3i Infrastructure plc

7 May 2020

Results for the year to 31 March 2020

3i Infrastructure plc (the 'Company') today announces an 11.4% return for the year, delivery of the FY20 dividend of 9.2 pence and a 6.5% increase in the target dividend for FY21 to 9.8 pence per share.

Richard Laing, Chair of 3i Infrastructure plc, said:

"The Company continued to outperform its objectives and made two major realisations in the year as well as a new investment in Ionisos. Covid-19 will affect all businesses but the portfolio is so far proving resilient, reflecting the essential nature of the services delivered. The strength of our portfolio and liquidity position gives us the confidence to set a target dividend of 9.8 pence per share for FY21, an increase of 6.5%."

Phil White, Managing Partner, Infrastructure, 3i Investments plc, said:

"Once again, we have delivered a return well ahead of our target of 8 to 10 percent per annum over the medium term. We have a well-diversified portfolio of defensive asset-intensive businesses delivering essential services. These are unprecedented conditions but the performance of our portfolio has been reassuring and we continue to believe that it is well positioned to meet our targets."

Performance highlights

Exceeded our medium-term target	**11.4%** Total return on opening NAV **£224m** Total return for the year **254.5p** NAV per share
New investment in Ionisos, further diversifying the portfolio	**£186m** New investment
Realisations of WIG and the UK projects portfolio	**£581m** Gross proceeds
Strong cash position in uncertain markets	**£418m** Total cash
Delivered the dividend target for FY20, fully covered	**9.2p** Full year dividend per share for FY20
Setting a higher target for FY21, up 6.5%	**9.8p** Target dividend per share for FY21

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For further information regarding the announcement of the results for 3i Infrastructure plc, including a live webcast of the results presentation at 10.00am, please visit www.3i-infrastructure.com. The analyst presentation will be made available on this website during the day.

Notes to the preliminary announcement

Note 1
The statutory accounts for the year to 31 March 2020 have not yet been delivered to the Jersey Financial Services Commission. The statutory accounts for the year to 31 March 2019 have been delivered to the Jersey Financial Services Commission. The auditor's reports on the statutory accounts for these years are unqualified. This announcement does not constitute statutory accounts. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year to 31 March 2019.

Note 2
Subject to shareholder approval, the proposed final dividend is expected to be paid on 13 July 2020 to holders of ordinary shares on the register on 19 June 2020. The ex-dividend date for the final dividend will be on 18 June 2020.

Note 3
This report contains Alternative Performance Measures ('APMs'), which are financial measures not defined in International Financial Reporting Standards ('IFRS'). More information relating to APMs, including why we use them and the relevant definitions, can be found in the Company's 2020 Annual report and accounts and in the Financial review section.

Note 4
The preliminary announcement has been extracted from the annual report and accounts 2020. The annual report and accounts 2020 will be available on the Company's website today. Printed copies of the annual report and accounts 2020 will be distributed to shareholders who have elected to receive printed copy communications on or soon after 21 May 2020.

Notes to editors

About 3i Infrastructure plc
3i Infrastructure plc is a Jersey-incorporated, closed-ended investment company, an approved UK Investment Trust, listed on the London Stock Exchange and regulated by the Jersey Financial Services Commission. The Company's purpose is to deliver a long-term sustainable return to shareholders from investing in infrastructure.

3i Investments plc, a wholly-owned subsidiary of 3i Group plc, is authorised and regulated in the UK by the Financial Conduct Authority and acts as Investment Manager to 3i Infrastructure plc.

This statement has been prepared solely to provide information to shareholders. It should not be relied on by any other party or for any other purpose. It and the Company's annual report may contain statements about the future, including certain statements about the future outlook for 3i Infrastructure plc. These are not guarantees of future performance and will not be updated. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook are subject to a number of risks and uncertainties and could change. Factors which could cause or contribute to such differences include, but are not limited to, general economic and market conditions and specific factors affecting the financial prospects or performance of individual investments within the portfolio of 3i Infrastructure plc.

This press release is not for distribution (directly or indirectly) in or to the United States, Canada, Australia or Japan and is not an offer of securities for sale in or into the United States, Canada, Australia or Japan. Securities may not be offered or sold in the United States absent registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or an exemption from registration under the Securities Act. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and will contain detailed information about 3i Group plc, 3i Infrastructure plc, 3i India Infrastructure Fund and management, as applicable, as well as financial statements. No public offering in the United States is currently contemplated.

Chair's statement

3i Infrastructure provides its shareholders with a clear investment proposition, delivering a long-term sustainable return from investing in infrastructure with an attractive mix of income yield and capital appreciation.

"We are confident in our defensive portfolio and in our ability to deliver a long-term sustainable return."

Richard Laing
Chair, 3i Infrastructure plc
6 May 2020

The Company's total return objective is to provide shareholders with a total return of 8% to 10% per annum, to be achieved over the medium term. We achieved a return of 11.4% in the year ended 31 March 2020, exceeding our target and demonstrating the resilience of our portfolio.

The Covid-19 pandemic is affecting most businesses across the world and its ultimate impact on the Company and its portfolio will only be fully understood over time. However, we believe that our strong liquidity position, our defensive portfolio of businesses providing essential services, our exposure to long-term sustainable trends through this diverse group of businesses and our focus on risk mitigation will offer a significant degree of protection to shareholders.

Our purpose is to deliver a long-term sustainable return to shareholders from investing in infrastructure. Consideration of sustainability and broader environmental, social and governance ('ESG') themes are fundamental to our investment process and how we manage our portfolio. This is not new for the Company, but we intend for this report to provide greater insight into how we look at these themes, how we are developing our approach to them, and how we and our portfolio are making a positive impact.

We have updated the description of our business model to make it clearer how ESG themes are considered at each stage. In the Investment Manager's review, Phil White, Managing Partner and Head of Infrastructure at the Investment Manager, outlines why sustainability is important to both 3i and the Company, and how the Investment Manager is evolving its investment and portfolio businesses' management processes. In this year's Sustainability report, we are introducing the UN Sustainable Development Goals as a framework to describe the impact of our portfolio on the environment and communities in which they operate. We are also introducing a Task Force on Climate-related Financial Disclosures ('TCFD') section, as we work towards meeting the TCFD recommendations in the coming years.

We carefully considered the final dividend recommendation and the target dividend for the next financial year. Many companies have recently cancelled their dividend payments to preserve liquidity, encouraged by regulatory authorities in some cases.

As an investment company, we understand that our dividend is important to many of our shareholders, and we are in a strong liquidity position which will not be materially impacted by the payment of the final dividend. The interim and final dividends are fully covered by income and non-income cash receipts from our portfolio. We have therefore concluded that it is appropriate to recommend a final dividend in line with our target. We have also decided that it is appropriate to set a target dividend for the next financial year, and hope that this will help our shareholders with their financial planning into 2021.

During the year, the Company sold investments in Wireless Infrastructure Group ('WIG') and the UK operational projects portfolio, generating additional value for shareholders. We also made a new investment in Ionisos, adding timely exposure to the healthcare sector to the portfolio. We believe that the portfolio is well balanced and positioned to provide a sustainable mix of income yield and capital appreciation as we look to emerge from the pandemic.

I am grateful to shareholders for their support during our share issue in October 2019, to the Board for its contribution during this very eventful year and to the Investment Manager for its hard work, particularly in helping our portfolio navigate the current uncertainty.

Performance

The Company generated a total return of £224 million in the year ended 31 March 2020, or 11.4% on opening NAV, again exceeding the target of 8% to 10% per annum to be achieved over the medium term. The NAV per share increased to 254.5 pence. We delivered a Total Shareholder Return ('TSR') of -7.3% in the year (FTSE 250: -18.6%), as a consequence of the share price fall in the last few weeks of the financial year following the outbreak of Covid-19. Prior to that, the Company's share price had reached an all time high of 317.5 pence per share. Since IPO, the Company's annualised TSR is 11.7%, comparing favourably with the broader market (FTSE 250: 5.2% annualised over the same period). The Company's share price performance relative to the FTSE 250 has been particularly strong over the last five years.

Portfolio activity

The Company sold WIG for proceeds of approximately £387 million, realising a 27% IRR from this investment, and sold the UK operational projects portfolio for approximately £194 million, realising a 15% IRR. Both these realisations are further examples of excellent origination, asset management and timely divestment by our Investment Manager. Our first investment in healthcare infrastructure, Ionisos, was made during the year for £186 million and we also completed the acquisition of Joulz for £190 million. The Investment Manager's review describes in more detail the realisations and the new investments alongside portfolio developments.

Share issue

We were delighted with the successful placing, in October 2019, of 81 million shares at a price of 275 pence per share, raising gross proceeds of approximately £223 million before expenses. The issue was substantially oversubscribed with strong interest shown by existing and new shareholders, which was reflected in the final issue price achieved, at a significant premium to NAV. The proceeds were used to repay borrowings and provide liquidity to fund our pipeline of potential investments.

Dividend

Following the payment of the interim dividend of 4.6 pence per share in January 2020, the Board is recommending a final dividend for the year of 4.6 pence per share, meeting our target for the year of 9.2 pence per share, 6.4% above last year's total dividend. We expect the final dividend to be paid on 13 July 2020. Consistent with our progressive dividend policy, we are announcing a total dividend target for the year ending 31 March 2021 of 9.8 pence per share, representing a year-on-year increase of 6.5%.

Corporate governance

The Board aims to uphold the highest standards of corporate governance. The Board has continued to focus on and develop the Company's corporate governance arrangements, committing to observing the requirements of the AIC Code of Corporate Governance (the 'AIC Code') as an appropriate governance framework for an investment company. In February, Samantha Hoe-Richardson was appointed as a non-executive Director. Samantha brings deep expertise and experience, particularly on sustainability and the environment, that will be invaluable to the Company. More detail can be found in the Governance section of our Annual report and accounts 2020.

The Company's Annual General Meeting ('AGM') was held on 4 July 2019. All resolutions were approved by shareholders, including the re-election of all Directors to the Board. This year's AGM will be held on 9 July 2020. At the time of writing, we have to assume that the current stay at home and social distancing measures may still be in place at the time of the AGM. We therefore intend to hold the meeting with the minimum number of people legally required to be present and ask that shareholders vote by proxy in advance of the meeting. A conference call including a presentation from the Investment Manager will take place after the meeting is held, also on 9 July 2020, at which shareholders will be given the opportunity to ask questions. Further details will be provided in the notice of meeting and on the Company's website, 3i-infrastructure.com.

Directors' duties

The Directors' have a duty to act honestly and in good faith with a view to the best interests of the Company. In accordance with the AIC Code, the Board does this through understanding the views of the Company's key stakeholders and carefully considering how their interests and the matters set out in section 172 Companies Act 2006 of England and Wales have been considered in Board discussions and decision making.

Outlook

The past few months have seen significant volatility in both equity and credit markets and falling oil and power prices. In this environment, the infrastructure sector has performed relatively well, demonstrating its value as an asset class. Against this backdrop, the Company has remained disciplined in its investment approach, maintaining a strong cash position and an appropriate level of gearing in the Company's portfolio. We have invested in sectors that benefit from long-term sustainable trends as discussed in greater detail in the Investment Manager's review. Our portfolio consists of defensive businesses providing essential services to their customers. We are delighted to see our latest investment in Ionisos playing its part in fighting Covid-19 through the sterilisation of testing kits and personal protective equipment.

Despite the current uncertain economic backdrop we remain confident in our business model. We have strong liquidity to support our portfolio companies if needed and to take advantage of investment opportunities as our markets start to recover from Covid-19.

Richard Laing
Chair, 3i Infrastructure plc
6 May 2020

2007 to 2020

In the 13 years since the initial public offering ('IPO') the Company has delivered an annualised total shareholder return of

11.7%
per annum

Our markets

There are significant uncertainties linked to the current economic turmoil and this has created a dislocation in markets across almost all asset classes.

As parts of the world's economy and supply chains have gone into temporary and partial shut-down, the equity markets have found it difficult to price future corporate earnings, leading to a period of volatility and downward correction. We have seen swift central bank interventions which have delivered aggressive monetary policy solutions alongside unprecedented fiscal stimulus. Low interest rates and targeted quantitative easing will be part of the solution to keep the funding costs for businesses as low as possible.

The defensive nature of investing in infrastructure is now being put firmly to the test and some assets are experiencing stress beyond that seen during the Global Financial Crisis, especially those connected to the transportation sector. Companies have been drawing down on their debt facilities in case financing markets worsen or in anticipation of falling foul of debt covenants. We have a portfolio of resilient and defensive assets, which provide essential services to their customers, and are working hard to support our management teams to navigate and adapt to this uncertain environment.

The demand for infrastructure investment opportunities continues to be high, with investors able to access the investment class through both listed and private funds. The other UK listed infrastructure funds typically target a mix of operational and greenfield Public Private Partnership ('PPP') projects and regulated assets.

The Company does not compete directly with these funds for new investment as these assets are outside our investment focus. Private funds exist to give investors access to the full range of infrastructure investment opportunities. Those private funds with an economic infrastructure focused mandate remain the Company's primary competitors for new investment.

For larger institutions, such as pension funds or sovereign wealth funds, with dedicated investment teams, direct investment into large core assets remains an attractive investment strategy. Given the high demand for, and low return expectation of, these assets they remain outside the Company's investment focus.

Market activity

Despite the re-pricing of many assets, new investments will become increasingly difficult to execute the longer the Covid-19 crisis goes on. Volatility in public market benchmarks and stay at home and social distancing policies, will make it hard to price and diligence investments in infrastructure assets. We expect the market for transactions to decline in 2020.

Investment focus

Our investment activity remains focused on:

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.

£100m–£300m
Typical equity investment

9%–14%
Typical range of returns per annum

We focus on mid-market economic infrastructure investments with controlling majority or significant minority investments with strong governance rights. This could also include a co-investment arrangement where we manage the investment on behalf of the consortium.

The returns from investing in operational PPP projects and large core infrastructure businesses continue to be below our target return levels. For some years now we have found the opportunities to invest in greenfield projects to be limited and the equity requirements small compared to the size of our portfolio and therefore this too is not a core focus area for new investment.

Outlook

Institutional investors still have capital to deploy and the infrastructure market should demonstrate its defensive and resilient characteristics relative to other asset classes.

Climate change is an area of focus. This is likely to make decisions around financial support for new technologies in the transition to low-carbon energy even more critical. Private finance will be needed to support the energy transition and to enhance digital infrastructure, which will provide new opportunities to invest. We are well funded and alert to new opportunities arising from the pandemic and the subsequent recovery.

The characteristics we look for in new infrastructure investments

We look to build and maintain a diversified portfolio of assets, across a range of geographies and sectors, whilst adhering to a set of core investment characteristics and risk factors.

