Consolidated statement of comprehensive income for the year ended 31 March 2017
- Consolidated statement of changes in equity for the year ended 31 March 2017
- Consolidated balance sheet as at 31 March 2017
- Consolidated cash flow statement for the year ended 31 March 2017
- Reconciliation of net cash flow to movement in net debt
- Related notes 1 to 19 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU.

## Overview of our audit approach

| | |
|---|---|
| Risks of material misstatement | • Valuation of the investment portfolio<br>• Incomplete or inaccurate investment income recognition<br>• Calculation of performance fees |
| Audit scope | • We performed an audit of the financial statements of 3i Infrastructure plc, and its subsidiary, 3i Infrastructure Seed Assets GP Limited (together "the Group") for the year ended 31 March 2017 |
| Materiality | • Materiality of £17.3m which represents 1% of net assets (2016: £12.8m, 1% of net assets) |
| What has changed | • There has not been a change of audit approach from the audit for the year ended 31 March 2016 |

## Our assessment of risk of material misstatement

As in prior years, we identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

| Risk | Our response to the risk | Key observations communicated to the Audit and Risk Committee |
|---|---|---|
| **Valuation of the investment portfolio (2017: £1,815.6m, 2016: £1,228.8m)** as described in the Report of the Audit and Risk Committee (pages 64-66) and Note 7 of the financial statements (pages 90-92).<br><br>The valuation of the Group's investment portfolio is a key driver of the Group's investment return and represents a material proportion of the Group's net assets. The movements in the investment portfolio are shown in Note 7 to the financial statements.<br><br>Inappropriate assumptions made in determining the fair value of the investment portfolio could have a significant impact on the net asset value and the return generated for shareholders. | With the assistance of our infrastructure valuation specialists, we performed the following procedures for a sample of assets in the investment portfolio:<br>• Assessed that the complex valuation techniques adopted by management to value the assets within the investment portfolio, and conclusions reached, were consistent with IFRS as adopted by the EU and International Private Equity and Venture Capital Valuation Guidelines ("IPEV guidelines");<br>• Compared the actual cash flows in the current year to prior year assumptions in order to assess the accuracy of management's forecasting process;<br>• Compared the key valuation drivers applied in the valuation models against current market and comparable transaction data in order to assess the appropriateness of these drivers; and<br>• Obtained and read the latest independent review opinion from the investment adviser in respect of the integrity of the cash flow models of each investment in our sample, where applicable. | We confirmed that there were no significant matters arising from our audit work on the valuation of the overall investment portfolio, and the techniques, cash flow forecasts and other key valuation drivers that we wished to bring to the attention of the Audit and Risk Committee.<br><br>We confirmed that valuation methodologies adopted were appropriate in relation to IPEV guidelines and that the valuation of the investment portfolio was not materially misstated and was in line with IFRS as adopted by the EU. |

| Risk | Our response to the risk | Key observations communicated to the Audit and Risk Committee |
|---|---|---|
| **Incomplete or inaccurate investment income recognition (2017: £80.5m, 2016: £58.9m)** as described on in the Report of the Audit and Risk Committee (pages 64-66).<br>Investment income (in the form of dividend and interest entitlements due from underlying investee companies) is a key driver of the amount available for distribution to shareholders by way of dividend.<br>If the Group is not entitled to receive the investment income recognised in the financial statements, or the investment income recognised is inaccurate or does not relate to the current financial year, this could have a material impact on the ability of the Group to meet its stated dividend growth targets. | We performed the following procedures:<br>• Obtained a breakdown by each investee company of investment income recognised by the Group and, on a sample basis, agreed dividends to board minutes from the investee companies and recalculated interest income based on the underlying agreements;<br>• Agreed a sample of investment income receipts to bank statements; and<br>• Performed cut off procedures by checking that a sample of investment income receipts around the year end date were recognised in the correct financial year. | We confirmed that there were no significant matters identified during our audit work on income recognition that we wished to bring to the attention of the Audit and Risk Committee. |
| **Calculation of performance fees (2017: £3.9m, 2016: £19.5m)** as described in the Report of the Audit and Risk Committee (pages 64-66), and Notes 2 and 18 of the financial statements (pages 88 and 99).<br>The performance fees incurred by the Group are a material component of the Group's cost base and, therefore, impact the Group's total return. The performance fee is disclosed in Note 2 to the financial statements.<br>As described in Note 18, the calculation methodology for the performance fee is complex and requires a number of subjective inputs from the Group's own financial records.<br>If the performance fee is not correctly calculated this could have a material impact on both the costs incurred and overall performance of the Group. | We performed the following procedures:<br>• Performed a recalculation of the performance fees incurred by the Group in the year using the calculation methodology described in the signed Investment Advisory Agreement between the Company and the Adviser; and<br>• Agreed the inputs used in the calculation of the performance fee to the Group's financial records and audited valuation of the investment portfolio. | We confirmed that there were no significant matters identified during our audit work on the calculation of performance fees that we wished to bring to the attention of the Audit and Risk Committee. |

## The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. The Group consists of the Company and its wholly owned subsidiary, 3i Infrastructure Seed Assets GP Limited.

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

continued

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined planning materiality for the Group to be £17.3m which is 1% of net assets (2016: £12.8m, 1% of net assets). We derived our materiality calculation as a proportion of net assets as we consider that to be the most important financial metric on which shareholders judge the performance of the Group.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% of planning materiality, being £13.0m (2016: 75% of materiality, namely £9.6m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report all audit differences in excess of £0.87m (2016: £0.64m) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations in forming our opinion.

## Scope of the audit of the financial statements

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

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 73, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

## Matters on which we are required to report by exception

| | | |
|---|---|---|
| ISAs (UK and Ireland) reporting | We are required to report to you if, in our opinion, financial and non-financial information in the Annual report is:<br>• materially inconsistent with the information in the audited financial statements; or<br>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or<br>• otherwise misleading.<br>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual report appropriately addresses those matters that we communicated to the Audit and Risk Committee that we consider should have been disclosed. | We have no exceptions to report. |
| Companies (Jersey) Law 1991 reporting | We are required to report to you if, in our opinion:<br>• 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<br>• the financial statements are not in agreement with the accounting records and returns; or<br>• we have not received all the information and explanations we require for our audit. | We have no exceptions to report. |
| Listing Rules review requirements | We are required to review:<br>• the directors' statement in relation to going concern, set out on page 73 and longer-term viability, set out on page 49; and<br>• the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. | We have no exceptions to report. |

## Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

| | | |
|---|---|---|
| ISAs (UK and Ireland) reporting | We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:<br>• the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;<br>• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;<br>• the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and<br>• the directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw your attention to. |

**David Robert John Moore, ACA**
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
10 May 2017

1 The maintenance and integrity of the 3i Infrastructure plc website 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 2017 £m | Year to 31 March 2016 £m |
|---|---|---|---|
| Realised (losses)/gains over fair value on the disposal of investments | | **(0.6)** | 0.1 |
| Net gains on investments at fair value through profit or loss | 7 | **150.6** | 187.0 |
| | | **150.0** | 187.1 |
| Investment income | | **80.5** | 58.9 |
| Fees payable on investment activities | | **1.4** | (1.3) |
| Fees receivable on investment activities | | **0.1** | 0.2 |
| Interest receivable | | **0.4** | 0.7 |
| **Investment return** | | **232.4** | 245.6 |
| Advisory and performance fees payable | 2 | **(23.7)** | (30.3) |
| Operating expenses | 3 | **(2.3)** | (2.5) |
| Finance costs | 4 | **(4.5)** | (4.8) |
| Movement in the fair value of derivative financial instruments | 5 | **(58.7)** | (44.7) |
| Other income | | **1.7** | 1.6 |
| Exchange movements | | **1.4** | 1.3 |
| **Profit before tax** | | **146.3** | 166.2 |
| Income taxes | 6 | **–** | – |
| **Profit after tax and profit for the year** | | **146.3** | 166.2 |
| **Total comprehensive income for the year** | | **146.3** | 166.2 |
| **Earnings per share** | | | |
| Basic and diluted (pence) | 14 | **14.9** | 20.3 |