The Investment Manager has a rigorous process for identifying, screening and selecting investments to pursue. Although investments may be made into a range of sectors, the Investment Manager typically focuses on identifying investments that meet the following criteria:

Asset intensive business: Owning or having exclusive access under long-term contracts to assets that are essential to deliver the service	**Good visibility of future cash flows:** Long-term contracts or sustainable demand that allow us to forecast future performance with a reasonable degree of confidence
Asset bases that are hard to replicate: Assets that require time and significant capital or technical expertise to develop, with low risk of technological disruption	**An acceptable element of demand or market risk:** Businesses that have downside protection, but the opportunity for outperformance
Provide essential service: Services that are an integral part of a customer's business or operating requirements, or are essential to everyday life	**Opportunities for further growth:** Opportunities to grow or to develop the business into new markets, either organically or through targeted M&A
Established market position: Businesses that have a longstanding position, reputation and relationship with their customers – leading to high renewal and retention rates	

Our objectives and strategic priorities

Our objectives

To provide shareholders with:

- **a total return of 8% to 10% per annum, to be achieved over the medium term**
- **a progressive annual dividend per share**

Our 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.	20 **Investments**	17% **Largest single investment in the portfolio by value**
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.	£186m **New investment in the year**	1 **New platform investment, Ionisos**
Managing the portfolio intensively	Driving value from our portfolio through our engaged asset management approach. Delivering growth through platform investments.	13.1% **Total portfolio return in the year**	2 **Bolt-on acquisitions by our platform investments in the year**
Maintaining an efficient balance sheet	Minimising return dilution to shareholders from holding excessive cash, while retaining a good level of liquidity for future investment.	£418m **Cash balances**	£718m **Total liquidity**
Sustainability a key driver of performance	Ensuring that our investment decision and asset management approach considers both the risks and opportunities presented by sustainability.	993MW **Installed renewable energy capacity**	5 **Independent Chair and non-executive Board appointments**

How we measure our performance and KPIs

Total return
(% on opening NAV)

2016	14.0%
2017	9.4%
2018	28.6%
2019	15.4%
2020	**11.4%**

Target	**Outcome for the year**	**Performance against target**
To provide shareholders with a total return of 8% to 10% per annum, to be achieved over the medium term.	Total return of 11.4% for the year to 31 March 2020.	Continued outperformance.

Rationale and definition	Performance over the year
• 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 management 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 NAV, 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 year	• Total return of £224 million in the year, or 11.4% on opening NAV • The portfolio showed good resilience overall with strong performance in particular from Infinis and Valorem • The outperformance in total return was driven mainly by the sale of the Company's holding in WIG • The hedging programme continues to reduce the volatility in NAV from exchange rates • Costs were managed in line with expectations

Annual distribution
pence per share

2016	7.25p+
2017	7.55p
2018	7.85p+
2019	8.65p
2020	**9.20p**

+ Special dividends
(2016: 17p, 2018: 41.40p)

Target	**Outcome for the year**	**Performance against target**
Progressive dividend per share policy. Targeting a full year dividend for FY20 of 9.20 pence per share.	Total dividend of 9.20 pence per share paid and proposed.	Target met.

Rationale and definition	Performance over the year
• 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	• Proposed total dividend of 9.20 pence per share, or £82 million, is in line with the target set 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 £139 million for the year • Operational costs and finance costs used to assess dividend coverage totalled £34 million in the year. The dividend was fully covered for the year • Setting a total dividend target for FY21 of 9.80 pence per share, 6.5% higher than for FY20

Investment Manager's review

Review from the Managing Partner

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

"This was another highly successful year for the Company."

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

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

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

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

In recent years the importance of sustainability and meeting ESG standards has increased and this topic has moved up the agenda for many of our investors. This has always formed an integral part of what we do and sustainability is a core part of our analysis of new investments and our management of the portfolio. We use a proprietary ESG assessment tool to review prospective investments and to assess ESG performance of the existing portfolio. We invest in companies that will benefit from long-term sustainable themes such as the transition to a lower carbon economy or the increasing demand for healthcare from an ageing population. Examples of this can be found in the Sustainability report in our Annual report and accounts 2020.

Portfolio review

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

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

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

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

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

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

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

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

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

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

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

Realisations

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

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

Investment activity

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

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

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

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

Outlook

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

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

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

Realisations

Realisation in December 2019

Wireless Infrastructure Group

Net proceeds received

£387m

of which £98 million are payable unconditionally in December 2020 and £98 million in December 2021

Return on investment (Total cash return over cost)

1.7x

Gross IRR

27%

Key achievements during our ownership include:

- Acquired a 36% minority stake bilaterally in 2016, having tracked the business for a number of years previously and built relationships with the management team.
- Bought out the majority of WIG's equity in 2018 outside of a formal process, benefiting from our position as existing shareholder.
- Grew WIG through our ownership both organically and inorganically, supporting the business as it built new towers and other infrastructure and made a number of bolt-on acquisitions.
- Made a strategic decision to accelerate WIG's position in indoor networks and supported the acquisition of Arqiva's portfolio of indoor network assets to become the clear market leader in this segment.
- Replaced WIG's short-term bank debt with a long-term institutional financing, reflecting the strength of WIG's market position.
- Doubled the size of WIG in Ireland – through acquisition – and continued to develop its business in the Netherlands.
- Formed a partnership with Telefonica to build a 5G-ready small cell network in Aberdeen and joined a consortium, with Highways England, developing a network of connectivity for autonomous vehicle testing in the West Midlands.

Realisation in November and December 2019

UK projects portfolio

Net proceeds received
£194m

Return on investment (Total cash return over cost)
2.4x

Gross IRR
15%

Key achievements during our ownership include:

- Gathered a strong and diverse portfolio of UK PPP/PFI projects over time, comprising stakes in Ayrshire College, Elgin (a vehicle holding 16 project investments), Mersey Gateway Bridge, Octagon (Norfolk and Norwich) Hospital, the West of Duddon Sands offshore transmission owner project, as well as an interest in the Dalmore Capital Fund.
- Led a number of these projects through development and construction, alongside reputable partners.
- Managed the portfolio actively to enhance yield and support our progressive dividend policy.
- Concluded, following a strategic review, that it was in the best interests of shareholders to capture the value uplift as all assets had entered their operational stage and to realise the portfolio through a carefully managed sale process.

New investment

Our investment activity in the year demonstrates execution of our strategy and business model.

New investment acquired in September 2019 having committed to invest in July 2019.

Ionisos

Invested
£186m

Equity stake
96%

Ionisos is a leading owner and operator of cold sterilisation facilities servicing the medical, pharmaceutical and cosmetics industries.

Investment rationale

- Cold sterilisation is an essential element of the manufacturing process of medical, pharmaceutical and cosmetics products that cannot be subject to traditional heat based sterilisation techniques.
- Demand is driven by attractive market fundamentals in the health and pharmaceutical sectors, underpinned by ageing populations, increased prevalence of single use medical equipment and a growing focus on hospital originated diseases.
- Ionisos provides the Company with exposure to a new sector, healthcare infrastructure, increasing portfolio diversification.
- Ionisos is based in France with smaller operations in Germany, Spain, Italy and Estonia.

Characteristics	
Asset intensive business that is hard to replicate Ionisos operates 11 large sterilisation facilities across Europe which are capex intensive to build and require regulators' approval and ongoing oversight.	**Good visibility on future cash flows** Servicing a large number of customers and enjoying a very low churn rate.
Provide essential services Sterilisation serves the fundamental purpose of preventing infection to end-users and accordingly is often a regulatory requirement for pharmaceutical and medical products.	**Acceptable element of demand risk** Demand driven by attractive long-term fundamentals in the health and pharmaceutical sectors.
Established market position Third largest provider in the world, servicing over 1,000 customers.	**Opportunities for further growth** Expanding sites to meet growing demand, potential market consolidation and greenfield development.

Portfolio

The portfolio comprises a diversified, defensive set of businesses providing essential services and benefiting from long-term sustainable trends. We are confident that the portfolio is well positioned to deliver our target returns.

The Company's portfolio was valued at £1,647 million at 31 March 2020 (2019: £1,681 million), and delivered a total portfolio return in the year of £272 million including income and allocated foreign exchange hedging (2019: £325 million).

Table 1 below summarises the valuations 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.

Table 1: Portfolio summary (31 March 2020, £m)

Portfolio assets	Directors' valuation 31 March 2019	Investment in the year	Divestment in the year	Accrued income	Value movement	Foreign exchange translation	Directors' valuation 31 March 2020	Allocated foreign exchange hedging	Underlying portfolio income in the year	Portfolio total return in the year[1]
Infinis	289	–	(17)[2]	–	13	–	**285**	–	18	31
Tampnet	198	4[3]	–	–	10	(7)	**205**	8	5	16
TCR	187	8[3]	–	3	(3)	–	**195**	1	11	9
Ionisos	–	186	(1)[2]	4	4	1	**194**	2	4	11
Joulz	–	190	(1)[2]	2	(9)	5	**187**	(1)	18	13
Oystercatcher	155	–	–	–	(1)	–	**154**	–	5	4
ESVAGT	160	18[3]	–	1	(17)	(21)	**141**	14	19	(5)
Attero	102	2[3]	–	–	(3)	2	**103**	(2)	11	8
Valorem	76	–	–	–	10	2	**88**	(1)	4	15
WIG	288	–	(387)	(3)	102	–	**–**	–	8	110
Economic infrastructure portfolio	**1,455**	**408**	**(406)**	**7**	**106**	**(18)**	**1,552**	**21**	**103**	**212**
Projects	197	15[3,4]	(191)	(1)	47	1	68	–	14	62
India Fund	29	–	–	–	(1)	(1)	27	–	–	(2)
Total portfolio	**1,681**	**423**	**(597)**	**6**	**152**	**(18)**	**1,647**	**21**	**117**	**272**
Adjustments related to unconsolidated subsidiaries[5]	16	–	–	(5)	(6)	–	5	–	6	–
Reported in the Consolidated financial statements	**1,697**	**423**	**(597)**	**1**	**128**	**–**	**1,652**	**21**	**123**	**272**

1 This comprises the aggregate of value movement, foreign exchange translation, allocated foreign exchange hedging and underlying portfolio income in the year.
2 Shareholder loan repaid.
3 Capitalised interest.
4 Drawdown of commitment.
5 Income statement adjustments explained in Table 7 and Balance sheet adjustments explained in Table 8 in the Financial review.

The total portfolio return in the year of £272 million is 13.1% of the aggregate of the opening value of the portfolio and investments in the year (excluding capitalised interest), which total £2,070 million. Outperformance was driven primarily by a valuation uplift and subsequent realisation of the investments in WIG and the UK projects portfolio, together with good performance from Valorem and Infinis.

Table 2 below shows the portfolio return in the year for each asset as a percentage of the aggregate of the opening value of the asset and investments in the asset in the year (excluding capitalised interest).

Table 2: Portfolio return by asset (year to 31 March 2020)

Total portfolio return	**13.1%**
Infinis	10.7%
Tampnet	8.1%
TCR	4.8%
Ionisos	5.9%
Joulz	6.8%
Oystercatcher	2.6%
ESVAGT	(3.1)%
Attero	7.8%
Valorem	19.7%
WIG	38.2%
Projects	29.5%
India Fund	(6.9)%

Movements in portfolio value

The movements in portfolio value were driven principally by the realisations during the year at prices considerably above opening valuation, and by new investments during the year, as well as by the delivery of planned cash flows and other asset outperformance. Partly offsetting this were discount rate increases across the majority of the portfolio to reflect increased uncertainty resulting from Covid-19. A reconciliation of the movement in portfolio value is shown in Table 3 below. The portfolio summary shown in Table 1 details the analysis of these movements by asset. Changes to portfolio valuations arise due to several factors, as shown in Table 4.

Economic infrastructure portfolio

The economic infrastructure portfolio generated a value gain of £106 million in the year (or £88 million including exchange movements).

The sale of **WIG** for a 34% premium to the March 2019 valuation generated a £102 million value gain. This reflected the changing competitive landscape in the UK mobile towers sector where scale is increasing in importance and the sale process therefore attracted aggressively priced bids for WIG's high quality portfolio.

Infinis generated a value gain of £13 million in the year and contributed £35 million of distributions. This was due to a combination of business outperformance, an improved regulatory environment, the initiation of its solar development programme and a small reduction in the discount rate partially offset by a reduced power response pipeline and updated power price forecasts.

The value gain for **Tampnet** of £10 million principally reflects the refinancing that we completed in the first half of the year that was achieved at a lower cost of debt and longer debt maturities than assumed in our investment case. We increased the discount rate to reflect the recent increased uncertainty in the sector following the oil price fall.

The value gain for **Valorem** was £10 million following a reduction in the discount rate as the business continued to develop its pipeline of projects into operation.

Ionisos experienced a £4 million gain following a recent refinancing of the business on improved terms partly offset by a small increase in the discount rate.

The value of **ESVAGT** reduced by £17 million. Higher than expected utilisation in the offshore wind market was offset by Emergency Rescue and Response Vessel ('ERRV') demand being lower in the first half of the year than had been forecast and by negative foreign exchange movements. We increased the discount rate to reflect the increased uncertainty in the oil sector following the recent oil price fall.

Joulz saw a £9 million reduction reflecting an expectation of slower growth in the near term due to Covid-19 and a small increase in the discount rate.

TCR had a negative value movement of £3 million due to lower ground support equipment usage recently as flight movements reduced, increased working capital requirements and a delay to growth, coupled with an increase in the discount rate. This offset outperformance over most of the year.

Attero decreased in value by £3 million as we increased the discount rate to reflect the uncertainty in future commercial and industrial waste volumes due to the reduction in economic activity resulting from Covid-19.

The value of **Oystercatcher** reduced by £1 million as we increased the discount rate to reflect the greater uncertainty as a result of movements in oil prices and the potential impact of Covid-19 on revenue linked to activity levels, partly offset by an improved outlook for contract renewal pricing due to the current contango market structure and global shortage of oil storage capacity.

Table 3: Reconciliation of the movement in portfolio value (year to 31 March 2020, £m)

Opening portfolio value at 1 April 2019	**1,681**
Investment[1]	423
Divestment/capital repaid	(597)
Value movement	152
Exchange movement[2]	(18)
Accrued income movement	6
Closing portfolio value at 31 March 2020	**1,647**

1 Includes capitalised interest.
2 Excludes movement in the foreign exchange hedging programme (see Table 10 in the Financial review).

Projects portfolio

The value gain in the projects portfolio reflected the sale of the UK projects at a 25% premium to the opening value, and the reduction in the discount rate for the Condorcet Campus project in France and the A27/A1 motorway project in the Netherlands as these projects achieved operational status in the year.

During the year, the Company sold its equity investment in the Hart van Zuid project to an existing shareholder at book value and the corresponding commitment was cancelled with no impact on the capital return. This was by agreement with our industrial partners who had support from the public sector authority to expand the project's remit beyond an infrastructure investment case.

India Fund

The value of the India Fund declined slightly as delays in project completion and funding constraints for the road projects persist. We are continuing to pursue exits for the remaining assets.

Summary of portfolio valuation methodology

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

The valuation principles used are based on International Private Equity and Venture Capital ('IPEV') valuation guidelines, generally using a discounted cash flow ('DCF') methodology (except where a market quote is available), which the Investment Manager 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; and
- quoted market comparables.

The Company's investment in the India Fund is valued based on the Company's share of net assets held by that fund.

Given the uncertainty and volatility seen in the public markets, and the unknown ultimate impact of Covid-19, it is more difficult than usual to support an estimate of fair value of the investments as at 31 March 2020. Our underlying principle remains unchanged. We continue to value our portfolio on a fair value basis in line with IPEV guidelines. We considered both the macro environment and investment specific value drivers. The decline in public market pricing provided some indication of the increased uncertainty for market participants and we considered this not only at a macro level but also specifically for each portfolio company's sector and geography. We also considered the effects of Covid-19 on the individual portfolio companies, including in relation to liquidity and delays to debtor payments; forecast revenue, supply chain, employee and slower growth effects; and the offset of government and central bank mitigation measures. As a 'through the cycle' investor with a strong balance sheet we are not in a 'fire sale' scenario and so we considered this period's valuation in the context of the longer-term value of the investments.

Table 4: Components of value movement (year to 31 March 2020, £m)

Value movement component	Value movement in the year	Description
Planned growth	157	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	76	Net value movement arising from actual performance in the year and changes to future cash flow projections, including financing assumptions and changes to regulatory determination assumptions. Includes the uplift on the sale of WIG since the half year.
Discount rate movement	(6)	Value movement relating to changes in the discount rate applied to the portfolio cash flows.
Macroeconomic assumptions	(75)	Value movement relating to changes to macroeconomic out-turn or assumptions, eg power prices, inflation, interest rates on deposit accounts and taxation rates. This includes changes to regulatory returns that are directly linked to macroeconomic variables.
Total value movement before exchange	**152**	
Foreign exchange retranslation	(18)	Movement in value due to currency translation to year end date.
Total value movement	**134**	

In relation to the Covid-19 pandemic we made the following general assumptions, but these have been adapted for country and company-specific circumstances:

- general stay at home policies/closed borders/major restrictions on travel for four months from 1 April 2020;
- August considered disrupted, but restrictions begin to unwind;
- September/October/November 2020 sees businesses gradually reverting to 'normal' operations but not at normal trading levels which only revert at the end of 2020 and beginning of 2021; and
- banks continue to honour revolving credit facilities and other debt facilities.

Although we sought to reflect the effects of Covid-19 principally in the free cash flow forecasts for each investment, we also reviewed discount rates resulting in, for almost all portfolio companies, a higher discount rate than we would have applied without Covid-19. These increases reflect generally increased uncertainty, including around future inflation, power prices and oil prices, as well as company-specific factors. The highest increase we have applied is 1%. However, we reduced the discount rate for Infinis, reflecting the evolution of that business towards solar with less peak power price risk than in the previous valuation.

Discount rate

Table 5 shows the movement in the UK 10-year government bond yield over the life of the Company, with a fall in the 'risk-free' rate in the first five years, followed by a relatively stable period of low rates in the wake of the Global Financial Crisis and then a further fall as a result of the recent economic turmoil.

The reduction in the weighted average discount rate used to value our portfolio, shown in Table 6, has been more modest than this fall in risk-free rates, partly due to changes in portfolio composition. Should interest rates rise in the future, we expect the impact on our valuations to be similarly moderated.

The Company is relatively uncorrelated to wider equity markets, with a low beta of 0.4 against the FTSE 250 index on a five-year basis. The stability and predictability of the long-term returns our portfolio generates are increasingly attractive in a persistently low interest rate environment.

Table 6 below 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 2020. During the year, the weighted average discount rate increased following the sale of WIG and the UK projects, the new investments in Joulz and Ionisos and the impact of the Covid-19 pandemic.

Table 5: UK 10-year government bond yield movement since March 2008 (31 March, %)

March 08	4.4
March 09	3.2
March 10	3.9
March 11	3.7
March 12	2.2
March 13	1.8
March 14	2.7
March 15	1.6
March 16	1.4
March 17	1.1
March 18	1.4
March 19	1.0
March 20	0.4

Table 6: Portfolio weighted average discount rate (31 March, %)

March 08	12.4
March 09	13.8
March 10	12.5
March 11	13.2
March 12	12.6
March 13	12.0
March 14	11.8
March 15	10.2
March 16	9.9
March 17	10.0
March 18	10.5
March 19	10.8
March 20	11.3

Investment track record

As shown in Table 7, since its launch in 2007, 3i Infrastructure has built a portfolio that has provided:

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

These have contributed to a 19% annualised asset IRR since the Company's inception. The European portfolio has 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.

The value created through this robust investment performance was crystallised in a number of instances through well managed realisations, shown as 'Realised assets' in Table 7. 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 WIG this year which generated an IRR of 27%, Eversholt Rail in 2015 and XLT in 2019 which both generated IRRs in excess of 40% and Elenia and AWG in 2018, which generated IRRs of 31% and 16% respectively.

Portfolio asset returns in Table 7 include an allocation of FX hedging where applicable.

Table 7: Portfolio asset returns throughout holding period (since inception, £m)

	Multiple	IRR	Total cost	Value including accrued income	Proceeds on disposals/ capital returns	Cash income
Existing portfolio (Total return**)**						
Infinis	1.3x		322	285	73	49
Tampnet	1.1x		187	205	–	–
TCR	1.4x		151	195	4	18
Ionisos	1.0x		186	194	–	–
Joulz	1.1x		190	187	–	15
Oystercatcher	2.0x		139	154	–	125
ESVAGT	1.0x		132	141	–	–
Attero	1.3x		88	103	1	8
Valorem	1.6x		59	88	–	7
Projects	1.5x		52	68	1	11
India Fund	0.5x		108	27	25	–
Realised assets (Total return**)**						
WIG (realised December 2019)	1.7x	27%	265	–	431	21
XLT (realised March 2019)	5.9x	40%	63	–	322	38
Elenia (realised February 2018)	4.5x	31%	195	–	766	106
AWG (realised February 2018)	3.3x	16%	173	–	410	154
Eversholt (realised April 2015)	3.3x	41%	151	–	391	114
Realised PPP assets	1.9x	22%	289	–	445	103
Others[1]	1.2x	8%	138	–	145	24

19% Asset IRR to 31 March 2020

Portfolio asset returns include allocation of FX hedging where applicable.
Dates of asset realisations refer to completion dates.

1 Others includes junior debt portfolio, T2C and Novera.

A Review of our investments and Sustainability is available in our Annual report and Accounts 2020, available online at https://www.3i-infrastructure.com/investors/reports/

Financial review, Risk and Directors’ duties

Financial review

The Company delivered another year of strong financial performance.

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

James Dawes
CFO, Infrastructure
6 May 2020

Key financial measures (year to 31 March)

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

1 IFRS Total comprehensive income for the year.

2 Reconciliation of measures to the financial statement balances is set out in Tables 16 and 17.

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

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

Returns

Total return

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

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

Total income of £121 million in the year grew by 5% on the previous year, with good levels of dividend receipts from Joulz and Attero, partially offset by reduced income from Oystercatcher. Total income and non-income cash of £139 million in the year was lower than last year due to a lower level of refinancing proceeds (2019: £201 million). The dividend to shareholders for FY20 was fully covered, with a significant surplus.

This growth in income was supported by non-income cash receipts of £18 million during the year, principally related to distributions from Infinis (2019: £86 million). These non-income cash receipts reflect distributions from underlying portfolio companies, which would usually be income to the Company, but which are distributed as a repayment of investment for a variety of reasons. Whilst non-income cash does not form part of the total return shown in Table 8 below, it is included when considering dividend coverage.

An analysis of the elements of the total return for the year is shown in Table 8.

The Financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) basis for its reporting. The non-material adjustments required to reconcile this analysis to the Financial statements are shown in Table 16.

Capital return

The capital return is the largest element of the total return. The portfolio generated a value gain of £152 million in the year to 31 March 2020 (2019: £204 million), as shown in Table 11. The largest contributor was the sale of WIG which generated £102 million. These value movements are described in the Movements in portfolio value section of the Investment Manager's review.

Table 8: Summary total return (year to 31 March, £m)

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

Foreign exchange impact

The portfolio is diversified by currency as shown in Table 9 below. We aim to deliver steady NAV growth for shareholders, and the foreign exchange hedging programme enables us to do this by reducing our exposure to fluctuations in the foreign exchange markets.

Portfolio foreign exchange movements after accounting for the hedging programme, increased the net capital return by £3 million (2019: £8 million). As shown in Table 10, the reported foreign exchange loss on investments of £18 million (2019: gain of £3 million) included a loss of £1 million from the Company's exposure to the Indian rupee, which is not hedged. This was fully offset by a £21 million gain on the hedging programme (2019: gain of £5 million). The positive hedge benefit resulted from interest rate differentials on the euro hedging programme.

Table 9: Portfolio value by currency (at 31 March 2020)

EUR	59%
GBP	17%
NOK	13%
DKK	9%
INR	2%

Table 10: Impact of foreign exchange ('FX') movements on portfolio value (year to 31 March 2020, £m)

	Hedged assets €/SGD/DKK/NOK	Unhedged assets £/rupee
FX loss before hedging	(17)	(1)
FX gain/(loss) after hedging	4	(1)

Table 11: Reconciliation of the movement in NAV (year to 31 March 2020, £m)

Opening NAV at 1 April 2019[1]	**1,867**
Equity raised in October 2019[2]	219
Adjusted opening NAV	**2,086**
Capital return	152
Net foreign exchange movement[3]	3
Total income	121
Net costs including management fees[4]	(52)
NAV before distributions	**2,310**
Distribution to shareholders	(41)
Closing NAV at 31 March 2020	**2,269**

1 Opening NAV of £1,902 million net of final dividend of £35 million for the prior year.
2 Net of issue costs of £4 million.
3 Foreign exchange movements are described in Table 10.
4 Includes non-portfolio exchange.

Income

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

The strong contribution from Joulz and Attero offset the loss of income contribution from the sale of XLT in the prior year and the reduction in income from Oystercatcher. A breakdown of portfolio income is provided in Table 12 below.

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

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

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

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

Table 12: Breakdown of portfolio income (year to 31 March, £m)

	Dividend (2020)	**Interest (2020)**	Dividends (2019)	Interest (2019)	**Comments**
ESVAGT	**–**	**19**	–	17	Interest capitalised in the year
Infinis	**–**	**18**	–	20	Shareholder loan partly repaid
Joulz	**13**	**5**	–	–	New investment at start of FY20
TCR	**–**	**11**	4	11	No dividend in FY20 to preserve liquidity
Attero	**9**	**2**	–	1	Strong financial performance
WIG	**–**	**8**	–	13	Realisation in FY20
Oystercatcher	**5**	**–**	17	–	Timing of distributions
Tampnet	**–**	**4**	–	–	New investment at end of FY19
Ionisos	**–**	**4**	–	–	New investment in FY20
Valorem	**1**	**3**	1	3	
XLT	**–**	**–**	8	6	Realisation in FY19
Projects Portfolio	**6**	**9**	5	9	New investment in A27/A1 and Condorcet projects in FY20

Costs

Management and performance fees

During the year to 31 March 2020, the Company incurred management fees of £28 million (2019: £30 million). The fees, payable to 3i plc, consist of a tiered management fee, and a one-off transaction fee of 1.2% payable in respect of new investments. The management fee tiers range from 1.4%, reducing to 1.2% for any proportion of gross investment value above £2.25 billion.

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

Fees payable

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

Other operating and finance costs

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

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

Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in Table 13 below, against the average NAV over the reporting period.

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

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

Table 13: Ongoing charges (year to 31 March, £m)

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

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

Balance sheet

The NAV at 31 March 2020 was £2,269 million (2019: £1,902 million). The principal components of the NAV are the portfolio assets, cash holdings, the vendor loan notes from the sale of WIG, the fair value of derivative financial instruments and other net assets and liabilities. A summary balance sheet is shown in Table 14. Movements in portfolio value are discussed in the Movements in portfolio section above, including the impact on valuations from Covid-19.

The accounting standards require cash or other net assets and liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and total aggregate cash and net assets/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 17.

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

Cash and other assets

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

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

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

Borrowings

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

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

NAV per share

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

Dividend and dividend cover

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

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

Table 15 below shows the calculation of dividend coverage and dividend reserves. The final dividend cover surplus is £23 million for the year (2019: £95 million). The retained amount available for distribution, following the payment of the final dividend, will be £876 million (2019: £678 million). This is a substantial surplus, which is available to support the Company's progressive dividend policy, particularly should dividends not be fully covered by income in a future year. This could be due to holding uninvested cash or where lower distributions have been received from portfolio companies in order to preserve liquidity during the Covid-19 pandemic.

Table 14: Summary balance sheet (at 31 March, £m)

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

Table 15: Dividend cover (year to 31 March, £m)

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

Alternative Performance Measures ('APMs')

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

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

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

The definition and reconciliation to IFRS of the APMs is shown in the table below.

The table below defines our APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Total return on opening NAV	A measure of the overall financial performance of the Company. For further information see the KPI section.	It is calculated as the total return of £224 million, as shown in the Consolidated statement of comprehensive income, as a percentage of the opening NAV of £1,902 million net of the final dividend for the previous year of £35 million, adjusted on a time-weighted basis for the receipt of the £219 million capital raise on 15 October 2019. An adjustment to increase the opening NAV of £100 million is required for this time weighting.	The calculation uses IFRS measures.
NAV per share	A measure of the NAV per share in the Company.	It is calculated as the NAV divided by the total number of shares in issue at the balance sheet date.	The calculation uses IFRS measures and is set out in Note 14 to the accounts.
Total income and non-income cash	A measure of the income and other cash receipts by the Company which support the payment of expenses and dividends.	It is calculated as the total income from the underlying portfolio and other assets plus non-income cash being the repayment of shareholder loans not resulting from the disposal of an underlying portfolio asset.	The reconciliation of Total income to IFRS is shown in Table 16. The proceeds from partial realisations of investments are shown in the Consolidated cash flow statement. The realisation proceeds which result from a partial sale of an underlying portfolio asset are not included within non-income cash.
Investment value including commitments	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company.	It is calculated as the portfolio asset value plus the amount of the contracted commitment.	The calculation uses portfolio assets shown in the reconciliation in Table 17, together with the value of future commitments as set out in Note 16 to the accounts. Undrawn loan commitments to the India Fund are not included as these are not expected to be drawn.
Total portfolio return percentage	A measure of the financial performance of the portfolio.	It is calculated as the total portfolio return in the year of £272 million, as shown in Table 1, as a percentage of the sum of the opening value of the portfolio and investments in the year (excluding capitalised interest) of £2,070 million.	The calculation uses capital return (including exchange), movement in fair value of derivatives, underlying portfolio income, opening portfolio value and investment in the year. The reconciliation of all these items to IFRS is shown in Table 1.

In addition to the APMs, the Annual report and accounts shows portfolio information including cash and other net assets held within intermediate unconsolidated holding companies. Tables 16 and 17 show a reconciliation of this portfolio information to the information presented in the Consolidated financial statements. Table 18 shows the calculation of Total income and non-income cash.

Reconciliation to Financial statements

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

Table 16: Reconciliation of summary total return (year to 31 March 2020, £m)

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

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

Table 17: Reconciliation of summary balance sheet (at 31 March 2020, £m)

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

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

Table 18: Total income and non-income cash (year to 31 March, £m)

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

Risk report

"Assessment and management of risk is not just a periodic exercise, it runs through everything we do as a Board."

Wendy Dorman
Chair, Audit and Risk Committee

Introduction

During the year the Board undertook a thorough review of its risk exposure and appetite. On behalf of the Board, the Audit and Risk Committee, alongside the Investment Manager, reassessed the emerging, key and principal risks. This review took account of the increasing importance of risks posed to the Company and its portfolio from accelerating climate change and wider sustainability matters. More recently, the conversations between the Board and the Investment Manger have been dominated by the current and potential impact of Covid-19 on the portfolio.

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 long-term sustainable risk-adjusted returns for shareholders. Integrity, objectivity and accountability 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.

Risk related reporting

Internal	External – Annual report
• Monthly management accounts • Internal and external audit reports • Service provider control reports • Risk logs • Compliance reports	• Risk appetite • Viability statement • Internal controls • Going concern • Statutory/accounting disclosures

The Company is also reliant on the risk management framework of the Investment Manager 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 Manager and other service providers and through representation on portfolio companies' boards by investment management team members.

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:

- infrastructure and broader market overviews;
- key macroeconomic indicators and their impact on the performance and valuation of portfolio companies;
- regular updates on the operational and financial performance of portfolio companies;
- experience of investment and divestment processes;
- compliance with regulatory obligations;
- analysis of new and emerging regulatory initiatives;
- liquidity management;

- analysis of changes in operational, financial and regulatory risk following the move in management and tax domicile of the Company from Jersey to the UK;
- consideration of scenarios which may impact the viability of the Company;
- assessment of emerging risks; and
- review of the Company's risk log.