# Consolidated statement of changes in equity

## For the year to 31 March

| For the year to 31 March 2017 | Notes | Stated capital account £m | Retained reserves £m | Total shareholders' equity £m |
|---|---|---|---|---|
| Opening balance at 1 April 2016 | | **181.6** | **1,095.4** | **1,277.0** |
| Issue of shares | 13 | **378.8** | **–** | **378.8** |
| Total comprehensive income for the year | | **–** | **146.3** | **146.3** |
| Dividends paid to shareholders of the Company during the year | 15 | **–** | **(67.5)** | **(67.5)** |
| **Closing balance at 31 March 2017** | | **560.4** | **1,174.2** | **1,734.6** |

| For the year to 31 March 2016 | | Stated capital account £m | Retained reserves £m | Total shareholders' equity £m |
|---|---|---|---|---|
| Opening balance at 1 April 2015 | | 181.6 | 1,139.7 | 1,321.3 |
| Total comprehensive income for the year | | – | 166.2 | 166.2 |
| Dividends paid to shareholders of the Company during the year | 15 | – | (210.5) | (210.5) |
| Closing balance at 31 March 2016 | | 181.6 | 1,095.4 | 1,277.0 |

# Consolidated balance sheet

As at 31 March

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments at fair value through profit or loss | 7 | **1,815.6** | 1,228.8 |
| **Investment portfolio** | | **1,815.6** | 1,228.8 |
| Derivative financial instruments | 10 | **4.4** | 6.4 |
| **Total non-current assets** | | **1,820.0** | 1,235.2 |
| **Current assets** | | | |
| Derivative financial instruments | 10 | **1.3** | 4.1 |
| Trade and other receivables | 8 | **35.1** | 16.6 |
| Other financial assets | | **32.1** | 36.7 |
| Cash and cash equivalents | | **17.1** | 47.5 |
| **Total current assets** | | **85.6** | 104.9 |
| **Total assets** | | **1,905.6** | 1,340.1 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Derivative financial instruments | 10 | **(43.4)** | (28.2) |
| Trade and other payables | 12 | **(3.8)** | (2.0) |
| Loans and borrowings | 11 | **(100.0)** | – |
| **Total non-current liabilities** | | **(147.2)** | (30.2) |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **(5.4)** | (22.8) |
| Derivative financial instruments | 10 | **(18.4)** | (10.1) |
| **Total current liabilities** | | **(23.8)** | (32.9) |
| **Total liabilities** | | **(171.0)** | (63.1) |
| **Net assets** | | **1,734.6** | 1,277.0 |
| **Equity** | | | |
| Stated capital account | 13 | **560.4** | 181.6 |
| Retained reserves | | **1,174.2** | 1,095.4 |
| **Total equity** | | **1,734.6** | 1,277.0 |
| **Net asset value per share** | | | |
| Basic and diluted (pence) | 14 | **169.0** | 161.0 |

The Financial statements and related Notes were approved and authorised for issue by the Board of Directors on 10 May 2017 and signed on its behalf by:

**Steven Wilderspin**
Director

# Consolidated cash flow statement

## For the year to 31 March

| | Year to 31 March 2017 £m | Year to 31 March 2016 £m |
|---|---|---|
| **Cash flow from operating activities** | | |
| Purchase of investments | **(468.5)** | (187.2) |
| Repayment/(purchase) of other financial assets | **6.1** | (1.3) |
| Proceeds from partial realisations of investments | **19.8** | 17.1 |
| Proceeds from full realisations of investments | **12.4** | 360.4 |
| Investment income[1] | **60.9** | 56.5 |
| Fees received on investment activities | **0.2** | 0.2 |
| Fees paid on investment activities | **(1.3)** | (5.0) |
| Operating expenses paid | **(2.5)** | (2.8) |
| Interest received | **0.4** | 0.7 |
| Advisory and performance fees paid | **(39.3)** | (56.6) |
| Amounts (paid)/received on the settlement of derivative contracts | **(28.7)** | 8.1 |
| Other income received | **1.8** | 1.5 |
| **Net cash flow from operations** | **(438.7)** | 191.6 |
| **Cash flow from financing activities** | | |
| Proceeds from issue of share capital | **385.0** | – |
| Transaction costs for issue of share capital | **(6.2)** | – |
| Fees and interest paid on financing activities | **(3.5)** | (5.5) |
| Dividends paid | **(67.5)** | (210.5) |
| Proceeds from drawdown of revolving credit facility | **100.0** | – |
| **Net cash flow from financing activities** | **407.8** | (216.0) |
| | | |
| **Change in cash and cash equivalents** | **(30.9)** | (24.4) |
| Cash and cash equivalents at the beginning of the year | **47.5** | 72.5 |
| Effect of exchange rate movement | **0.5** | (0.6) |
| **Cash and cash equivalents at the end of the year** | **17.1** | 47.5 |

1 Investment income includes dividends of £1.0 million (2016: £1.8 million) and interest of £15.8 million (2016: £10.1 million) received from portfolio assets held directly by the Company and distributions of £44.1 million (2016: £44.6 million) received from unconsolidated subsidiaries.

# Reconciliation of net cash flow to movement in net debt

## For the year to 31 March

| | Notes | Year to 31 March 2017 £m | Year to 31 March 2016 £m |
|---|---|---|---|
| Change in cash and cash equivalents | | **(30.9)** | (24.4) |
| Proceeds from drawdown of revolving credit facility | 11 | **(100.0)** | – |
| Change in net debt/cash resulting from cash flows | | **(130.9)** | (24.4) |
| **Movement in net debt** | | **(130.9)** | (24.4) |
| Net cash and cash equivalents at the beginning of the year | | **47.5** | 72.5 |
| Effect of exchange rate movement | | **0.5** | (0.6) |
| **Net (debt)/cash at the end of the year** | | **(82.9)** | 47.5 |

# Significant accounting policies

## Corporate information

3i Infrastructure plc (the "Company") is a company incorporated in Jersey, Channel Islands. The Consolidated financial statements for the year to 31 March 2017 comprise the financial statements of the Company and its consolidated subsidiary as defined in IFRS 10 Consolidated Financial Statements (together referred to as the "Group"). The Companies (Jersey) Law 1991 does not require the directors of a company to present separate financial statements where consolidated financial statements are presented and therefore the financial results and position of the Company are not presented alongside the consolidated financial statements of the Group.

The financial statements were authorised for issue by the Board of Directors on 10 May 2017.

## Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union ("IFRS").

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 are prepared on a going concern basis as disclosed in the Directors' statement on page 73, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability and cash flows.

The financial statements of the Group are presented in sterling, the functional currency of the Company, 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 of determining the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## Basis of consolidation

In accordance with IFRS 10 (as amended), entities that meet the definition of an investment entity are required to fair value certain subsidiaries through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement, rather than consolidate their results. However, those subsidiaries that are not themselves investment entities and provide investment-related services to the Company are consolidated.

Intragroup balances between the Company and the consolidated subsidiary, 3i Infrastructure Seed Assets GP Limited, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. There will be no elimination in relation to transactions between the Company and subsidiaries held at fair value.

## 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) Assessment as investment entity – Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them unless they provided investment-related services to the Company. To determine that the Company continues to meet the definition of an investment entity, the Company is required to satisfy the following three criteria:

a) the Company obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

b) the Company commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

c) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the criteria as follows:

- the stated strategy of the Company is to deliver stable returns to shareholders through a mix of income yield and capital appreciation;
- the Company provides investment management services and has several investors who pool their funds to gain access to infrastructure related investment opportunities that they might not have had access to individually; and
- the Company has elected to measure and evaluate the performance of all of its investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Directors, who use fair value as the primary measurement attribute to evaluate performance.

The Directors are of the opinion that the Company has all the typical characteristics of an investment entity and continues to meet the definition in the standard. This conclusion will be reassessed on an annual basis.

ii) Assessment of investments as structured entities – A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Additional disclosures are required by IFRS 12 for interests in structured entities, whether they are consolidated or not. The Directors have assessed whether the entities in which the Group invests should be classified as structured entities and have concluded that none of the entities should be classified as structured entities as voting rights are the dominant factor in deciding who controls these entities.

iii) Assessment of consolidation requirements – The Group holds significant stakes in the majority of its investee companies and must exercise judgment in the level of control of the underlying investee company that is obtained in order to assess whether the company should be classified as a subsidiary.