The Audit and Risk Committee uses the risk framework to identify a number of emerging and key risks, and evaluate changes in risks over time. Developments during the year in the more significant key risks are discussed below.

The Audit and Risk Committee evaluates the impact and likelihood of identified key risks, with reference to the Company's strategy and business model. The evaluation of these key risks is then shown on a risk matrix. The adequacy of the mitigation plans and controls are then assessed and, if necessary, additional actions are agreed and reviewed at a subsequent meeting.

The Company considers the identified principal risks in greater detail with regard to the assessment of the Company's viability. A number of scenarios have been developed to reflect plausible 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 not met. The Investment Manager 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 Our markets section, and in the Investment policy towards the end of this document. The Company seeks to limit or manage exposure to other risks to acceptable levels.

The Company's strategy, including the appetite for investment risk, was updated in the year ending March 2015. This narrowed the Company's investment risk focus away from 'large core' infrastructure assets and focused investment on mid-market economic infrastructure assets and greenfield projects. The financial returns, political risk and regulatory risk of 'large core' assets were considered not to fit the target risk-adjusted returns of the Company following a period of return compression for such assets.

This strategy has served the Company well over the last five years.

The Company already invested in economic infrastructure assets such as Oystercatcher and Eversholt Rail (at the point of investment) so had an investment track record and strong understanding of the risk profile of such assets. We recognise that focusing on economic infrastructure assets will over time result in a greater level of economic risk in the portfolio with the potential for greater volatility in returns on an individual asset basis. The benefits of diversification across sectors, countries and types of underlying economic risk will mitigate this volatility, and the Company has sought to build such a diverse portfolio.

In October 2019, the Committee undertook a review of the risk appetite, and the appetite for investment risk in particular. It concluded that the risk appetite of the Company for economic infrastructure investments has not changed, and remains appropriate for our investment mandate and target returns.

The Committee recognises that the overall portfolio risk has evolved over time as the Company has realised the 'large core' assets that were acquired before the change in investment risk appetite and new economic infrastructure assets were acquired.

In January 2020, the Committee reviewed the risk matrix and set out the Company's appetite for each of the key risks. The assessment of Emerging risks is described in more detail below. The assessment of impact and likelihood of several of the key risks was updated, and Climate risk is now considered to be a key risk having previously been assessed as an emerging risk.

In April 2020, the Committee reviewed the risk matrix again to assess the impact of Covid-19 on identified key and emerging risks.

We are confident that the portfolio remains defensive and resilient, and in a position to benefit from asymmetric returns in rising or declining markets (taking more of the upside in a rising market, and benefiting from protection in a downside). We believe the current appetite for risk is appropriate, demonstrated by a balanced portfolio and low risk metrics on both share price and asset level returns, albeit both these measures have been impacted to some extent by the recent Covid-19 pandemic.

We have a relatively diverse spread of assets in the portfolio and it is important that we continue to further broaden the portfolio and diversify risk. Future realisations may continue the evolution of risk in the portfolio in line with our strategy and allow the Company to manage its exposure to more sensitive assets, or to take account of where the risk profile of an asset has changed over time.

Risk categorisation

The Committee uses the following categorisation to describe risks that are identified during the risk review process.

An **emerging risk** is one that may in future be likely to have a material impact on the performance of the Company and the achievement of our long-term objectives, but that is not yet considered to be a key risk.

A **key risk** is considered currently to pose the risk of a material impact on the Company. Risks may be identified as emerging risks and subsequently become key risks. Identified key risks may cease to be considered key over time.

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.

Emerging risks

The Company is a long-term investor and therefore needs to consider the impact of both identified key risks, as detailed below, and risks that are considered emerging or longer term. This emerging risk category includes ‘megatrends’ such as urbanisation, resource scarcity and technical disruptions. These powerful long-term trends will shape business, society and communities around the globe and could have a material impact on the performance and resilience of the portfolio. The Board and the Investment Manager consider these factors when reviewing the performance of the portfolio and when evaluating new investments, seeking to identify which factors present a risk and which are an opportunity. As part of the ongoing risk identification and management of the Company, the Board considers whether these emerging risks should be added to the Company’s risk register.

Key risks

We have seen an increased focus on sustainability and ESG amongst our shareholders and in the wider market. Although there is still much uncertainty around the extent and timing of the impact of climate change, government and societal action and future regulations, we recognise that climate-related risk is a key risk as well as an investment theme for the Company. This new key risk, as well as developments in existing significant key risks, are discussed further below.

Whilst the probable outcomes from climate change remain uncertain, we are increasingly working on analysing these risks and how to mitigate them. The elements of climate-related risk include higher frequency and severity of weather conditions possibly leading to rising sea levels, flooding, storms and other environmental impacts. Our assessment includes possible changes to market dynamics especially in sectors such as oil and gas, consumer behavioural changes and the resilience and flexibility of our portfolio companies’ business models.

We have increased our disclosures and reporting on climate risk and our Investment Manager has evolved its proprietary ESG tool to allow us to assess this and other risks in more detail across the portfolio. The Task Force on Climate-Related Financial Disclosures (‘TCFD’) established by the Financial Stability Board provides a framework and set of standards to report against which we are making progress in adopting, see the Sustainability section in our Annual report and accounts 2020.

All of the companies in our portfolio recognise the importance of considering climate change and are working towards sustainable business models and operations with different initiatives across the portfolio such as reducing energy use, and helping new and existing customers with the energy transition. As discussed in the Sustainability report, the physical and transition climate-related risks are also seen as opportunities for all companies in our portfolio.

There are no acute physical nor transition risks identified in the portfolio that would suggest that climate-related risk is a principal risk, although an example of the impact of a transition risk is the introduction of a tax on imported waste in the Netherlands which impacts Attero. This year, we have therefore upgraded climate-related risk to a key risk.

Within the category of key risks, the principal risks identified by the Committee in the financial year are set out in the table below, alongside how the Company seeks to mitigate these risks.

Principal risks and mitigations

Principal risks	Risk description	Risk mitigation
External		
Market/economic Risk exposure has increased	• Macroeconomic or market volatility, such as the impact of Covid-19, flows through to pricing, valuations and portfolio performance • Fiscal tightening impacts market environment • Risk of sovereign default lowers market sentiment and increases volatility • Misjudgement of inflation and/or interest rate outlook	• Resources and experience of the Investment Manager on deal-making, asset management and hedging solutions to market volatility • Periodic legal and regulatory updates on the Company's markets and in-depth market and sector research from the Investment Manager and other advisers • Portfolio diversification to mitigate the impact of a downturn in any geography or sector
Competition No significant change in risk exposure	• Increased competition for the acquisition of assets in the Company's strategic focus areas • Deal processes become more competitive and prices increase • New entrants compete with a lower cost of capital	• Continual review of market data and review of Company return target compared to market returns • Origination experience and disciplined approach of Investment Manager • Strong track record and strength of 3i Infrastructure brand
Debt markets deteriorate Risk exposure has increased	• Debt becomes increasingly expensive, eroding returns • Debt availability is restricted • The Company's RCF or portfolio company debt cannot be refinanced due to lack of appetite from banks	• The Investment Manager maintains close relationships with a number of banks and monitors the market through transactions and advice • Regular reporting of Company liquidity and portfolio company refinancing requirements • Investment Manager has an in-house Treasury team to provide advice on treasury issues
Strategic		
Unbalanced portfolio Risk exposure has increased	• Failure to ensure adequate spread of assets invested to minimise concentration risks (eg by geography, sector, demand driver, regulator) and fulfil investment policy • Difficulty in maintaining geographical diversity, or sale of large assets, may lead to an unbalanced portfolio • Misjudgement of risk when entering new sectors, industries or geographies	• Investment process explicitly addresses questions of geographical and sector balance in the portfolio • Portfolio concentration measures are reviewed periodically by the Board • The Investment Manager is selective when making new investment commitments • Portfolio diversity has changed over the year through the addition of exposure to healthcare infrastructure in the acquisition of Ionisos and by the sale of WIG and the UK operational projects
Deliverability of return target No significant change in risk exposure	• Failure to ensure the investment strategy can deliver the return target and dividend policy of the Company • Failure to adapt the strategy of the Company to changing market conditions	• Market returns are reviewed regularly • The Investment Manager and other advisers to the Company report on market positioning • Investment process addresses expected return on new investments and the impact on the portfolio • Covid-19 pandemic effects were considered in the March 2020 valuation of the portfolio

Principal risks	Risk description	Risk mitigation
Investment		
Inappropriate rate of investment No significant change in risk exposure	• Failure to achieve new investment impacts shareholder perception, returns and growth prospects • Excess ‘vintage risk’ magnifies the impact of poor performance from a vintage of investments • Poor management of investment pipeline	• Good flow of new investment opportunities • Portfolio concentration measures, including vintage diversification, are reviewed periodically by the Board • The Investment Manager undertakes a concentration review for each new investment • Balance sheet and liquidity monitored regularly by the Board
Security of assets No significant change in risk exposure	• Destruction of value and reputation from an incident, such as a cyber or terrorist attack • Unauthorised access of information and operating systems • 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 • Regular review and update of cyber due diligence for potential investments • Review of portfolio companies for cyber risk management and incident readiness
Operational		
Loss of senior Investment Manager staff No significant change in risk exposure	• Members of the deal team at the Investment Manager leave and ‘deal-doing’ and portfolio management capability in the short to medium term is restricted	• Benchmarked compensation packages and deferred remuneration • Notice periods within employment contracts • Size of the senior team, with new promotions to partner during the financial year, and strength of the 3i Group brand

Covid-19

Covid-19 presents the biggest risk to the global economy and to individual companies since the Global Financial Crisis and has had a severe impact on economic growth forecasts worldwide. The ultimate impact on the Company and its portfolio will only be fully understood over time, as the length and extent of the crisis become clearer. Not all industries or companies will be impacted to the same degree, but all portfolio companies will be impacted to some extent, either directly or indirectly, for example through the reduction in air traffic, the fall in the oil price or lower power prices. More detail can be found in the Investment Manager’s review and elsewhere in this Risk report.

The Committee has reviewed the impact of Covid-19 on the key risks. The risk exposure from market/economic risk has clearly increased, as shown in the table above. This is now the top risk facing the Company.

While government bond yields and bank base rates have reduced since February 2020, there may be an impact on the appetite of lenders to provide acquisition finance or to refinance existing debt facilities. The Committee considers that the risk exposure to a deterioration in debt markets has increased.

As noted above, the impact of Covid-19 on portfolio companies is uncertain, and the risk of a reduction in investment performance has increased. In addition, the increase in working from home may lead to an increase in cyber security incidents, such as ‘phishing’ attempts. The Investment Manager and portfolio companies are aware of this risk, and have taken steps to mitigate it.

The Committee and the Investment Manager continue to monitor and follow closely the information released from governments, regulatory bodies and health organisations in the countries in which the Company invests.

Review of significant key risks

The disclosures in the Risk report 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.

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

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 new investments. This has supported value gains for existing assets in the portfolio and realisations in the latter part of 2019. Some of these gains have been eroded as a result of the downturn brought on by the Covid-19 pandemic. In this challenging environment, the Investment Manager continues to leverage its network and skills to look for investments that can deliver attractive and sustainable risk-adjusted returns to the Company's shareholders.

The UK left the EU on 31 January 2020. Future trading arrangements are not yet clear and could pose a risk to the Company. The regulatory environment in which the Company operates may also change, but it is not yet clear how. The majority of the Company's investments are in domestic businesses with limited cross-border trading. This mitigates the risk to the Company of the UK having unfavourable trading terms with the EU.

Attero imports waste from the UK. The tax on waste imports to the Netherlands was passed by the Dutch Parliament and Senate and took effect from 1 January 2020. Following the renegotiation of most of its imported waste contracts, Attero expects that the immediate impact of the tax on its revenues will be limited. We do anticipate a reduction in the supply of industrial and commercial waste as a result of the pandemic, offset to an extent by increased household waste, which in itself should have limited effects on Attero because of its medium-term waste supply contracts and significant buffer stock of untreated waste.

Inflation has decreased marginally across Europe and the UK. This can have an impact for European assets which have revenues at least partially linked to inflation, although lower inflation may also result in decreased costs.

Short-term interest rates and future interest rate expectations in the UK and Europe have remained close to historically low levels during the year and have fallen further in the latter part of the financial year. This had positive implications for some of the portfolio assets and contributed to the favourable refinancing of debt in Tampnet and Ionisos.

There was significant volatility in sterling exchange rates during the year, in response to continuing uncertainty concerning the UK leaving the EU earlier in the year and the Covid-19 pandemic later in the year. Sterling ended the year weaker against other currencies. The Company's objective is to hedge substantially its direct and indirect euro, Danish krone, Norwegian krone and Singapore dollar exposures. The revaluation of the hedging programme 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. This benefited the Company this year.

Ongoing access to debt markets is important to assets in the portfolio, particularly as existing debt matures. Changes in the terms and availability of debt finance, including from underlying performance of portfolio assets, could impact valuations. The refinancings undertaken for Tampnet and Ionisos mitigate against this risk by extending the maturity of their debt on favourable terms.

The Board monitors the effectiveness of the Company's hedging policy on a regular basis. During the year, the foreign exchange losses on revaluation of the assets were fully offset by gains from the foreign exchange hedging derivatives.

The exposure to the Indian rupee remains unhedged. The Board's assessment remains that the cost of hedging this exposure would outweigh the potential benefits, primarily due to the significant interest rate differential between sterling and the rupee.

A minority of TCR's revenues are variable and linked to equipment usage, repair or maintenance. The dramatic fall in air travel due to Covid-19 has reduced these variable revenues, and we have adjusted downwards our estimate of future revenues and increased the discount rate to reflect the current uncertainty and increased customer risk.

The fall in the oil price since January is a risk to growth at Tampnet in the near term, and if sustained could lead to earlier decommissioning of platforms, but a low oil price can also be a catalyst for increasing bandwidth demands from Tampnet's customers as part of the drive to lower operating costs.

At Oystercatcher, the introduction of the IMO 2020 regulations for the fuel used in shipping has now created increased demand for storage of marine gasoil and low sulphur fuel oil. The recent fall in the oil price, following the fall in demand caused by Covid-19 and the increased production announced by Saudi Arabia, has caused a contango in the forward price curve for most stored products, with future prices higher than spot prices increasing demand for storage, which is helpful for Oystercatcher's terminals as they renew maturing contracts with customers.

Infinis is impacted by a lower electricity price following the mild winter, lower oil and gas prices and the pandemic-induced drop in demand for electricity.

ESVAGT's operations have been maintained during the Covid-19 pandemic, with some increased costs from changes in operating procedures to reduce the risk of infection among crew. The fall in the oil price could reduce demand for vessels during the summer peak, albeit ESVAGT has the majority of its fleet on medium to long-term contracts.

Ionisos is a provider of cold sterilisation and ionising radiation treatment services to the medical, pharmaceutical, plastics and cosmetics industries. Gamma radiation, one of the three methods of cold sterilisation used, relies on the radioactive decay of Cobalt-60, a scarce resource. Ionisos has secured its Cobalt-60 requirement for the next two years.

External risks – regulatory and tax

The Company is a UK approved investment trust and the affairs of the Company are directed to enable it to maintain its UK tax residency and its approved investment trust status.

The Company's investment in Infinis is exposed to electricity market regulation around the receipt of embedded benefits for exporting power directly to distribution networks. In December 2019, Ofgem confirmed its intention, starting in April 2021, to remove the embedded benefit Infinis receives through exemption from the balancing charges on electricity exports. Payments under the UK's capacity market have resumed following the positive decision of the European Commission on the scheme's legitimacy, including back payments due during the suspension period. Carbon taxes are an important driver of UK power prices, and there are two main schemes: EU ETS and UK Carbon Price Support. There is uncertainty on whether the UK will leave the EU ETS in December 2020 and also over the level of future Carbon Price Support.

Strategic risks

The Company manages its balance sheet and liquidity position actively, seeking to maintain adequate liquidity to pursue new investment opportunities, while not diluting shareholder returns by holding surplus cash balances. Following the receipt of proceeds from the realisations of WIG and the UK projects portfolio, the Company has ample liquidity. At 31 March 2020 there was £418 million available in cash and a further £300 million from the Company's undrawn RCF available for future investment. The RCF includes an additional £200 million accordion feature which the Company could seek to exercise if required.

Following the realisations, the portfolio is less exposed to the UK, and following the recent investment in Ionisos is more diversified across sector and geography. No investment is now above 17% of portfolio value.

Investment risks

The Company made one new investment commitment during the year, in Ionisos, alongside completion of the investments in Joulz and FHA (a Valorem follow-on). In line with the Company's investment focus, these new investments have characteristics which may increase volatility in returns from time to time, for example from exposure to demand or price risk.

The portfolio overall is resilient, and performing well operationally during the Covid-19 pandemic. The investments in the India Fund now only represent approximately 2% of the Company's portfolio and are being managed for realisation.

As outlined above and in the Sustainability report, shareholder and other stakeholder focus on environmental matters increased in the year. Climate-related risk is now considered a key risk, with the impact expected to be seen within our portfolio. We have therefore categorised climate-related risk as an investment risk. We consider that the recently imposed tax on waste imported by Attero, discussed in the external risks section above, is a good example of a change in regulation that impacts a portfolio company that was driven by the need to transition to lower carbon emissions.

Portfolio companies continue to experience fraud attempts, some of which are successful, but none of which has had a material impact on any of our companies. In the year we utilised an independent IT security provider to review cyber controls at the majority of our portfolio companies. No significant weaknesses in cyber security were identified and the majority of more minor issues have been addressed. We remain vigilant and continue to focus on effective operations of controls against possible cyber attack, particularly as working practices have adapted recently in response to Covid-19.

Operational risks

The key areas of operational risk include the loss of key personnel at the Investment Manager, and whether the Investment Manager's team can continue to support the delivery of the Company's objectives. The team has strength and depth and remained stable in the year, with promotions to partner from within the team. The Board monitors the performance of the Investment Manager through the Management Engagement Committee. It also monitors the performance of key service providers, receiving reports of any significant control breaches.

Viability statement

The Directors consider the long-term prospects of the Company to be favourable. The Company has a diverse portfolio of infrastructure investments, producing good and reasonably predictable levels of income which cover the dividend and costs. The defensive nature of the portfolio and the essential services that the businesses in which we invest provide to their customers are being demonstrated in the current climate. The Investment Manager has a strong track record of investing in carefully selected businesses and projects and driving value through an engaged asset management approach. The Directors consider that this portfolio can continue to meet the Company's objectives.

The Directors have assessed the viability of the Company over a three-year period to March 2023. The Directors have taken account of the current position of the Company, including its strong liquidity position with £418 million of cash and £300 million of undrawn credit facilities, 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, yet plausible 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 proposed scenarios were evaluated by the Board, the assumptions set, and the analysis produced and reviewed. Since the onset of the Covid-19 pandemic, several scenarios were run to stress test the portfolio assuming various levels and lengths of restriction on travel and working, and the impact on the customer base of our portfolio companies. Other analysis included the impact of a Brexit outcome that is unfavourable to the Company, consideration of widespread economic turmoil, a reduction in the ability of portfolio companies to distribute cash to the Company, the possible impact of climate-related events and transition risks, a tightening of debt markets and the loss of a large investment.

The assumptions used to model these scenarios included a fall in value of some or all of the portfolio companies, a reduction in cash flows from portfolio companies, a reduction in the level of new investment, the imposition of additional taxes on distributions from or transactions in the portfolio companies, an increase in the cost of debt and restriction in debt availability and an inability for the Company to raise equity. 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 and viability in that time period. These scenarios were considered to be remote, such as a fall in equity value of the portfolio of materially more than 50% whilst being fully drawn on the RCF including the accordion, or an equivalent fall in income. Whilst the eventual impact of Covid-19 on the portfolio is uncertain, and may not be known for some time, the Company is in a strong liquidity position and our portfolio companies are proving to be resilient during the imposition of stay at home and social distancing policies.

The Directors consider that a three-year period to March 2023 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 RCF, 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 2023.

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 and in the Financial statements and related Notes of our Annual report and accounts to 31 March 2020. The financial position of the Company and its consolidated subsidiary, its cash flows, liquidity position and borrowing facilities are described in the Financial statements and related Notes to the accounts.

In addition, Note 9 to the accounts 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 Directors have made an assessment of going concern, taking into account the Company's cash and liquidity position, current performance and outlook, which considered the impact of the Covid-19 pandemic, using the information available up to the date of issue of these financial statements. The assessment modelled a number of adverse scenarios to assess the potential impact that Covid-19 may have on the Company's operations and portfolio companies, in addition to the scenarios mentioned in the Viability statement above. The assessment reviewed the Company's supplier base, considering any single points of failure and the possibility of suppliers experiencing financial stress. The assessment included the consideration of contingency plans for the key suppliers including the Investment Manager, the Registrar, the Jersey administrator and the brokers.

The Company has liquid financial resources and a strong investment portfolio providing a predictable income yield and an expectation of medium-term capital growth. The Company manages and monitors liquidity, regularly ensuring it is adequate and sufficient.

At 31 March 2020, liquidity remained strong at £718 million (2019: £550 million). Liquidity comprised cash and deposits of £418 million (2019: £266 million) and undrawn facilities of £300 million (2019: £284 million). In addition, the Company is due to receive deferred consideration from the realisation of WIG in two tranches, £98 million in December 2020 and £98 million in December 2021.

The Company had no investment commitments to new investments at 31 March 2020. As in previous periods, the Company does not expect the $37.5 million commitment to the India Fund to be drawn. The Company had ongoing charges of £29 million in the year to 31 March 2020, detailed in Table 13 in the Financial review, which are indicative of the ongoing run rate in the short term, a performance fee of £17 million due in three equal instalments with only the first instalment payable in the next 12 months and a proposed final dividend for FY20 of £41 million. In addition, while not a commitment, the Company has a dividend target for FY21 of 9.8 pence per share. Whilst a significant amount of income is expected to be received from the portfolio investments during the coming year, the Company has sufficient liquidity to meet its financial commitments even if no income were received and has sufficient resources to make equity investments in existing portfolio companies where required.

A key focus of the portfolio valuations at 31 March 2020 was an assessment of the impact of the Covid-19 pandemic on each portfolio company, considering the performance before the outbreak of Covid-19, the projected short-term impact on the portfolio company's cash flows, and also the longer-term view of the possible impact on the portfolio company including the pace of recovery from stay at home and social distancing policies.

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2020. After making the assessment on going concern, the Directors considered it appropriate to prepare the financial statements of the Company on a going concern basis, having considered the impact of Covid-19 on its operations and on its portfolio. The Company has sufficient financial resources and liquidity and is well positioned to manage business risks in the current economic environment and can continue operations for a period of at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.

Directors’ duties

The Directors have a duty to act honestly and in good faith, with a view to the best interests of the Company. In accordance with the AIC Code, the Board does this through understanding the views of the Company’s key stakeholders (see the Governance section of our Annual report and accounts 2020) and carefully considering how their interests and the matters set out in section 172 Companies Act 2006 of England and Wales have been considered in Board discussions and decision making.

During their induction the Directors are briefed on their duties and can access professional advice on these either through the Company or from an independent adviser. Please see the Governance section of our Annual report and accounts 2020 for further details. The Directors fulfil their duties through the Company’s governance framework and through their delegation of discretionary investment management authority to the Investment Manager, other than in respect of transactions which exceed certain financial thresholds, which still require a decision of the Board. For more details of our governance structure see the Governance section of our Annual report and accounts 2020.

Examples of key Board decisions which considered s172 matters

Decision	**Share placing in October 2019**
Context	The Company had drawn on its RCF to fund the acquisition of Ionisos. The Board and the Investment Manager considered that it was appropriate to raise equity in the market in order to pay down these drawings and provide liquidity to fund potential pipeline investments.
Stakeholder considerations	The brokers advised the Board on a number of options for raising equity in the market. The Board carefully considered the interests of the different shareholder groups, their ability to participate in the share placing, the ease or otherwise of the different equity raising options and the costs involved.
Impact of the decision on the long-term success of the Company	The share placing successfully raised approximately £219 million. It was substantially oversubscribed and received strong support from its existing and new shareholders. The price achieved represented a premium of 19.4% to the net asset value as at 31 March 2019, demonstrating investors’ belief in the strength of the Company as an attractive investment.
Outcome	The Board discussed and approved a non pre-emptive share placing in October 2019. The cash drawn from the RCF was repaid and additional liquidity was made available to fund the pipeline.

Decision	**Appointment of new non-executive Director**
Context	The Board has continued to receive advice on environmental and sustainability matters both from the Investment Manager and external advisers where appropriate. The Board considered that it would be beneficial for the long-term success of the Company to appoint a new Director with specific expertise in environmental and sustainability matters.
Stakeholder considerations	As detailed in the Sustainability report, environmental and sustainability matters are key to the long-term success of the Company’s portfolio which in turn will be able to provide long-term sustainable returns for the Company. Investors increasingly demand appropriate action on these matters and the Directors carefully considered the investors’ views along with all relevant legislation and guidance.
Impact of the decision on the long-term success of the Company	Having a Board member with specific expertise on environmental and sustainability matters enables the Board to develop its understanding, provide advice to the Investment Manager and challenge where appropriate. In turn this will lead to the further development of the Board’s knowledge in this area and ensure that the Company continues its growth and leadership on environmental and sustainability matters.
Outcome	Samantha Hoe-Richardson joined the Board as a non-executive Director on 22 February 2020. Her relevant experience is described on the Board of Directors pages in the Governance section of our Annual report and accounts 2020.

Consolidated statement of comprehensive income

For the year to 31 March

	Notes	**Year to 31 March 2020 £m**	Year to 31 March 2019 £m
Net gains on investments	7	**128**	213
Investment income	7	**123**	110
Fees payable on investment activities		**(1)**	(1)
Interest receivable		**4**	–
Investment return		**254**	322
Movement in the fair value of derivative financial instruments	5	**21**	4
Management, advisory and performance fees payable	2	**(45)**	(61)
Operating expenses	3	**(3)**	(3)
Finance costs	4	**(3)**	(4)
Other income		–	1
Exchange movements		–	–
Profit before tax		**224**	259
Income taxes	6	–	–
Profit after tax and profit for the year		**224**	259
Total comprehensive income for the year		**224**	259
Earnings per share			
Basic and diluted (pence)	14	**26.4**	31.9

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2020	Notes	**Stated capital account £m**	**Retained reserves[1] £m**	**Capital reserve[1] £m**	**Revenue reserve[1] £m**	**Total shareholders' equity £m**
Opening balance at 1 April 2019		**560**	**1,282**	**64**	**(4)**	**1,902**
Issue of shares[2]		**219**	**–**	**–**	**–**	**219**
Total comprehensive income for the year		**–**	**–**	**132**	**92**	**224**
Dividends paid to shareholders of the Company during the year	15	**–**	**–**	**–**	**(76)**	**(76)**
Closing balance at 31 March 2020		**779**	**1,282**	**196**	**12**	**2,269**

For the year to 31 March 2019	Notes	Stated capital account £m	Retained reserves[1] £m	Capital reserve[1] £m	Revenue reserve[1] £m	Total shareholders' equity £m
Opening balance at 1 April 2018		560	1,150	–	–	1,710
Total comprehensive income for the year		–	164	64	31	259
Dividends paid to shareholders of the Company during the year	15	–	(32)	–	(35)	(67)
Closing balance at 31 March 2019		560	1,282	64	(4)	1,902

1 The Retained reserves, Capital reserve and Revenue reserve are distributable reserves. Retained reserves relate to the period prior to 15 October 2018. Further information can be found in Accounting policy H.

2 Net of issue costs of £4 million.

Consolidated balance sheet

As at 31 March

	Notes	**2020 £m**	2019 £m
Assets			
Non-current assets			
Investments at fair value through profit or loss	7	**1,652**	1,697
Trade and other receivables	8	**99**	–
Derivative financial instruments	10	**7**	5
Total non-current assets		**1,758**	1,702
Current assets			
Derivative financial instruments	10	**26**	3
Trade and other receivables	8	**101**	3
Cash and cash equivalents		**413**	257
Total current assets		**540**	263
Total assets		**2,298**	1,965
Liabilities			
Non-current liabilities			
Derivative financial instruments	10	**(4)**	(6)
Trade and other payables	12	**(11)**	–
Total non-current liabilities		**(15)**	(6)
Current liabilities			
Derivative financial instruments	10	**(8)**	(18)
Trade and other payables	12	**(6)**	(39)
Total current liabilities		**(14)**	(57)
Total liabilities		**(29)**	(63)
Net assets		**2,269**	1,902
Equity			
Stated capital account	13	**779**	560
Retained reserves		**1,282**	1,282
Capital reserve		**196**	64
Revenue reserve		**12**	(4)
Total equity		**2,269**	1,902
Net asset value per share			
Basic and diluted (pence)	14	**254.5**	234.7

The Financial statements and related Notes were approved and authorised for issue by the Board of Directors on 6 May 2020 and signed on its behalf by:

Richard Laing
Chair

Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Cash flow from operating activities		
Purchase of investments	**(389)**	(403)
Proceeds from partial realisations of investments	**24**	184
Proceeds from full realisations of investments	**376**	333
Investment income[1]	**83**	78
Fees paid on investment activities	**(1)**	(1)
Operating expenses paid	**(3)**	(3)
Interest received	**1**	–
Management, advisory and performance fees paid	**(60)**	(124)
Amounts paid on the settlement of derivative contracts	**(16)**	(16)
Payments for transfer of investments from unconsolidated subsidiaries[2]	**(18)**	(61)
Distributions from transfer of investments from unconsolidated subsidiaries[2]	**17**	60
Temporary loan to unconsolidated subsidiaries	**2**	(2)
Other income received	–	1
Net cash flow from operating activities	**16**	46
Cash flow from financing activities		
Proceeds from issue of share capital	**223**	–
Transaction costs for issue of share capital	**(4)**	–
Fees and interest paid on financing activities	**(3)**	(4)
Dividends paid	**(76)**	(67)
Drawdown of revolving credit facility	**192**	177
Repayment of revolving credit facility	**(192)**	(177)
Net cash flow from financing activities	**140**	(71)
Change in cash and cash equivalents	**156**	(25)
Cash and cash equivalents at the beginning of the year	**257**	282
Effect of exchange rate movement	–	–
Cash and cash equivalents at the end of the year	**413**	257

1 Investment income includes dividends of £32 million (2019: £14 million), interest of £44 million (2019: £41 million) and distributions of £7 million (2019: £23 million) received from unconsolidated subsidiaries.

2 Following the change of tax domicile of the Company from Jersey to the UK, several of the investments held in unconsolidated subsidiaries domiciled outside the UK have been transferred to be held directly by the Company.