The Group must also exercise judgment in whether a subsidiary provides investment-related services or activities and therefore should be consolidated or held at fair value through profit or loss. Refer to significant accounting policy 'A Classification' for further details.

During the year, the Company acquired four new subsidiary entities and a further 31 included within the Infinis Group. The Directors have assessed whether these entities provide investment-related services and have concluded that they should not be consolidated and that they should be held at fair value through profit or loss.

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.

## Valuation of the investment portfolio

The key area where estimates are significant to the consolidated financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is in the valuation of the investment portfolio.

The majority of assets in the investment portfolio are valued on a discounted cash flow basis which requires assumptions to be made regarding future cash flows and the discount rate to be applied to these cash flows. Refer to Note 7 for further details of the valuation techniques, significant inputs to those techniques and sensitivity of the fair value of these investments to the assumptions that have been made.

## Standards and interpretations issued but not yet effective

As at 31 March 2017, the following new or amended standards and interpretations, which have not been applied in these financial statements, had been issued by the International Accounting Standards Board (IASB) but are yet to become effective.

Disclosure initiative (amendments to IAS7 – Statement of Cash Flows) (effective for accounting periods commencing on or after 1 January 2017).

IFRS 9 Financial Instruments (effective for accounting periods commencing on or after 1 January 2018).

IFRS 15 Revenue from Contracts with Customers (effective for accounting periods commencing on or after 1 January 2018).

IFRS 16 Leases (effective for accounting periods commencing on or after 1 January 2019).

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Consolidated Group in future periods, although IFRS 9 may impact the disclosure of certain Financial Instruments.

# Significant accounting policies

continued

## A Classification

i) Subsidiaries – Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary entity and has the ability to affect those returns through its power over the subsidiary entity. In accordance with the exception under IFRS 10 Consolidated Financial Statements, the Company only consolidates subsidiaries in the financial statements if they are deemed to perform investment-related services and do not meet the definition of an investment entity. Investments in subsidiaries that do not meet this definition are accounted for as Investments at fair value through profit or loss with changes in fair value recognised in the statement of comprehensive income in the year. The Directors have assessed all entities within the Group structure and concluded that 3i Infrastructure Seed Assets GP Limited is the only subsidiary of the Company that provides investment-related services or activities. This subsidiary has been consolidated with the Company to form "the Group".

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 entities.

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 IFRS 11 and IAS 28, which allows interests held by venture capital organisations where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the year.

## B Exchange differences

Transactions entered into by the Group in a currency other than its functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated to the functional currency at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation to the functional currency are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency using exchange rates ruling at the date the fair value was determined with the associated FX difference being recognised within the unrealised gain or loss on revaluation of the asset or liability.

## C Investment portfolio

Recognition and measurement – Investments are recognised and de-recognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and obtaining capital appreciation from changes in the fair value of investments. Therefore, all quoted investments and unquoted investments are designated as at fair value through profit or loss upon initial recognition and subsequently carried in the balance sheet at fair value. All investments are initially recognised at the fair value of the consideration given and are subsequently measured at fair value, applying the Group's valuation policy. Acquisition related costs are accounted for as expenses when incurred.

i) Realised gains or losses on the disposal of investments are the difference between the fair value of the consideration receivable on disposal less any directly attributable costs 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.

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

### Income

Investment 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 Company's rights to receive payment have been established with the exception of dividends paid out of pre-acquisition reserves that are recognised by adjusting the cost of the equity investment upon acquisition;
- income from loans and receivables and debt held at fair value through profit or loss is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value or principal amount;
- distributions from investments in Limited Partnerships are recognised in the statement of comprehensive income when the Company's rights as a Limited Partner to receive payment have been established; and
- fees receivable represent amounts earned from investee companies on completion of underlying investment transactions and are recognised on an accruals basis once entitlement to the revenue has been established.

## 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 Group. The fee is payable quarterly in advance and is accrued in the period it is incurred. Further explanations are provided in Note 18.

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 (subject to a high watermark requirement being exceeded). The fee is payable annually in arrears and is accrued in the period it is incurred. Further explanations are provided in Note 18.

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 and cash flow statement comprise cash at bank, short-term deposits with an original maturity of three months or less and AAA rated money market funds. 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. Where issue costs are incurred in relation to arranging debt finance facilities these are capitalised and disclosed within Trade and other receivables and amortised over the life of the loan. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

iii) Other financial assets – Other financial assets in the balance sheet comprise principally of restricted cash held on deposit in third-party bank accounts on behalf of the Mersey Gateway Bridge and A9 primary PPP projects. The Company retains the right to replace these cash deposits for a letter of credit of the equivalent amount.

iv) Derivative financial instruments – Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations in the valuation of the investment portfolio and changes in interest rates on borrowings held by Oystercatcher Luxco 2 S.à r.l., an unconsolidated subsidiary. 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.

# Significant accounting policies

continued

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

## F Other assets

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

## G Other liabilities

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

## H Equity and reserves

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

**ii) Equity and reserves** – The stated capital account of the Company represents the cumulative proceeds recognised from share issues or new equity issued on the conversion of warrants made by the Company net of issue costs and reduced by any amount that has been transferred to retained reserves, in accordance with Jersey Company Law, 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 incorporates the cumulative retained profits of the Company (after the payment of dividends) plus any amount that has been transferred from the stated capital account of the Company.

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

## I Income taxes

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

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

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

# Notes to the accounts

## 1 Operating segments

The Directors review information on a regular basis that is analysed by portfolio segment; being Economic Infrastructure businesses, the Projects portfolio and the India fund, and by geography. These segments are reviewed for the purpose of resource allocation and the assessment of their performance. In accordance with IFRS 8, the segmental information provided below uses these segments for the analysis of results as it is the most closely aligned with IFRS reporting requirements. The Group is an investment holding company and does not consider itself to have any customers.

The following is an analysis of the Group's investment return, profit before tax, assets, liabilities and net assets by portfolio segment for the year to 31 March 2017:

| For the year to 31 March 2017 | Economic Infrastructure businesses £m | Projects portfolio £m | India Fund £m | Unallocated £m | Total £m |
|---|---|---|---|---|---|
| **Investment return** | **213.3** | **20.1** | **0.4** | **(1.4)** | **232.4** |
| **Profit/(loss) before tax** | **156.9** | **19.7** | **0.4** | **(30.7)** | **146.3** |
| For the year to 31 March 2016 | | | | | |
| Investment return | 247.8 | 12.0 | (10.3) | (3.9) | 245.6 |
| Profit/(loss) before tax | 204.5 | 11.6 | (10.3) | (39.6) | 166.2 |
| **As at 31 March 2017** | | | | | |
| **Assets** | **1,656.9** | **187.5** | **41.2** | **20.0** | **1,905.6** |
| **Liabilities** | **(65.3)** | **(0.5)** | **–** | **(105.2)** | **(171.0)** |
| **Net assets** | **1,591.6** | **187.0** | **41.2** | **(85.2)** | **1,734.6** |
| As at 31 March 2016 | | | | | |
| Assets | 1,064.0 | 173.1 | 53.2 | 49.8 | 1,340.1 |
| Liabilities | (42.4) | (0.4) | – | (20.3) | (63.1) |
| Net assets | 1,021.6 | 172.7 | 53.2 | 29.5 | 1,277.0 |

The following is an analysis of the Group's investment return, profit before tax, assets, liabilities and net assets by geography for the year to 31 March 2017:

| For the year to 31 March 2017 | UK and Ireland[1] £m | Continental Europe[2] £m | Asia £m | Total £m |
|---|---|---|---|---|
| **Investment return** | **79.7** | **152.3** | **0.4** | **232.4** |
| **Profit/(loss) before tax** | **50.9** | **95.0** | **0.4** | **146.3** |
| For the year to 31 March 2016 | | | | |
| Investment return/(loss) | 49.1 | 206.8 | (10.3) | 245.6 |
| Profit/(loss) before tax | 13.1 | 163.4 | (10.3) | 166.2 |
| **As at 31 March 2017** | | | | |
| **Assets** | **848.8** | **1,015.6** | **41.2** | **1,905.6** |
| **Liabilities** | **(105.4)** | **(65.6)** | **–** | **(171.0)** |
| **Net assets** | **743.4** | **950.0** | **41.2** | **1,734.6** |
| As at 31 March 2016 | | | | |
| Assets | 562.8 | 724.1 | 53.2 | 1,340.1 |
| Liabilities | (22.8) | (40.3) | – | (63.1) |
| Net assets | 540.0 | 683.8 | 53.2 | 1,277.0 |

1 Including Channel Islands. All centrally incurred costs have been deemed to be incurred in the UK and Ireland while recognising these costs support allocations across geographies.