Reconciliation of net cash flow to movement in net debt

For the year to 31 March

	Notes	**Year to 31 March 2020 £m**	Year to 31 March 2019 £m
Change in cash and cash equivalents		**156**	(25)
Drawdown of revolving credit facility	11	**192**	177
Repayment of revolving credit facility	11	**(192)**	(177)
Change in net cash/(debt) resulting from cash flows		**156**	(25)
Movement in net cash/(debt)		**156**	(25)
Net cash/(debt) at the beginning of the year		**257**	282
Effect of exchange rate movement		–	–
Net cash at the end of the year		**413**	257

In the above reconciliation there were no non-cash movements.

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 2020 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 preliminary results for the year ended 31 March 2020 have been extracted from audited accounts which have not yet been delivered to the Jersey Financial Services Commission. The financial statements set out in this announcement do not constitute statutory accounts for the year ended 31 March 2020 or 31 March 2019. The financial information for the year ended 31 March 2019 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 March 2020 and the year ended 31 March 2019 were unqualified.

The Financial statements included in this announcement were authorised for issue by the Board of Directors on 6 May 2020.

Statement of compliance
These Financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued 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 Risk report, 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 liquidity available to the Company and current and expected financial commitments.

The Financial statements of the Group are presented in sterling, the functional currency of the Company, rounded to the nearest million except where otherwise indicated.

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

On 30 January 2020, the World Health Organisation declared the outbreak of Covid-19 to be a public health emergency of international concern, and on 11 March 2020 declared it a pandemic. Covid-19 presents the biggest risk to the global economy and to many companies since the Global Financial Crisis and has had a severe impact on economic growth forecasts worldwide. The full impact of Covid-19 is not yet apparent, and significant uncertainty will remain until the duration and extent of the crisis become clearer, including the impact of stay at home and social distancing policies on economic activity. Not all companies or sectors will be impacted to the same degree. However, the effects will be felt in a number of areas across the Company and its portfolio companies. The Directors continue to monitor and follow closely the information released from governments, regulatory bodies and health organisations in the countries in which the Company and its portfolio companies operate, as well as receiving regular reports from the Investment Manager on the operational and financial performance of our portfolio companies.

The Directors have made an assessment of going concern, taking into account the Company's cash and liquidity position, current performance and outlook, which considered the impact of the Covid-19 pandemic, using information available to the date of issue of these financial statements. As part of this assessment the Directors considered:

- the analysis of the adequacy of the Company's liquidity, solvency and capital position. The analysis has modelled a number of adverse scenarios to assess the potential impact that Covid-19 may have on the Company's operations and portfolio companies, in addition to the scenarios mentioned in the Viability statement. The Company manages and monitors liquidity regularly ensuring it is adequate and sufficient. At 31 March 2020, liquidity remained strong at £718 million (31 March 2019: £550 million). Liquidity comprised cash and deposits of £418 million (31 March 2019: £266 million) and undrawn facilities of £300 million (31 March 2019: £284 million). In addition, the Company is due to receive deferred consideration from the realisation of WIG in two tranches, £98 million in December 2020 and £98 million in December 2021;
- uncertainty around the valuation of the Company's assets are as set out under Key estimation uncertainties. The valuation policy and process was consistent with prior years. A key focus of the portfolio valuations at 31 March 2020 was an assessment of the impact of the Covid-19 pandemic on each portfolio company, considering the performance before the outbreak of Covid-19, the projected short-term impact on the portfolio company's cash flows, and also the longer-term view of the possible impact on the portfolio company including the pace of recovery from stay at home and social distancing policies;
- the operational resilience of the Company's critical functions includes the employees and resilience of IT systems for the Company's Investment Manager, portfolio companies and other key service providers. Covid-19 has emphasised the importance for the Company and its portfolio companies to focus on keeping employees safe, motivated and able to fulfil their roles effectively without disruption;

- an assessment of the Company's supplier base, considering any single points of failure and the possibility of suppliers experiencing financial stress. The assessment includes the consideration of contingency plans for the key suppliers including 3i Investments plc (the 'Investment Manager'), the Company's registrar, Jersey administrator and the Company's brokers; and
- the Company's financial commitments. The Company had no investment commitments at 31 March 2020 to new investments. As in previous periods, we do not expect the $37.5 million commitment to the India fund to be drawn. The Company had ongoing charges of £29 million in the year to 31 March 2020, detailed in Table 13 in the Financial review, which are indicative of the ongoing run rate in the short term, a performance fee of £17 million due in three equal instalments with only the first instalment payable in the next 12 months and a proposed final dividend for FY20 of £41 million. In addition, while not a commitment, the Company has a dividend target for FY21 of 9.8 pence per share. Whilst a significant amount of income is expected to be received from the investment portfolio during the coming year, the Company has sufficient liquidity to meet its financial commitments even if no income were received and has sufficient resources to make equity investments in existing portfolio companies where required.

Having performed the assessment of going concern, the Directors considered it appropriate to prepare the financial statements of the Company on a going concern basis. The Company has sufficient financial resources and liquidity and is well placed to manage business risks in the current economic environment and can continue operations for a period of at least 12 months from the date of these financial statements.

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 IFRS 9 Financial Instruments, 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 its consolidated subsidiary, 3i Infrastructure Seed Assets GP Limited, a UK incorporated and 100% owned company, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated financial statements. There are no eliminations in relation to transactions between the Company and subsidiaries held at fair value. 3i Infrastructure Seed Assets GP Limited was dissolved on 17 March 2020 and was consolidated up until that date. The Company no longer has any consolidated subsidiaries.

Key judgements

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

(i) 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 judgement 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 judgement in whether a subsidiary provides investment-related services or activities and therefore should be consolidated or held at fair value through profit or loss. Further details are shown in significant accounting policy 'A Classification'.

During the year, the Company set up two wholly owned subsidiary entities for the new investment in Ionisos and one wholly owned subsidiary entity for each of the existing investments in Attero and Tampnet. The Directors have assessed whether any of these entities provide investment-related services and have concluded that they should not be consolidated and that they should all 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.

Key estimation uncertainties

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. The uncertainty surrounding the ultimate impact of the Covid-19 pandemic has resulted in significant estimation in respect to the future cash flows for some of the individual portfolio companies. This includes estimation in relation to liquidity and delays to debtor payments; forecast revenue, supply chain, employee and slower growth effects; and the offsetting impact of government and central bank mitigation measures. The discount rates applied to almost all investments have been increased, reflecting increased uncertainty around the duration of stay at home and social distancing policies, the speed of recovery from those policies, future inflation, power prices and oil prices, as well as company-specific factors. These uncertainties have also been reflected in the volatility seen in public markets during March and April 2020. The portfolio is diversified by sector, geography and underlying risk exposures. The valuation of each asset has significant estimation in relation to asset specific items. The key risks to the portfolio are discussed in further detail in the Risk report.

The methodology for deriving the fair value of the investment portfolio, including the key estimates and the base case scenario adopted in relation to the Covid-19 pandemic, is set out in the Portfolio valuation methodology section. The base case scenario assumes delays to non-committed capital expenditure, cost-cutting initiatives and delays to construction activity, new business wins or new orders for a period of between four and nine months from 1 April 2020 followed by a gradual return of activity. Consideration was also given to the impact of stay at home and social distancing policies on the customers of our portfolio companies, including on their viability and access to liquidity. All of our portfolio companies have continued to operate since the start of the pandemic. Some investments are subject to macroeconomic factors such as the fall in oil prices and power prices. This has impacted the portfolio in different ways, for example it has created a strong incentive to store oil and oil products, but is expected to reduce or delay capital expenditure on oil and gas projects. In almost all cases we have increased the discount rate to reflect the greater uncertainty around the cash flows at present.

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.

As described above, the macroeconomic uncertainty has created uncertainty in the fair value of the investment portfolio. The Directors believe that they have reflected this uncertainty in a balanced way through the assumptions used in the valuations of each portfolio company. In respect of TCR, which operates in the aviation industry, there is a greater level of estimation uncertainty compared to the other portfolio investments. The valuation of TCR, which represents 9% of the total net asset value of the Company, is subject to the estimation uncertainty in respect of the extent and duration of the disruption to air traffic movements caused by Covid-19 and the pace and extent of the eventual recovery. The valuation of TCR is considered to reflect a balanced base case of cash flows and appropriate discount rate. The base case assumes lower revenue for a four-month period as a result of lower ground support equipment utilisation, a reduction in the ability of some customers to service their debts, the cancellation of non-committed capital expenditure and a reduction of operating costs and a modest rate of new contract wins based only on those at an advanced stage. A gradual return of activity is assumed, with no return to pre-Covid levels until FY22. The discount rate has been increased as a result of the increased risk to the aviation industry over the short term. TCR has largely fixed rental contracts, rather than direct exposure to passenger numbers, and is diversified across geographies so it has been less severely impacted by the reduction in air traffic movements and passenger numbers in Europe and the US than airlines. TCR is actively managing its balance sheet and liquidity, and engaging with its customers where appropriate to manage the TCR debtor book and potentially support customers with sale and lease back arrangements.

New standards adopted for the current year

Standards and amendment to standards applicable to the Group that became effective during the year and were adopted by the Group on 1 April 2019 are listed below.

IFRS 16 Leases (1 January 2019)
This standard establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard replaces IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a lease. The Company adopted IFRS 16 Leases on 1 April 2019. The adoption of IFRS 16 does not have an impact on the Group as it does not hold any operating leases.

IFRIC 23 Uncertainty over Income Tax Treatments (1 January 2019)
The Group´s existing accounting policy for uncertain income tax treatments is consistent with the requirements of IFRIC 23 and does not result in any additional disclosure on the Group´s consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation (1 January 2019)
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (1 January 2019)
Amendments resulting from Annual Improvements to IFRS 2015-2017 Cycle (1 January 2019)
None of these amendments have had a material impact on the Financial statements.

Standards and interpretations issued but not yet effective

As at 31 March 2020, 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.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (1 January 2020)
Amendments to IFRS 3 Definition of a business (1 January 2020)
Amendments to IAS 1 and IAS 8 Definition of material (1 January 2020)
IFRS 17 Insurance Contracts (1 January 2021)

The Group intends to adopt these standards when they become effective, however does not currently anticipate the standards will have a significant impact on the Group's financial statements. Current assumptions regarding the impact of future standards will remain under consideration in light of interpretation notes as and when they are issued.

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 Consolidated 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'. 3i Infrastructure Seed Assets GP Limited was dissolved during the financial year to 31 March 2020.

(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 Consolidated 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 Consolidated 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 IFRS 9 with changes in fair value recognised in the Consolidated 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 Consolidated statement of comprehensive income. Foreign exchange differences relating to investments held at fair value through profit or loss are shown within the line Net gains on investments. Foreign exchange differences relating to other assets and liabilities are shown within the line Exchange movements.

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 foreign exchange 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 measured at fair value through profit or loss upon initial recognition and subsequently carried in the Consolidated balance sheet at fair value, applying the Group's valuation policy. Acquisition related costs are accounted for as expenses when incurred.

Net gains or losses on investments are the movement in the fair value of investments between the start and end of the accounting period, or investment disposal date, or the investment acquisition date and the end of the accounting period, including divestment related costs where applicable, converted into sterling using the exchange rates in force at the end of the period; and are recognised in the Consolidated 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 Consolidated statement of comprehensive income when the Company's rights to receive payment have been established. Special dividends are credited to capital or revenue according to their circumstances;
- interest income from loans that are measured 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. The remaining changes in the fair value movement of the loans are recognised separately in the line Net gains on investments in the Consolidated statement of comprehensive income;
- distributions from investments in Limited Partnerships are recognised in the Consolidated 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) **Management and advisory fees –** A management fee is payable to 3i plc, calculated as a tiered fee based on the Gross Investment Value of the Group and is accrued in the period it is incurred. Further details on how this fee is calculated are provided in Note 18, including the calculation of the fee in the prior year.
(iii) **Performance fee –** 3i plc is entitled to a performance fee based on the total return generated in the period in excess of a performance hurdle of 8%. The fee is payable in three equal instalments and is accrued in full in the period it is incurred. Further details 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 Consolidated 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 Consolidated 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. Money market funds are accounted for at amortised cost under IFRS 9. However due to their short-term and liquid nature, this is the same as fair value. Interest receivable or payable 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) Derivative financial instruments – Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations in the valuation of the investment portfolio. This is achieved by the use of forward foreign currency contracts. Such instruments are used for the sole purpose of efficient portfolio management. All derivative financial instruments are held at fair value through profit or loss.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. All changes in the fair value of derivative financial instruments are taken to the Consolidated 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.

F Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their consideration receivable less impairment losses. Such assets are short term in nature and the carrying value of these assets is considered to be approximate to their fair value. Assets are reviewed for recoverability and impairment using the expected credit loss model simplified approach. The Company will recognise the asset's lifetime expected credit losses at each reporting period where applicable in the Consolidated 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.

Assets with maturities less than 12 months are included in current assets, assets with maturities greater than 12 months after the balance sheet date are classified as non-current assets.

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. Such liabilities are short term in nature, the carrying value of these 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.

On 15 October 2018, the Company became UK tax domiciled and, with effect from that date, was granted UK approved investment trust status. Financial statements prepared under IFRS are not strictly required to apply the provisions of the Statements of Recommended Practice issued by the UK Association of Investment Companies for the financial statements of Investment Trust Companies (the 'AIC SORP'). However, where relevant and appropriate, the Directors have looked to follow the recommendations of the SORP. From this date, the retained profits of the Company have been applied to two new reserves being the Capital reserve and the Revenue reserve. These are in addition to the existing Retained reserves which incorporate the cumulative retained profits of the Company (after the payment of dividends) plus any amounts that have been transferred from the Stated capital account of the Company to 15 October 2018.

The Directors have exercised their judgement in applying the AIC SORP and a summary of these judgements are as follows:

- Net gains on investments are applied wholly to the Capital reserve as they relate to the revaluation or disposal of investments.
- Dividends are applied to the Revenue reserve except under specific circumstances where a dividend arises from a return of capital or proceeds from a refinancing, when they are applied to the Capital reserve.
- Fees payable are applied to the Capital reserve where the service provided is, in substance, an intrinsic part of an intention to acquire or dispose of an investment.
- Movement in the fair value of derivative financial instruments is applied to the Capital reserve as the derivative hedging programme is specifically designed to reduce the volatility of sterling valuations of the non-sterling denominated investments.
- Management fees are applied to the Revenue reserve as they reflect ongoing asset management. Where a transaction fee element is due on the acquisition of an investment it is applied to the Capital reserve.
- Performance fees are applied wholly to the Capital reserve as they arise mainly from capital returns on the investment portfolio.
- Operating costs are applied wholly to the Revenue reserve as there is no clear connection between the operating expenses of the Company and the purchase and sale of an investment.
- Finance costs are applied wholly to the Revenue reserve as the existing borrowing is not directly linked to an investment.
- Exchange movements are applied to the Revenue reserve where they relate to exchange on non-portfolio assets.

(iii) Dividends payable – Dividends on ordinary shares are recognised in the period in which the Company's obligation to make the dividend payment arises and are deducted from Retained reserves for the period to 15 October 2018 and from the Revenue reserve for subsequent periods.

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 Consolidated statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. 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.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set off. In practice, some assets that are likely to give rise to timing differences will be treated as capital for tax purposes. Given capital items are exempt from tax under the Investment Trust Company rules, deferred tax is not expected to be recognised on these balances. All deferred tax liabilities are offset against deferred tax assets, where appropriate, in accordance with the provisions of IAS 12.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 2020:

For the year to 31 March 2020	Economic infrastructure businesses £m	Projects portfolio £m	India Fund £m	Unallocated[1] £m	Total £m
Investment return/(loss)	**192**	**60**	**(2)**	**4**	**254**
Profit/(loss) before tax	**213**	**60**	**(2)**	**(47)**	**224**
For the year to 31 March 2019					
Investment return/(loss)	308	14	(6)	6	322
Profit/(loss) before tax	312	14	(6)	(61)	259
As at 31 March 2020					
Assets	**1,582**	**76**	**27**	**613**	**2,298**
Liabilities	**(11)**	**(1)**	**–**	**(17)**	**(29)**
Net assets	**1,571**	**75**	**27**	**596**	**2,269**
As at 31 March 2019					
Assets	1,478	196	30	261	1,965
Liabilities	(29)	(2)	–	(32)	(63)
Net assets	1,449	194	30	229	1,902

1 Unallocated includes cash, management and performance fees payable, RCF drawn and other payables and receivables which are not directly attributable to the investment portfolio.

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 2020:

For the year to 31 March 2020	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return/(loss)	**190**	**66**	**(2)**	**254**
Profit/(loss) before tax	**139**	**87**	**(2)**	**224**
For the year to 31 March 2019				
Investment return/(loss)	261	67	(6)	322
Profit/(loss) before tax	193	72	(6)	259
As at 31 March 2020				
Assets	**898**	**1,373**	**27**	**2,298**
Liabilities	**(17)**	**(12)**	**–**	**(29)**
Net assets	**881**	**1,361**	**27**	**2,269**
As at 31 March 2019				
Assets	991	944	30	1,965
Liabilities	(32)	(31)	–	(63)
Net assets	959	913	30	1,902

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.

The Group generated 75% (2019: 81%) of its investment return in the year from investments held in the UK and Ireland and 26% (2019: 21%) of its investment return from investments held in continental Europe. During the year, the Group generated 77% (2019: 98%) of its investment return from investments in Economic infrastructure businesses, 24% (2019: 4%) from investments in Projects and (1)% (2019: (2)%) 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 year or the financial position of the Group at 31 March 2020.

2 Management, advisory and performance fees payable

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Management and advisory fee payable	**28**	30
Performance fee	**17**	31
	45	61

Total management, advisory and performance fees payable by the Company for the year to 31 March 2020 were £45 million (2019: £61 million). Note 18 provides further details on the calculation of the management fee, advisory fee and performance fee.

3 Operating expenses

Operating expenses include the following amounts:

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Audit fees	**0.3**	0.2
Directors' fees and expenses	**0.5**	0.5

In addition to the fees described above, fees of £0.09 million (2019: £0.08 million) were paid by unconsolidated subsidiary entities for the year to 31 March 2020 to the Group's auditor.

Services provided by the Group's auditor
During the year, the Group obtained the following services from the Group's auditor, Deloitte LLP.

Audit services		**Year to 31 March 2020 £m**	Year to 31 March 2019 £m
Statutory audit	Group	**0.26**	0.22
	UK unconsolidated subsidiaries[1]	**0.04**	0.04
	Overseas unconsolidated subsidiaries[1]	**0.05**	0.04
		0.35	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.

Non-audit services
Deloitte LLP and their associates provided non-audit services for fees totalling £65,173 for the year to 31 March 2020 (2019: £65,929). This related to agreed-upon procedures work in respect of the management and performance fees (£9,000), an interim dividend report for three of the Luxembourg subsidiaries (£16,173) and the review of the Group interim Financial statements (£40,000). In line with the Company's policy, Deloitte LLP provided non-audit services to certain investee companies. 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. Details on how such non-audit services are monitored and approved can be found in the Governance section of the Annual report and accounts.

4 Finance costs

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Finance costs associated with the debt facilities	**2**	2
Professional fees payable associated with the arrangement of debt financing	**1**	2
	3	4

5 Movements in the fair value of derivative financial instruments

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Movement in the fair value of forward foreign exchange contracts	**21**	4

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 2020 £m	Year to 31 March 2019 £m
Current taxes		
Current year	–	–
Total income tax charge in the Consolidated statement of comprehensive income	–	–

Reconciliation of income taxes in the Consolidated statement of comprehensive income

The Company became a UK tax resident approved investment trust with effect from 15 October 2018, prior to which date it was tax resident in Jersey and subject to tax at the standard corporate income tax rate in Jersey of 0%. The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 19% (2019: 19%), and the differences are explained below:

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Profit before tax	224	259
Profit before tax multiplied by rate of corporation tax in the UK of 19% (2019: 19%)	43	49
Effects of:		
Profits subject to tax in Jersey at 0%	–	(31)
Non-taxable capital profits due to UK approved investment trust company status	(28)	(16)
Non-taxable dividend income	(6)	(2)
Interest distributions	(9)	–
Total income tax charge in the Consolidated statement of comprehensive income	–	–

The Company’s affairs are directed so as to allow it to meet the requisite conditions to continue to operate as an approved investment trust company for UK tax purposes. The approved investment trust status allows certain capital profits of the Company to be exempt from tax in the UK and also permits the Company to designate the dividends it pays, wholly or partly, as interest distributions. These features enable approved investment trust companies to ensure that their investors do not ultimately suffer double taxation of their investment returns, ie once at the level of the investment fund vehicle and then again in the hands of the investors.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the main rate of UK corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Should the Company recognise deferred tax assets and liabilities, a rate of 19% would therefore be used.

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 reassessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) for each reporting period.

The table below shows the classification of financial instruments held at fair value into the fair value hierarchy at 31 March 2020. For all other assets and liabilities, their carrying value approximates to fair value. During the year ended 31 March 2020, there were no transfers of financial instruments between levels of the fair value hierarchy (2019: none).

Trade and other receivables in the Consolidated balance sheet includes £1 million of deferred finance costs relating to the arrangement fee for the revolving credit facility (2019: £1 million). This has been excluded from the table below as it is not categorised as a financial instrument.

Financial instruments classification

	As at 31 March 2020			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investments at fair value through profit or loss	–	–	**1,652**	**1,652**
Trade and other receivables	–	**199**	–	**199**
Derivative financial instruments	–	**33**	–	**33**
	–	**232**	**1,652**	**1,884**
Financial liabilities				
Derivative financial instruments	–	**(12)**	–	**(12)**
	–	**(12)**	–	**(12)**

	As at 31 March 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investments at fair value through profit or loss	–	–	1,697	1,697
Trade and other receivables	–	3	–	3
Derivative financial instruments	–	8	–	8
	–	11	1,697	1,708
Financial liabilities				
Derivative financial instruments	–	(24)	–	(24)
	–	(24)	–	(24)

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

Level 3 fair value reconciliation	**As at 31 March 2020 £m**
Opening fair value	**1,697**
Additions	**423**
Disposal proceeds and repayment	**(597)**
Movement in accrued income	**1**
Fair value movement (including exchange movements)	**128**
Closing fair value	**1,652**

Level 3 fair value reconciliation	As at 31 March 2019 £m
Opening fair value	1,552
Additions	342
Disposal proceeds and repayment	(433)
Movement in accrued income	18
Fair value movement (including exchange movements)	218
Closing fair value	1,697

The table below reconciles the Fair value movement (including exchange movements) shown in the table above to the Net gains on investments shown in the Consolidated statement of comprehensive income.

	As at 31 March 2020 £m	As at 31 March 2019 £m
Fair value movement (including exchange movements)	**128**	218
Divestment costs	**-**	(5)
Net gains on investments	**128**	213

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 whether any investments may be sold within one year.

Investment income of £123 million (2019: £110 million) comprises dividend income of £32 million (2019: £14 million), interest of £85 million (2019: £72 million) and distributions of £6 million (2019: £24 million) from unconsolidated subsidiaries.

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 shareholder 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. The Directors consider that equity and debt share the same characteristics and risks and they are therefore treated as a single unit of account for valuation purposes and a single class for disclosure purposes. As at 31 March 2020, the fair value of unquoted investments was £1,647 million (2019: £1,664 million). Individual portfolio asset valuations are shown within the Portfolio summary.

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, the interest rates assumption used to project the future cash flows and the forecast cash flows themselves. The sensitivity to the long-term inflation rate and interest rates is described below and the sensitivity to the forecast cash flows is captured in the Market risk section in Note 9.

As the global response to Covid-19 is ongoing, and the recovery from the stay at home and social distancing policies in the markets in which we invest is either yet to start or is in the earliest stage, there are greater uncertainties than usual in preparing an estimate of fair value of the investments as at 31 March 2020. The general assumptions that have been taken in relation to the Covid-19 pandemic are described in the Summary of portfolio valuation methodology. One of these assumptions is that the general stay at home policies/closed borders/major restrictions on travel continue for four months from 1 April 2020, followed by a gradual recovery over the remainder of 2020. The Directors have assessed the operational performance of all of the Company's investments including stress testing for plausible adverse impacts. This included modelling extended restrictions for nine months from 1 April 2020 followed by a gradual recovery throughout 2021, at the same pace as the base case. This additional sensitivity has been disclosed below.

The fair value of the investments is sensitive to changes in the macroeconomic assumptions used as part of the portfolio valuation process. As part of its analysis, the Board has considered the potential impact of a change in a number of the macroeconomic assumptions used in the valuation process. By considering these potential scenarios, the Board is well positioned to assess how the Group is likely to perform if affected by variables and events that are inherently outside of the control of the Board and the Investment Manager. The Board believes that the sensitivities, as disclosed in Note 9 of the consolidated financial statements, continue to be reasonable after taking into account potential macroeconomic changes which may occur as a result of Covid-19. However, there continues to be significant uncertainty around how the pandemic will evolve and therefore it is difficult to foresee all of the consequences or disruptions that may arise as a result. It remains therefore a priority for the Board to monitor and assess for potential consequences and disruption and seek to mitigate risks accordingly.

A discussion of discount rates applied can be found in the Summary of portfolio valuation methodology section. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £136 million (2019: £132 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £157 million (2019: £153 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) (2019: 5.0%) to 2.0% (the Netherlands) (2019: 2.0%). The long-term RPI assumption for UK assets is 2.5% (2019: 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 £16 million (2019: £34 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 £15 million (2019: £34 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 £76 million (2019: £49 million). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £71 million (2019: £48 million). This calculation does not take account of any offsetting variances which may be expected to prevail if interest rates changed, including the impact of inflation discussed above.

Extending the assumption taken across the portfolio that the stay at home policies/closed borders/major restrictions on travel will last for four months from 1 April 2020 to nine months from 1 April 2020 would reduce the value of the portfolio by £46 million. This calculation has been derived by adjusting the underlying forecast cash flow projections for each investment without any adjustment to the discount rate or macroeconomic assumptions.

Unlisted funds
The Company divested of its only externally managed fund, the Dalmore Capital Fund, during the year. The Company previously classified the fair value of this investment as Level 3. As at 31 March 2020, the fair value of unlisted funds was nil (2019: £17 million).

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 2020, the fair value of the other assets and liabilities within these intermediate holding companies was £5 million (2019: £16 million).

Over-the-counter derivatives
The Company uses over-the-counter foreign currency derivatives to hedge foreign currency movements. The derivatives are held at fair value which represents the price that would be received to sell or transfer the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, 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
The valuations on the Consolidated balance sheet are the responsibility of the Board of Directors of the Company. The Investment Manager provides a valuation of unquoted investments, debt and unlisted funds held by the Group on a half-yearly basis. This is performed by the valuation team of the Investment Manager and reviewed by the valuation committee of the Investment Manager. 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. The valuation committee of the Investment Manager 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. On a half-yearly basis, the Investment Manager 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. Any changes in valuation methods are discussed and agreed with the Audit and Risk Committee before the valuations on the Consolidated balance sheet are approved by the Board.

8 Trade and other receivables

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Non-current assets		
Vendor loan notes	**99**	-
Current assets		
Vendor loan notes	**99**	-
Other receivables including prepayments and accrued income	**1**	2
Capitalised finance costs	**1**	1
	200	3

Vendor loan notes of £196 million were received from the purchaser following the sale of WIG. These are repayable unconditionally in two equal instalments in December 2020 and December 2021 and carry an interest rate of 6%. These are measured at amortised cost using the effective interest method. Accrued interest on the vendor loan notes is included in the table above.

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. 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 Management Engagement Committee, Audit and Risk Committee and the Investment Manager'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 in AAA rated money market funds, 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 Consolidated 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 listed 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, healthcare, transportation, energy and natural resources and social infrastructure across the UK, continental Europe and Asia. As set out in the Group's investment policy, the maximum exposure to any one investment is 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 BBB+ credit rating. The counterparties selected for the derivative financial instruments were all banks with a minimum of a BBB+ credit rating with at least one major rating agency. Following the sale of WIG, the Company received vendor loan notes ('VLNs') from the purchaser, Brookfield Infrastructure Fund IV, that are reported within Trade receivables. The credit risk on these VLNs has been assessed through calculating an expected credit loss using the credit ratings of underlying investors in the Brookfield fund and the amount of undrawn commitments to the fund to calculate a probability of default.

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. This incorporates the impact of the Covid-19 pandemic, the fall in the oil prices and power prices and other macroeconomic factors. 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. 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 a fair value movement is recorded equal to the valuation shortfall.

The Company had no loans or receivables or debt investments considered past due (2019: 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 Manager and reported to the Board. As at 31 March 2020, 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 (2019: same).

Due to the size and nature of the investment portfolio there is the potential for concentration risk. This risk is managed by diversifying the portfolio by sector and geography.

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

2020	**Payable on demand £m**	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 5 years £m**	**Total £m**
Liabilities					
Loans and borrowings[1]	–	**(2)**	**(2)**	–	**(4)**
Trade and other payables	**(6)**	–	**(6)**	**(5)**	**(17)**
Derivative contracts	–	**(8)**	**(2)**	**(2)**	**(12)**
Financial commitments[2]	**(30)**	–	–	–	**(30)**
Total undiscounted financial liabilities	**(36)**	**(10)**	**(10)**	**(7)**	**(63)**

1 Loans and borrowings relate to undrawn commitment fees and interest payable on the RCF referred to in Note 11.
2 Financial commitments are described in Note 16 and are not recognised in the Consolidated balance sheet.

2019	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total £m
Liabilities					
Loans and borrowings[1]	–	(1)	–	–	(1)
Trade and other payables	(39)	–	–	–	(39)
Derivative contracts	–	(18)	(5)	(1)	(24)
Financial commitments[2]	(218)	(16)	–	–	(234)
Total undiscounted financial liabilities	(257)	(35)	(5)	(1)	(298)

1 Loans and borrowings relate to undrawn commitment fees and interest payable on the RCF referred to in Note 11.
2 Financial commitments are described in Note 16 and are not recognised in the Consolidated balance sheet.

The derivative contracts liability shown is the net cash flow expected to be paid on settlement. During the year, the Group invested in Joulz, in the Condorcet and A27/A1 projects and sold its investment in the Hart van Zuid project and, as a result, a prior year financial commitment of £205 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.

Towards the end of the financial year, market price risk impacted the valuations of the Company's investments due to increased volatility within equity markets caused by the global economic impact of Covid-19. This is discussed further in Note 7 and in the Risk report.

(i) Interest rate risk
Further information on how interest rate risk is managed is provided in the Risk report.

An increase of 100 basis points in interest rates over 12 months (2019: 100 basis points) would lead to an approximate increase in net assets and to the net profit of the Group of £4 million (2019: £3 million). This exposure relates principally to changes in interest receivable on cash on deposit held at the year end. The average cash balance of the Group, which is more representative of the cash balance during the year, was £157 million (2019: £148 million) and the weighted-average interest earned was 0.62% (2019: (0.03)%). The risk exposure at this year end is considered to be representative of this year as a whole.

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 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.

(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. The hedging strategy is discussed in the Financial review.