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

# Notes to the accounts

continued

## 1 Operating segments continued

The operating segments have been presented to provide additional information on the portfolio segments as well as the geographical areas in which the Group operates. Under this presentation, the geographical analysis of assets and liabilities for March 2016 has been restated mainly to allocate all derivative instruments against continental Europe to better reflect the purpose of the hedging programme.

The Group generated 34.3% (2016: 20.0%) of its investment return in the period from investments held in the UK and Ireland and 65.5% (2016: 84.2%) of its investment return from investments held in continental Europe. During the period, the Group generated 91.2% (2016: 99.3%) of its investment return from investments in Economic Infrastructure businesses, 8.6% (2016: 4.8%) from investments in Projects and 0.2% (2016: (4.1)%) from its investment in the India Fund. Given the nature of the Group's operations, the Group is not considered to be exposed to any operational seasonality or cyclicality that would impact the financial results of the Group during the period or the financial position of the Group at 31 March 2017.

## 2 Advisory and performance fees payable

| | Year to 31 March 2017 £m | Year to 31 March 2016 £m |
|---|---|---|
| Advisory fee payable directly from the Company | **19.8** | 10.8 |
| Performance fee | **3.9** | 19.5 |
| | **23.7** | 30.3 |

Total advisory and performance fees payable by the Company for the year to 31 March 2017 were £23.7 million (2016: £30.3 million). In addition to the fees described above, management fees of £4.5 million (2016: £4.2 million) were paid to 3i Group plc from unconsolidated subsidiary entities. Note 18 provides further details on the calculation of the advisory fee, performance fee and management fees.

## 3 Operating expenses

Operating expenses include the following amounts:

| | Year to 31 March 2017 £m | Year to 31 March 2016 £m |
|---|---|---|
| Audit fees | **0.2** | 0.2 |
| Directors' fees and expenses | **0.5** | 0.5 |

In addition to the fees described above, audit fees of £0.09 million (2016: £0.06 million) were paid by unconsolidated subsidiary entities for the year to 31 March 2017.

### Services provided by the Group's auditor

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

| | | Year to 31 March 2017 £m | Year to 31 March 2016 £m |
|---|---|---|---|
| **Audit services** | | | |
| Statutory audit | Group | **0.21** | 0.24 |
| | UK unconsolidated subsidiaries[1] | **0.05** | 0.02 |
| | Overseas unconsolidated subsidiaries[1] | **0.04** | 0.04 |
| | | **0.30** | 0.30 |

1 These amounts were paid from unconsolidated subsidiary entities and do not form part of operating expenses but are included in the net gains on investments at fair value through profit or loss.

## 3 Operating expenses continued

### Non-audit services

Ernst & Young LLP provided non-audit services for fees totalling £364,156 for the year to 31 March 2017 (2016: £5,000). This related to a review of the advisory and performance fees (£6,000), due diligence costs in relation to investment transactions (£215,656) and work they performed as Reporting Accountants for the capital raise (£142,500). This excludes a fee of £41,000 (2016: £39,000) for the Ernst & Young LLP review of the interim financial statements which has been included in the statutory audit fee of £0.3 million in the table above. In addition, in this financial year and previous years, and in line with the Company's policy, Ernst & Young LLP provided non-audit services to support the transaction activity conducted by the Group during the year in relation to certain non-consolidated investee companies. However, the fees received by Ernst & Young LLP did not represent a significant portion of the total investment transaction costs (2016: same). The fees for these services are ordinarily borne by the underlying investee companies or unconsolidated subsidiaries 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 65.

## 4 Finance costs

| | **Year to 31 March 2017 £m** | Year to 31 March 2016 £m |
|---|---|---|
| Finance costs associated with the debt facilities | **3.6** | 2.5 |
| Professional fees payable associated with the arrangement of debt financing | **0.9** | 2.3 |
| | **4.5** | 4.8 |

## 5 Movements in the fair value of derivative financial instruments

| | **Year to 31 March 2017 £m** | Year to 31 March 2016 £m |
|---|---|---|
| Movement on the fair value of forward foreign exchange contracts | **(58.4)** | (43.8) |
| Movement on the fair value of interest rate swaps | **(0.3)** | (0.9) |
| | **(58.7)** | (44.7) |

The movement in the fair value of derivative financial instruments is included within profit before tax but not included within investment return.

## 6 Income taxes

| | **Year to 31 March 2017 £m** | Year to 31 March 2016 £m |
|---|---|---|
| Current year charge | **–** | – |

Profits arising from the operations of the Company are subject to tax at the standard corporate income tax rate in Jersey of 0% (2016: 0%). The subsidiary of the Company has provided for taxation at the appropriate rates that are applicable in the country in which the subsidiary operates. The returns of the subsidiary are largely not subject to tax.

# Notes to the accounts

continued

## 7 Investments at fair value through profit or loss and financial instruments

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) for each reporting period.

At 31 March 2017, the Group held the following classes of financial instruments that are measured at fair value. For all other assets and liabilities their carrying value approximates to fair value. During the year ended 31 March 2017, there were no transfers of financial instruments between levels of the fair value hierarchy (2016: none).

### Financial instruments classification

| | As at 31 March 2017 | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
| **Financial assets** | | | | |
| Investments at fair value through profit or loss | **–** | **–** | **1,815.6** | **1,815.6** |
| Derivative financial instruments | **–** | **5.7** | **–** | **5.7** |
| | **–** | **5.7** | **1,815.6** | **1,821.3** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **–** | **(61.8)** | **–** | **(61.8)** |

| | As at 31 March 2016 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial assets | | | | |
| Investments at fair value through profit or loss | – | – | 1,228.8 | 1,228.8 |
| Derivative financial instruments | – | 10.5 | – | 10.5 |
| | – | 10.5 | 1,228.8 | 1,239.3 |
| Financial liabilities | | | | |
| Derivative financial instruments | – | (38.3) | – | (38.3) |

Reconciliation of financial instruments categorised within Level 3 of fair value hierarchy.

| **Level 3 fair value reconciliation** | **As at 31 March 2017 £m** |
|---|---|
| **Opening fair value** | **1,228.8** |
| Additions | **469.2** |
| Disposal proceeds and repayments | **(33.0)** |
| Fair value movement (including exchange movements) | **150.6** |
| **Closing fair value** | **1,815.6** |

## 7 Investments at fair value through profit or loss and financial instruments continued

| Level 3 fair value reconciliation | As at 31 March 2016 £m |
|---|---|
| Opening fair value | 1,231.5 |
| Additions | 187.2 |
| Disposal proceeds and repayments | (376.9) |
| Fair value movement (including exchange movements) | 187.0 |
| Closing fair value | 1,228.8 |

All unrealised movements on investments and foreign exchange movements are recognised in profit or loss in the consolidated statement of comprehensive income during the year and are attributable to investments held at the end of the year.

The holding period of the investments in the portfolio is expected to be greater than one year. Therefore investments are classified as non-current unless there is an agreement to dispose of the investment within one year and all relevant regulatory approvals have been received. It is not possible to identify with certainty where any investments may be sold within one year.

### Unquoted investments

The Group invests in private companies which are not quoted on an active market. These 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 investments can be found in the Portfolio valuation methodology section.

The Group's policy is to fair value both the equity and debt investments in infrastructure assets together where they will be managed and valued as a single investment, were invested at the same time and cannot be realised separately. As at 31 March 2017, the fair value of unquoted investments was £1,788.3 million (2016: £1,203.8 million). Individual portfolio asset valuations are shown within the Portfolio summary on page 18.