	As at 31 March 2020					
	Sterling[1] £m	**Euro £m**	**NOK £m**	**DKK £m**	**US dollar £m**	**Total £m**
Net assets	**883**	**1,012**	**208**	**139**	**27**	**2,269**
Sensitivity analysis						
Assuming a 10% appreciation in sterling against the euro, NOK, DKK and US dollar exchange rates:						
Impact of exchange movements on net profit and net assets	**101**	**(92)**	**(19)**	**(13)**	**(2)**	**(25)**

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 notional amount of the derivatives is disclosed in Note 10.

	As at 31 March 2019					
	Sterling[1] £m	Euro £m	NOK £m	DKK £m	US dollar £m	Total £m
Net assets	943	573	198	157	31	1,902
Sensitivity analysis						
Assuming a 10% appreciation in sterling against the euro, NOK, DKK and US dollar exchange rates:						
Impact of exchange movements on net profit and net assets	60	(52)	(18)	(14)	(3)	(27)

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 notional amount of the derivatives is disclosed in Note 10.

The impact of an equivalent depreciation in sterling against the euro, NOK, 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 India 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 risk
Further information about the management of external market risk and its impact on 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. The impact of a change in all cash flows has an equivalent impact on the fair value, as set out below.

	As at 31 March 2020 Investments at fair value £m	As at 31 March 2019 Investments at fair value £m
Increase in net profit and net assets	**165**	170

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.

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.

(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 (2019: 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 (2019: same).

10 Derivative financial instruments

	As at 31 March 2020 £m	As at 31 March 2019 £m
Non-current assets		
Forward foreign exchange contracts	**7**	5
Current assets		
Forward foreign exchange contracts	**26**	3
Non-current liabilities		
Forward foreign exchange contracts	**(4)**	(6)
Current liabilities		
Forward foreign exchange contracts	**(8)**	(18)

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 2020, the notional amount of the forward foreign exchange contracts held by the Company was £1,160 million (2019: £918 million).

11 Loans and borrowings

On 30 April 2018, the Company entered into a new three-year, secured £300 million RCF with a syndicate of banks. The RCF 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. As at 31 March 2020, the Company had drawn down cash of nil (2019: nil).

The RCF 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 RCF by up to a further £200 million, provided that existing lenders have a right of first refusal. In May 2020, the Company agreed the second one-year extension to the maturity date, to 27 April 2023.

There was no change in total financing liabilities for the Company during the year as the cash flows relating to the financing liabilities were equal to the income statement expense. Accordingly, no reconciliation between the movement in financing liabilities and the cash flow statement has been presented.

12 Trade and other payables

	As at 31 March 2020 £m	As at 31 March 2019 £m
Non-current liabilities		
Performance fee	**11**	–
Current liabilities		
Management and performance fees	**6**	31
Accruals and other creditors	**–**	8
	17	39

The carrying value of all liabilities is representative of fair value (2019: same). In the prior year other creditors included £7 million owed to Oystercatcher Luxco 1 S.à r.l., an unconsolidated subsidiary and related party, which has subsequently been repaid.

13 Issued capital

	As at 31 March 2020		As at 31 March 2019	
	Number	**£m**	Number	£m
Authorised, issued and fully paid				
Opening balance	**810,434,010**	**1,273**	810,434,010	1,273
Issued as part of Placing	**81,000,000**	**223**	–	–
Closing balance	**891,434,010**	**1,496**	810,434,010	1,273

Aggregate issue costs of £20 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 million transferred to a new, distributable reserve which has been combined with retained reserves in these accounts. Therefore, as at 31 March 2019, the residual value on the stated capital account was £560 million.

On 11 October 2019, the Company issued a further 81 million new shares at a price of 275 pence per share. On 15 October 2019 the shares were admitted to trading on the London Stock Exchange main market for listed securities. The shares were credited as fully paid and rank pari passu in all respects with the existing ordinary shares, including the right to receive all dividends and other distributions declared, made or paid in respect of the ordinary shares after the date of issue. The total number of shares in the Company following this issue is 891,434,010. Issue costs of £4 million were offset against the stated capital account as a result of the Placing, bringing the aggregate issue costs offset against the stated capital account at 31 March 2020 to £24 million.

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 2020	Year to 31 March 2019
Earnings per share (pence)		
Basic and diluted	**26.4**	31.9
Earnings (£m)		
Profit after tax for the year	**224**	259
Number of shares (million)		
Weighted average number of shares in issue	**847.6**	810.4
Number of shares at the end of the year	**891.4**	810.4

	As at 31 March 2020	As at 31 March 2019
Net assets per share (pence)		
Basic and diluted	**254.5**	234.7
Net assets (£m)		
Net assets	**2,269**	1,902

15 Dividends

Declared and paid during the year	Year to 31 March 2020		Year to 31 March 2019	
	Pence per share	**£m**	Pence per share	£m
Interim dividend paid on ordinary shares	**4.600**	**41**	4.325	35
Prior year final dividend paid on ordinary shares	**4.325**	**35**	3.925	32
	8.925	**76**	8.250	67

The Company proposes paying a final dividend of 4.6 pence per share (2019: 4.325 pence) which will be payable to those shareholders that are on the register on 19 June 2020. On the basis of the shares in issue at year end, this would equate to a total final dividend of £41 million (2019: £35 million).

The final dividend is subject to approval by shareholders at the AGM in July 2020 and has therefore not been accrued in these Financial statements.

16 Commitments

	As at 31 March 2020	As at 31 March 2019
Unquoted investments	**30**	234

As at 31 March 2020, the Group was committed to investing a further US$38 million (£30 million) (2019: US$38 million, £29 million) of loan commitment in the India Fund. During the year, the Group invested in Joulz and the Condorcet and A27/A1 projects and sold its investment in the Hart van Zuid project. As a result, opening commitments of £205 million were extinguished.

17 Contingent liabilities

As at 31 March 2020, the Company had issued nil (2019: €19 million, £16 million) in the form of Letters of Credit, drawn against the RCF. During the year, the Company invested in the Condorcet and A27/A1 projects and sold its investment in the Hart van Zuid project and, as a result, the Letters of Credit were cancelled.

18 Related parties

Transactions between 3i Infrastructure and 3i Group
3i Group plc ('3i Group') holds 30.2% (2019: 33.3%) of the ordinary shares of the Company. This classifies 3i Group as a 'substantial shareholder' of the Company as defined by the Listing Rules. During the year, 3i Group received dividends of £24 million (2019: £22 million) from the Company.

In 2007 the Company committed US$250 million to the India Fund to invest in the Indian infrastructure market. 3i Group also committed US$250 million to the India Fund. No commitments (2019: nil) were drawn down by the India Fund from the Company during the year. In total, commitments of US$184 million or £148 million re-translated (2019: US$184 million or £141 million) had been drawn down at 31 March 2020 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 2020, the outstanding commitment was US$38 million, or £30 million re-translated (2019: US$38 million or £29 million).

The management and tax domicile of the Company moved to the UK on 15 October 2018 with 3i Investments plc, a subsidiary of 3i Group, being appointed as the Company's Alternative Investment Fund Manager to provide its services under an Investment Management Agreement ('IMA'). Prior to this date, 3i Investments plc acted as the exclusive investment adviser to the Company and provided its services under an Investment Advisory Agreement ('IAA'). 3i Investments plc also acts as the investment manager of the India Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company, which it is now doing pursuant to the terms of the IMA.

Under the IAA, an annual advisory fee was payable to 3i plc based on the gross investment value of the Group at the end of each financial period. While the IAA was replaced by the IMA with effect from 15 October 2018, the basis of calculating the fees, for both the ongoing fee and the performance fee, continued to apply as under the IAA in respect of the financial year to 31 March 2019.

With effect from 1 April 2019, fees under the IMA consist of a tiered management fee and time weighting of the management fee calculation and a one-off transaction fee of 1.2% payable in respect of new investments. The applicable tiered rates are shown in the table below.

Gross investment value	Applicable tier rate
Up to £1.25bn	1.4%
£1.25bn to £2.25bn	1.3%
Above £2.25bn	1.2%

The management fee is payable quarterly in advance. For the year to 31 March 2020, £28 million (2019: £30 million) was payable and advance payments of £29 million were made resulting in an amount due from 3i plc of less than £1 million at 31 March 2020 (2019: nil).

Under the IMA, with effect from 1 April 2019, a performance fee is payable to the Investment Manager equal to 20% of the Group's total return in excess of 8%, payable in three equal annual instalments. The second and third instalments will only be payable if either (a) the Group's performance in the year in which that instalment is paid also triggers payment of a performance fee in respect of that year, or (b) if the Group's performance over the three years starting with the year in which the performance fee is earned exceeds the 8% hurdle on an annual basis. There is no high water mark requirement.

The performance hurdle requirement was exceeded for the year to 31 March 2020 and therefore a performance fee of £17 million was recognised (2019: £31 million). The outstanding balance payable as at 31 March 2020 was £17 million (2019: £31 million). Under the IMA, the Investment Manager's appointment may be terminated by either the Company or the Investment Manager giving the other not less than 12 months' notice in writing, but subject to a minimum term of four years from 15 October 2018, 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 Manager may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Prior to the replacement of the IAA by the IMA, the Company also paid 3i plc an annual fee for the provision of support services, under a UK Support Services Agreement. This agreement was terminated on 15 October 2018 and these support services (which are ancillary and related to the investment management service) are now also provided under the IMA. In consideration of the provision of support services under the IMA, the Company will pay the Investment Manager an annual fee of £1 million. The cost for the support services incurred for the year to 31 March 2020 was £1 million (2019: £1 million). The outstanding balance payable as at 31 March 2020 was nil (2019: nil).

Regulatory information relating to fees
Under AIFMD, 3i Investments plc acts as an Alternative Investment Fund Manager ('AIFM') to the Company. In performing the activities and functions of the AIFM, the AIFM or another 3i company may pay or receive fees, commissions or non-monetary benefits to or from third parties of the following nature:

- **Monitoring fees**: 3i companies received monitoring and directors' fees from one portfolio company. The amount was agreed with the portfolio company at the time of the investment. This was an historic arrangement in relation to a seed asset acquired at the IPO of the Company which was sold during the year.

- **Payments for third-party services**: The Company may retain the services of third-party consultants; typically this is for an independent director or other investment management specialist expertise. The amount paid varies in accordance with the nature of the service and the length of the service period and is usually, but not always, paid or reimbursed by the portfolio companies. The payment may involve a flat fee, retainer or success fee. Such payments, where borne by the Company, are included within Operating expenses. In some circumstances, the AIFM may retain the services of third-party consultants which are paid for by the AIFM and not recharged to the Company.

- **Payments for services from 3i companies**: Other 3i companies may provide investment advisory and other services to the AIFM or other 3i companies and receive payment for such service.

Investment policy (unaudited)

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 Manager, that that is the most appropriate and effective means of investing), which may be advised or managed either by the Investment Manager 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 management fee payable under the Investment Management Agreement and the relevant proportion of any performance fee will be deducted from the annual performance fee, if payable, under the Investment Management 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. 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.

Statement of Directors' responsibilities

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 below. The Directors have acknowledged their responsibilities in relation to the Financial statements for the year to 31 March 2019.

Richard Laing
Chair
6 May 2020

Board of Directors and their functions

Richard Laing
Non-executive Chair and Chair of the Nominations Committee and the Management Engagement Committee.

Doug Bannister
Non-executive Director.

Wendy Dorman
Non-executive Director and Chair of the Audit and Risk Committee.

Samantha Hoe-Richardson
Non-executive Director.

Robert Jennings CBE
Non-executive Director.

Ian Lobley
Non-executive Director.

Paul Masterton
Senior Independent Director and Chair of the Remuneration Committee.

Portfolio valuation methodology (unaudited)

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 Manager'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.

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 judgements, and will also consider the nature of the industry and market practice. Methodologies are applied consistently from period to period except where a change would result in a better estimation of fair value. Given the uncertainties inherent in estimating fair value, a degree of caution is applied in exercising judgements and making necessary estimates.

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, including contracted and uncontracted revenues, expenses, capital expenditure, financing and taxation, 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.

Glossary

Alternative Investment Fund (’AIF’) 3i Infrastructure plc is an AIF managed by 3i Investments plc.

Alternative Investment Fund Manager (‘AIFM’) is the regulated manager of an AIF. For 3i Infrastructure plc, this is 3i Investments plc.

Approved Investment Trust Company This is a particular UK tax status maintained by 3i Infrastructure plc. An approved Investment Trust company is a UK tax resident company which meets certain conditions set out in the UK tax rules which include a requirement for the company to undertake portfolio investment activity that aims to spread investment risk and for the company’s shares to be listed on an approved exchange. The ‘approved’ status for an investment trust must be agreed by the UK tax authorities and its benefit is that certain profits of the company, principally its capital profits, are not taxable in the UK.

Association of Investment Companies (‘AIC’) The Association of Investment Companies is a UK trade body for closed-ended investment companies.

Board The Board of Directors of the Company.

Capital reserve recognises all profits that are capital in nature or have been allocated to capital. These profits are distributable by way of a dividend.

Company 3i Infrastructure plc.

Discounting The reduction in present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money.

Fair value through profit or loss (‘FVTPL’) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains and losses on assets and liabilities measured as FVTPL are recognised directly in the Statement of comprehensive income.

FY19, FY20, FY21 refers to the financial years to 31 March 2019, 31 March 2020 and 31 March 2021 respectively.

Global Financial Crisis refers to the financial crisis of 2007 to 2009.

IMO refers to the International Maritime Organization.

Initial Public Offering (‘IPO’) is the mechanism by which a company admits its stock to trading on a public stock exchange. 3i Infrastructure plc completed its IPO in March 2007.

International Financial Reporting Interpretations Committee (‘IFRIC’) is a committee set up to interpret the application of IFRS to ensure consistent accounting practices throughout the world and to provide timely guidance on financial reporting issues that are not specifically addressed in IFRS.

International Financial Reporting Standards (‘IFRS’) are accounting standards issued by the International Accounting Standards Board (‘IASB’). The Group’s consolidated financial statements are required to be prepared in accordance with IFRS, as endorsed by the EU.

Investment income is that portion of income that is directly related to the return from individual investments and is recognised as it accrues. It is comprised of dividend income, income from loans and receivables and fee income. It is recognised to the extent that it is probable that there will be an economic benefit and the income can be reliably measured.

Key Performance Indicator (‘KPI’) is a measure by reference to which the development, performance or position of the Company can be measured effectively.

Money multiple is calculated as the cumulative distributions or realisation proceeds plus any residual value divided by invested or paid-in capital.

Net asset value (‘NAV’) is a measure of the fair value of all the Company’s assets less liabilities.

Net assets per share (‘NAV per share’) is the NAV divided by the total number of shares in issue.

Net gains on investments is the movement in the fair value of investments between the start and end of the accounting period, or investment disposal date, or the investment acquisition date and the end of the accounting period, including divestment related costs where applicable, converted into sterling using the exchange rates in force at the end of the period.

Ongoing charges A measure of the annual recurring operating costs of the Company, expressed as a percentage of average NAV over the reporting period.

Public Private Partnership (’PPP’) is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

Retained reserves recognise the cumulative profits to 15 October 2018, together with amounts transferred from the Stated capital account.

Revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.

Revolving credit facility ('RCF') A £300 million facility provided by the Company's lenders with a maturity date in April 2023.

SORP means the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts.

Stated capital account 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.

TCFD is the Task Force on Climate-related Financial Disclosures.

Total return measured as a percentage, is calculated against the opening NAV, 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 year.

Total shareholder return ('TSR') is the measure of the overall return to shareholders and includes the movement in the share price and any dividends paid, assuming that all dividends are reinvested on their ex-dividend date.