The majority of the assets held within Level 3 are valued on a discounted cash flow basis, hence, the valuations are sensitive to the discount rate assumed in the valuation of each asset. Other significant unobservable inputs include the long-term inflation rate assumption and interest rates assumption used to project the future cash flows.

A discussion of discount rates applied can be found on page 23. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £167.4 million (2016: £124.7 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £200.1 million (2016: £151.1 million).

The majority of assets held within Level 3 have revenues that are linked, partially linked or in some way correlated to inflation. The long-term inflation rate assumptions for the country of domicile of the investments in the portfolio range from 5.0% (India) (2016: 5.0%) to 2.0% (Finland) (2016: 2.0%) including the UK at 2.5% (UK RPI) (2016: 2.5%). Changing the inflation rate assumption may result in consequential changes to other assumptions used in the valuation of each asset. The impact of increasing the inflation rate assumption by 1% for the next two years would increase the value of the portfolio by £41.3 million (2016: £29.1 million). Decreasing the inflation rate assumption used in the valuation of each asset by 1% for the next two years would decrease the value of the portfolio by £40.9 million (2016: £28.2 million).

The valuations are sensitive to changes in interest rates, which may result from: (i) unhedged existing borrowings within portfolio companies; (ii) interest rates on uncommitted future borrowings assumed within the asset valuations; and (iii) cash deposits held by portfolio companies. These comprise a wide range of interest rates from short-term deposit rates to longer-term borrowing rates across a broad range of debt products. Increasing the cost of borrowing assumption for unhedged borrowings and any future uncommitted borrowing and the cash deposit rates used in the valuation of each asset by 1% would reduce the value of the portfolio by £111.6 million (2016: £90.0 million). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £114.0 million (2016: £86.8 million). This calculation does not take account of any offsetting variances which may be expected to prevail if interest rates changed, the most significant impact would be in the portfolio assets with regulated returns where the future allowed return may also be influenced by the interest rate.

# Notes to the accounts

continued

## 7 Investments at fair value through profit or loss and financial instruments continued

### Unlisted funds

The Company invests in one externally managed fund, The Dalmore Capital Fund, which is not quoted in an active market. The Company considered the valuation techniques and inputs used in valuing this fund to ensure they are reasonable and appropriate and therefore the net asset value ("NAV") of this fund may be used as an input into measuring its fair value. In measuring this fair value, the NAV of the fund is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, illiquid nature of the investments and other specific factors of the fund and fund manager. The Company classifies the fair value of this investment as Level 3. As at 31 March 2017, the fair value of unlisted funds was £17.6 million (2016: £18.3 million). The fund NAV reflects a 31 March 2017 valuation date (2016: 31 March 2016 valuation date). A 10% adjustment in the fair value of the fund would result in a £1.8 million (2016: £1.8 million) change in the valuation.

### Intermediate holding companies

The Company invests in a number of intermediate holding companies that are used to hold the unquoted investments, valued as referred to above. All other assets and liabilities of the intermediate holding companies are held either at fair value or a reasonable approximation to fair value. The fair value of these intermediate holding companies therefore approximates to their NAV and the Company classifies the fair value as Level 3. As at 31 March 2017, the fair value of the other assets and liabilities within these intermediate holding companies was £9.7 million (2016: £6.7 million).

### Over-the-counter derivatives

The Company uses over-the-counter foreign currency derivatives and interest rate swaps to hedge foreign currency movements and interest rates respectively. The derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, interest rate curves, and uses present value calculations. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

### Valuation process for Level 3 valuations

Valuations are the responsibility of the Board of Directors of the Company. The valuation of unquoted investments, debt and unlisted funds held by the Group is performed on a half-yearly basis by the valuation team of the Investment Adviser and reviewed by the Investment Committee of the Investment Adviser. The valuations are also subject to quality assurance procedures performed within the valuation team. The valuation team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents and market information. On a half-yearly basis, the Investment Committee presents the valuations to the Board. This includes a discussion of the major assumptions used in the valuations, with an emphasis on the more significant investments and investments with significant fair value changes. The Investment Committee considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen. Any changes in valuation methods are discussed and agreed with the Audit and Risk Committee before being approved by the Board.

## 8 Trade and other receivables

| | **Year to 31 March 2017 £m** | Year to 31 March 2016 £m |
|---|---|---|
| Prepayments and accrued income | **33.6** | 14.7 |
| Capitalised finance costs | **1.5** | 1.9 |
| | **35.1** | 16.6 |

The carrying value of the trade and other receivables balance equates to fair value and all balances are expected to be settled within one year (2016: same). No balances are considered to be past due or impaired (2016: same).

## 9 Financial risk management

A full review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Risk report on page 46. This Note provides further detail on financial risk management, cross-referring to the Risk report 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 consistent investment approval process. The Board's Investment Committee and the Investment Adviser's investment process are part of the overall risk management framework of the Group.

The funding objective of the Group is that each category of investment ought to be broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets, and that funding needs are 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, borrowing facilities 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 11 and the Group's equity is analysed into its various components in the statement of changes in equity. Capital is managed so as to maximise the return to shareholders, while maintaining a strong capital base that ensures that the Group can operate effectively in the marketplace and sustain future development of the business. The Board is responsible for regularly monitoring capital requirements to ensure that the Company is maintaining sufficient capital to meet its future investment needs.

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

Capital is allocated for investment in utilities, communications, transportation, natural resources and social infrastructure across the UK, continental Europe and Asia, as described on page 4. As set out in the Group's investment policy, the maximum exposure to any one investment is currently 25% of gross assets (including cash holdings) at the time of investment.

### Credit risk

The Group is subject to credit risk on the debt component of its unquoted investments, cash, deposits, derivative contracts and receivables. The maximum exposure to credit risk as a result of counterparty default equates to the current carrying value of these financial assets. Throughout the year and the prior year, the Group's cash and deposits were held with a variety of counterparties, principally in AAA rated money market funds, as well as in short-term bank deposits with a minimum of a single A- credit rating. The counterparties selected for the derivative financial instruments were all banks with a minimum of a single A- credit rating with at least one major rating agency. The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. 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 and there is no expectation to recover any residual value from the investment, the Group's policy is to record an impairment for the full amount of the 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 investment. In these cases an impairment is recorded equal to the valuation shortfall.

No other assets held by the Group were considered to be impaired. The Company had no loans or receivables or debt investments considered past due (2016: nil).

The Company 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 2017, the Group did not consider itself to have a significant exposure to any one 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. The risk exposure at this year end has reduced compared to the prior year end following the new investments during the year.

# Notes to the accounts

continued

## 9 Financial risk management continued

### Liquidity risk

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

| 2017 | Payable on demand £m | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 5 years £m | Due greater than 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Loans and borrowings[1] | **–** | **(5.4)** | **(3.9)** | **(104.1)** | **–** | **(113.4)** |
| Trade and other payables | **(5.4)** | **–** | **–** | **(3.8)** | **–** | **(9.2)** |
| Derivative contracts | **–** | **(18.4)** | **(20.1)** | **(23.3)** | **–** | **(61.8)** |
| Financial commitments | **(40.2)** | **(13.1)** | **(43.7)** | **(5.6)** | **–** | **(102.6)** |
| **Total undiscounted financial liabilities** | **(45.6)** | **(36.9)** | **(67.7)** | **(136.8)** | **–** | **(287.0)** |

1 Loans and borrowings relate to cash drawn from, and undrawn commitment fees and interest payable on, the Revolving Credit Facility referred to in Note 11.

| 2016 | Payable on demand £m | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 5 years £m | Due greater than 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| Liabilities | | | | | | |
| Loans and borrowings[1] | – | (2.5) | (2.5) | (0.3) | – | (5.3) |
| Trade and other payables | (22.8) | – | – | (2.0) | – | (24.8) |
| Derivative contracts | – | (10.1) | (8.3) | (19.9) | – | (38.3) |
| Financial commitments | (26.1) | (8.8) | (13.1) | (36.9) | – | (84.9) |
| Total undiscounted financial liabilities | (48.9) | (21.4) | (23.9) | (59.1) | – | (153.3) |

1 Loans and borrowings relate to undrawn commitment fees on the Revolving Credit Facility referred to in Note 11.

All derivatives are settled net and therefore the liability shown is the net cash flow expected to be paid on settlement. The financial commitments relate to the Group's commitments to the 3i India Infrastructure Fund, Mersey Gateway Bridge, A9, RIVM, La Santé and Condorcet projects and the new investments in Valorem, Hart van Zuid and A27/A1 projects. During the year, the Group invested in Ayrshire College and the A12 project and, as a result, a prior year financial commitment of £8.8 million was extinguished.

In order to manage the contractual liquidity risk the Group is not dependent on the cash flows from financial assets as it has free cash and debt facilities in place.

### 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 market price fluctuations. The Group's sensitivities to these fluctuations are set out below.

#### (i) Interest rate risk

Further information on how interest rate risk is managed is provided in the Risk report section.

An increase of 250 basis points in interest rates over 12 months (2016: 250 basis points) would lead to an approximate decrease in net assets and to the net profit of the Group of £2.1 million (2016: increase of £1.2 million). This exposure relates principally to changes in interest receivable on cash on deposit held at the year end and on interest paid on drawn amounts from the Revolving Credit Facility. The average cash balance of the Group during the year was £121.7 million (2016: £141.9 million) and the weighted average interest earned was 0.3% (2016: 0.5%). The risk exposure at this year end has increased compared to the prior year end following the drawdown of cash from the Revolving Credit Facility.

In addition, the Group has indirect exposure to interest rates through changes to the financial performance of portfolio companies caused by interest rate fluctuations as disclosed in Note 7. This risk is considered a component of market price risk described in section (iii). The Group does not hold any fixed rate debt investments or borrowings and is therefore not exposed to fair value interest rate risk.

## 9 Financial risk management continued

### (ii) Currency risk

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

| | As at 31 March 2017 | | | | |
|---|---|---|---|---|---|
| | **Sterling[1] £m** | **Euro £m** | **US dollar £m** | **DKK £m** | **Total £m** |
| **Net assets** | **737.4** | **838.3** | **41.2** | **117.7** | **1,734.6** |
| **Sensitivity analysis** | | | | | |
| Assuming a 10% appreciation in sterling against the euro, DKK and US dollar exchange rates: | | | | | |
| Impact of exchange movements on net profit and net assets | **100.5** | **(76.2)** | **(3.7)** | **(10.7)** | **9.9** |

1 Sterling impact relates to the impact of fair value movement in derivatives held by the Company to hedge foreign currency fluctuations in the valuation of the investment portfolio.

| | As at 31 March 2016 | | | | |
|---|---|---|---|---|---|
| | Sterling[1] £m | Euro £m | US dollar £m | DKK £m | Total £m |
| Net assets | 539.4 | 564.1 | 53.2 | 120.3 | 1,277.0 |
| Sensitivity analysis | | | | | |
| Assuming a 10% appreciation in sterling against the euro, DKK and US dollar exchange rates: | | | | | |
| Impact of exchange movements on net profit and net assets | 79.1 | (51.3) | (4.8) | (10.9) | 12.1 |

1 Sterling impact relates to the impact of fair value movement in derivatives held by the Company to hedge foreign currency fluctuations in the valuation of the investment portfolio.

The impact of an equivalent depreciation in sterling against the euro, DKK and US dollar exchange rates has the inverse impact on net profit and net assets from that shown above. There is an indirect exposure to the rupee through the investment in the 3i India Infrastructure Fund which is denominated in US dollars but it is only the direct exposure that is considered here. The risk exposure at the year end is considered to be representative of this year as a whole.

### (iii) Market price risk

Further information about the management of external market risk and its impact on market price or valuation, which arises principally from unquoted investments, is provided in the Risk report. A 10% increase in the fair value of those investments would have the following direct impact on net profit and net assets.

| | **As at 31 March 2017 Investments at fair value £m** | As at 31 March 2016 Investments at fair value £m |
|---|---|---|
| Increase in net profit and net assets | **181.6** | 122.9 |

The impact of a 10% decrease in the fair value of those investments would have the inverse impact on net profit and net assets, from that shown above. The risk exposure at the year end is considered to be representative of this year as a whole. The risk exposure at the year end is considered to be representative of this year as a whole.

By the nature of the Group's activities, it has large exposures to individual assets that are susceptible to movements in price. This risk concentration is managed within the Company's investment strategy as discussed in the Risk report.

# Notes to the accounts

continued

## 9 Financial risk management continued

### (iv) Fair values

The fair value of the investment portfolio is described in detail in the Portfolio valuation methodology section and in Note 7. The fair values of the remaining financial assets and liabilities approximate to their carrying values (2016: same).

The sensitivity analysis in respect of the interest rate, currency and market price risks is considered to be representative of the Group's exposure to financial risks throughout the period to which they relate (2016: same).

## 10 Derivative financial instruments

| | As at 31 March 2017 £m | As at 31 March 2016 £m |
|---|---|---|
| **Non-current assets** | | |
| Forward foreign exchange contracts | **4.4** | 6.4 |
| **Current assets** | | |
| Forward foreign exchange contracts | **1.3** | 4.1 |
| **Non-current liabilities** | | |
| Forward foreign exchange contracts | **(42.1)** | (26.7) |
| Interest rate swaps | **(1.3)** | (1.5) |
| **Current liabilities** | | |
| Forward foreign exchange contracts | **(18.4)** | (10.1) |

### Forward foreign exchange contracts

The Company 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 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 profit or loss.

As at 31 March 2017, the notional amount of the forward foreign exchange contracts held by the Company was £1,027.6 million (2016: £810.0 million).

### Interest rate swaps

The Company uses interest rate swaps to minimise the effect of fluctuations in interest rates on the value of expected future cash payments payable on debt obligations resulting from non-recourse borrowings made by Oystercatcher Luxco 2 S.à r.l., an unconsolidated subsidiary of the Company.

The fair value of these swaps is recorded in the balance sheet. No swaps are designated as hedging instruments and consequently all changes in fair value are taken through profit or loss. As at 31 March 2017, the notional amount of the interest rate swap contracts held by the Company was £68.4 million (2016: £63.3 million). Interest payments in respect of the Revolving Credit Facility are unhedged.

### Fair value of derivatives

The Company holds its over-the-counter derivatives at fair value which represents the replacement cost of the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, interest rate curves and uses present value calculations. For these financial instruments, significant inputs into models are market observable and hence derivatives are included within Level 2. There have been no reclassifications for derivatives that have been transferred in or out of Level 2 or Level 3 during the year (2016: nil).

## 11 Loans and borrowings

The Company has a secured £300 million Revolving Credit Facility ("the Facility") at a fixed margin above LIBOR. As at 31 March 2017, the Company had drawn down cash of £100 million (2016: nil). The Facility is secured by a fixed and floating charge over directly held assets of the Company. Interest is payable at LIBOR plus a fixed margin on the drawn down amount.

The Facility has certain loan covenants, including a debt service coverage ratio and loan to value ratio. The Company has the right to increase the size of the Facility by up to a further £200 million, provided that existing lenders have a right of first refusal. In April 2017, the Company agreed the second and final one-year extension to the maturity date, to 7 May 2020 and increased the size of the facility from £300 million to £500 million on a temporary basis to March 2018.

As at 31 March 2017, the Company had further utilised the Facility to issue Letters of Credit for the investments into RIVM, La Santé, Condorcet, Hart van Zuid and A27/A1 which totalled €35.5 million (£30.3 million) (2016: €29.7 million, £23.4 million). These are disclosed as contingent liabilities in Note 17.

## 12 Trade and other payables

| | **As at 31 March 2017 £m** | As at 31 March 2016 £m |
|---|---|---|
| Advisory and performance fees | **3.9** | 19.6 |
| Accruals | **5.3** | 5.2 |
| | **9.2** | 24.8 |

The carrying value of all liabilities is representative of fair value (2016: same).

## 13 Issued capital

| | **As at 31 March 2017** | | As at 31 March 2016 | |
|---|---|---|---|---|
| | **Number** | **£m** | Number | £m |
| Issued and fully paid | | | | |
| Opening balance | **793,216,413** | **887.8** | 881,351,570 | 887.8 |
| Issued as part of open offer and placing | **233,333,333** | **385.0** | – | – |
| Share consolidation | **–** | **–** | (88,135,157) | – |
| **Closing balance** | **1,026,549,746** | **1,272.8** | 793,216,413 | 887.8 |

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

On 10 June 2016, 233.3 million shares were admitted for trading further to the offer and placing at an issue price of 165.0 pence per share or an aggregate amount of £385.0 million. Issue costs of £6.2 million arising from this offer have been offset against the stated capital account. Therefore, as at 31 March 2017, the residual value on the stated capital account was £560.4 million. In the prior year, a share consolidation took place, which was set at a ratio of nine new ordinary shares for every 10 existing shares. The share consolidation ratio was based on a share price of 168.8 pence per share, equivalent to approximately 10% of the market capitalisation of the Company at that time.

# Notes to the accounts

continued

## 14 Per share information

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

| | **Year to 31 March 2017** | Year to 31 March 2016 |
|---|---|---|
| **Earnings per share (pence)** | | |
| Basic and diluted | **14.9** | 20.3 |
| **Earnings (£m)** | | |
| Profit after tax for the year | **146.3** | 166.2 |
| **Number of shares (million)** | | |
| Weighted average number of shares in issue | **981.2** | 816.8 |

| | **As at 31 March 2017** | As at 31 March 2016 |
|---|---|---|
| **Net assets per share (pence)** | | |
| Basic and diluted | **169.0** | 161.0 |
| **Net assets (£m)** | | |
| Net assets | **1,734.6** | 1,277.0 |

## 15 Dividends

| | **Year to 31 March 2017** | | Year to 31 March 2016 | |
|---|---|---|---|---|
| **Declared and paid during the year** | **Pence per share** | **£m** | Pence per share | £m |
| Special dividend paid on ordinary shares | **–** | **–** | 17.000 | 149.8 |
| Interim dividend paid on ordinary shares | **3.775** | **38.8** | 3.625 | 28.8 |
| Prior year final dividend paid on ordinary shares | **3.625** | **28.7** | 3.620 | 31.9 |
| | **7.400** | **67.5** | 24.245 | 210.5 |

The Company proposes paying a final dividend of 3.775 pence per share (2016: 3.625 pence) which will be payable to those shareholders that are on the register on 16 June 2017. On the basis of the shares in issue at year end, this would equate to a total final dividend of £38.8 million (2016: £28.8 million).

The final dividend is subject to approval by shareholders at the AGM in July 2017.

## 16 Commitments

| | **As at 31 March 2017** | As at 31 March 2016 |
|---|---|---|
| Unquoted investments | **102.6** | 84.9 |

As at 31 March 2017, the Group was committed to investing a further US$37.5 million (£30.0 million) (2016: US$37.5 million, £26.1 million) in the 3i India Infrastructure Fund and a total of £62.4 million (2016: £58.8 million) in PPP projects including Mersey Gateway Bridge, A9, RIVM, La Santé, Hart van Zuid, Condorcet and A27/A1. During the year, the Group invested in Ayrshire College and the A12 project and, as a result, a commitment of £8.8 million was extinguished. In addition, the Group committed a further €12.0 million (£10.3 million) to Valorem and €11.1 million (£9.4 million) to the Hart van Zuid and A27/A1 projects. The commitments to Mersey Gateway Bridge and A9 are currently backed by cash held in third-party bank accounts and reported as "Other financial assets" in the balance sheet.

## 17 Contingent liabilities

As at 31 March 2017, the Company had issued €35.5 million (£30.3 million) (2016: €29.7 million, £23.4 million) in the form of Letters of Credit, drawn against the Revolving Credit Facility, for the investments into the A27/A1, RIVM, La Santé, Hart van Zuid and Condorcet PPP projects. During the year, the Letter of Credit relating to the A12 project was cancelled following the investment in the project.

## 18 Related parties

### Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 33.8% (2016: 34.0%) of the ordinary shares of the Company. This classifies 3i Group as a "substantial shareholder" of the Company as defined by the Listing Rules.

The Group has committed US$250 million to the 3i India Infrastructure Fund ("the India Fund") to invest in the Indian infrastructure market. 3i Group has also committed US$250 million of investment capital to the India Fund. No commitments (2016: nil) were drawn down by the India Fund from the Company during the year. In total, commitments of US$183.7 million or £146.8 million re-translated (2016: US$183.7 million or £127.6 million) had been drawn down at 31 March 2017 by the India Fund from the Company. As the India Fund has reached the end of its investment period, the Company's outstanding commitment to the India Fund is limited to 15% of the original US$250 million commitment. At 31 March 2017, the outstanding commitment was US$37.5 million, or £30.0 million re-translated (2016: US$37.5 million or £26.1 million).

3i Networks Finland Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Networks Finland LP, an unconsolidated subsidiary of the Company. During the year, £2.2 million (2016: £2.0 million) was payable directly to 3i Group, of which the Company's share was £1.9 million (2016: £1.7 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2017, nil remained outstanding (2016: nil).

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, an unconsolidated subsidiary of the Company. During the year, £3.8 million (2016: £3.7 million) was payable directly to 3i Group, of which the Company's share was £2.6 million (2016: £2.5 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2017, £0.3 million remained outstanding (2016: £0.3 million).

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company and provides its services under an Investment Advisory Agreement ("IAA"). It also acts as the manager for the India Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company.

Under the IAA, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of the Company at the end of each financial period. Gross Investment Value is defined as the total aggregate value (including any subscription obligations) of the investments of the Group as at the start of a financial period plus any investment (excluding cash) made during the period valued at cost (including any subscription obligations). The applicable annual rate is 1.5%, dropping to an annual rate of 1.25% for investments that have been held by the Group for longer than five years. A lower fee of 1% per annum is applicable for any investments in greenfield projects. 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 2017, £24.3 million (2016: £15.0 million) was payable and nil remained due to 3i plc at 31 March 2017 (2016: £0.8 million). This amount includes fees of £4.5 million (2016: £4.2 million) which were paid directly from unconsolidated subsidiary entities to 3i plc.

The IAA 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. In addition, the performance fee includes a high watermark requirement so that, before payment of a performance fee, besides the 8% performance hurdle, the return must also exceed the performance level in respect of which any performance fee has been paid in the previous three financial years. The performance hurdle and high watermark requirement was exceeded for the year to 31 March 2017 and a performance fee of £3.9 million (2016: £19.5 million) has been accrued and £3.9 million remained due to 3i plc (2016: £19.5 million).

Under the IAA, 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, to expire no earlier than 8 May 2019, unless 3i Investments plc has previously ceased to be a member of 3i Group, or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Pursuant to the UK Support Services Agreement, the Company also pays 3i plc an annual fee for the provision of support services. Such remuneration is payable quarterly in arrears. The cost incurred for the year to 31 March 2017 was £0.8 million (2016: £0.8 million). The outstanding balance payable as at 31 March 2017 was £0.2 million (2016: £0.2 million).

# Notes to the accounts

continued

## 19 Unconsolidated subsidiaries and related undertakings

| Name | Place of incorporation and operation | Ownership Interest |
|---|---|---|
| 3i Infrastructure (Luxembourg) S.à r.l. | Luxembourg | 100% |
| 3i Infrastructure (Luxembourg) Holdings S.à r.l. | Luxembourg | 100% |
| Oystercatcher Luxco 1 S.à r.l. | Luxembourg | 100% |
| Oystercatcher Luxco 2 S.à r.l. | Luxembourg | 100% |
| Oystercatcher Holdco Limited | UK | 100% |
| 3i Networks Finland LP | UK | 87% |
| Tampere Luxco S.à r.l. | Luxembourg | 87% |
| Tampere Finance B.V. | The Netherlands | 87% |
| 3i Osprey LP | UK | 69% |
| 3i Infrastructure Seed Assets LP | UK | 100% |
| 3i India Infrastructure Fund A LP | UK | 100% |
| BIF WIP LP | UK | 100% |
| BIFWIP Dutch Holdco B.V. | The Netherlands | 100% |
| Heijmans Capital B.V. | The Netherlands | 80% |
| NMM Company B.V. | The Netherlands | 80% |
| C3 Investments in Ayrshire College Education Holdco Limited | UK | 100% |
| C3 Investments in Ayrshire College Education Limited | UK | 100% |
| Quartier Santé SAS | France | 80% |
| Heijmans A12 B.V. | The Netherlands | 80% |
| Serendicité SAS | France | 80% |
| 3i ERRV Denmark Limited | Jersey | 100% |
| 3i WIG Limited | Jersey | 100% |
| 3i Envol Limited | Jersey | 100% |
| Coeur du Sud B.V. | The Netherlands | 97% |
| 3Angle B.V. | The Netherlands | 59% |
| Infinis Group: | | |
| 3i LFG Holdings Limited | Jersey | 100% |
| 3i LFG Topco Limited | Jersey | 100% |
| Infinis Energy Group Holdings Limited | UK | 100% |
| Infinis Energy Management Limited | UK | 100% |
| Infinis plc | UK | 100% |
| Infinis (Re-Gen) Limited | UK | 100% |
| Novera Energy (Holdings 2) Limited | UK | 100% |
| Novera Energy Generation No. 1 Limited | UK | 100% |
| Novera Energy Operating Services Limited | UK | 100% |
| Gengas Limited | UK | 100% |
| Novera Energy Generation No. 2 Limited | UK | 100% |
| Renewable Power Generation Limited | UK | 100% |
| Novera Energy Generation No. 3 Limited | UK | 100% |
| Blackborough End Energy Limited | UK | 100% |
| Costessey Energy Limited | UK | 100% |
| Mayton Wood Energy Limited | UK | 100% |
| Infinis Alternative Energies Limited | UK | 100% |
| Scottish BioFuel Limited | UK | 100% |
| Scottish BioPower Limited | UK | 100% |
| Infinis Energy Services Limited | UK | 100% |
| Novera Energy Services UK Limited | UK | 100% |
| Infinis China (Investments) Limited | UK | 100% |
| Infinis Energy Hong Kong Limited | Hong Kong | 100% |
| Infinis Hydro Holdings Limited | UK | 100% |
| Infinis Hydro Limited | UK | 100% |
| Novera Acquisitions Limited | UK | 100% |
| Novera Energy Limited | UK | 100% |
| Novera Energy (Holdings 1) Limited | UK | 100% |
| Novera Energy Pty Limited | Australia | 100% |
| Novera Ventures Limited | UK | 100% |
| CPL Polska Sp. z o.o. | Poland | 80% |

## 19 Subsidiaries and related undertakings continued

The list above comprises the unconsolidated subsidiary undertakings of the Group as at 31 March 2017.

There are no current commitments or intentions to provide financial or other support to any of the unconsolidated subsidiaries, including commitments or intentions to assist the subsidiary in obtaining financial support except for those disclosed in Note 16 (2016: none). No such financial or other support was provided during the year (2016: none).

There are no significant restrictions on the ability of any of the unconsolidated subsidiaries to transfer funds to the Company in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the Company except in the case of Oystercatcher Luxco 2 S.à r.l.

Oystercatcher Luxco 2 S.à r.l. has total borrowings of €227.2 million or £194.2 million (2016: €225.0 million, £178.0 million). These consist of two term loans (bank tranche) totalling €69.7 million or £59.6 million from a consortium of three banks and a further two term loans (PP tranche) of €110.0 million or £94.0 million and SGD 71.0 million or £40.6 million loan with financial institutions. These facilities were agreed in October 2014 and amended in April 2015 and March 2017. The bank tranche is repayable in full in October 2019 and the PP tranche in October 2026 (EUR tranche) and March 2029 (SGD tranche). The facilities have certain loan covenants including interest cover ratios and a leverage ratio which may restrict the future payment of cash dividends from the subsidiary. RBC Europe Ltd as security agent, has security over the equity investments held by Oystercatcher Luxco 2 S.à r.l. The value of this security at 31 March 2017 was £395.1 million (2016: £365.7 million).

# 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 25% of the Company's gross assets, including cash holdings, at the time of making the investment. It is expected that most individual investments will exceed £50 million. In some cases, the total amount required for an individual transaction may exceed the maximum amount that the Company is permitted to commit to a single investment. In such circumstances, the Company may consider entering into co-investment arrangements with 3i Group (or other investors who may also be significant shareholders), pursuant to which 3i Group and its subsidiaries (or such other investors) may co-invest on the same financial and economic terms as the Company. The suitability of any such co-investment arrangements will be assessed on a transaction-by-transaction basis and would be subject to Board approval. Depending on the size of the relevant investment and the identity of the relevant co-investor, such a co-investment arrangement may be subject to the related party transaction provisions contained in the Listing Rules and may therefore require shareholder consent.

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

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

# Portfolio valuation methodology

A description of the methodology used to value the investment portfolio of 3i Infrastructure and its consolidated subsidiary ("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 Invest Europe (formerly 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 in compliance with IFRS 13 Fair Value Measurement. Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.

## 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.

Investments may include portfolio assets and other net assets/liabilities balances. The methodology for valuing portfolio assets is set out below. Any net assets/liabilities within intermediate holding companies are valued in line with the Group accounting policy and held at fair value or approximate to fair value.

## Quoted investments

Quoted equity investments are valued at the closing bid price at the reporting date. In accordance with International Financial Reporting Standards, no discount is applied for liquidity of the stock or any dealing restrictions. Quoted debt investments will be valued using quoted prices provided by third-party broker information where reliable or will be held at cost less fair value adjustments.

## Unquoted investments

Unquoted investments are valued using one of the following methodologies:

- Discounted Cash Flow ("DCF")
- Proportionate share of net assets
- Sales basis
- Cost less any fair value adjustments required

## DCF

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

## Proportionate share of net assets

Where the Group has made investments into other infrastructure funds, the value of the investment will be derived from the Group's share of net assets of the fund based on the most recent reliable financial information available from the fund. Where the underlying investments within a fund are valued on a DCF basis, the discount rate applied may be adjusted by the Company to reflect its assessment of the most appropriate discount rate for the nature of assets held in the fund. In measuring the fair value, the net asset value of the fund is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, illiquid nature of the investments and other specific factors of the fund.

## Sales basis

The expected sale proceeds will be used to assign a fair value to an asset in cases where offers have been received as part of an investment sales process. This may either support the value derived from another methodology or may be used as the primary valuation basis. A marketability discount is applied to the expected sale proceeds to derive the valuation where appropriate.

## Cost less fair value adjustment

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

# Information for shareholders

## Financial calendar

| | |
|---|---|
| Ex-dividend date for final dividend | 15 June 2017 |
| Record date for final dividend | 16 June 2017 |
| Annual General Meeting | 6 July 2017 |
| Final dividend expected to be paid | 10 July 2017 |
| Half-yearly results | November 2017 |

## 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 847 000
Shareholder helpline: 0871 664 0300

Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. Capita are open between 9.00am–5.30pm, Monday to Friday, excluding public holidays in England and Wales.

## Website

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

If you would prefer to receive shareholder communications electronically, including your annual reports and notices of meetings, please go to www.3i-infrastructure.com/shareholder-services/registrar-e-communications for details of how to register.

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

## Warning to shareholders – boiler room scams

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

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

Most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

## Protect yourself

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

1. Get the name of the person and organisation contacting you.
2. Check the Financial Services Register at www.fca.org.uk/register to ensure that they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the Financial Conduct Authority's list of unauthorised firms and individuals to avoid doing business with.
6. Remember: if it sounds too good to be true, it probably is. If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

## Report a scam

If you are approached about a share scam you should tell the Financial Conduct Authority using the share fraud reporting form at www.fca.org.uk, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

3i Infrastructure plc

Registered office:
12 Castle Street
St. Helier
Jersey JE2 3RT
Channel Islands

Tel: +44 (0)1534 847 410

Registered in Jersey No. 95682

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

MIX
Paper from
responsible sources
FSC® C022913

ISO 14001

This report is printed on Cocoon Silk 50%, an environmentally-friendly stock made with PCF (Process Chlorine Free) pure cellulose. This paper is FSC® certified and contains 50% recycled material.

Printed by Pureprint Group using environmental print technology and vegetable-based inks throughout. 99% of the dry waste and 95% of the cleaning solvents associated with this production were recycled.

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

## 3i Infrastructure plc


**Registered office**
12 Castle Street
St. Helier
Jersey JE2 3RT
Channel Islands
Tel: +44 (0)1534 847 410

www.3i-infrastructure.com


**Annual report online**

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

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