11 May 2017

3i Infrastructure plc

Results for the year ending 31 March 2017

3i Infrastructure plc ("3i Infrastructure" or "the Company") today announces its results for the year ending 31 March 2017.

Performance highlights

9.4% Total return on opening NAV **169.0p** NAV per share	Good portfolio performance drove growth in net asset value	• Total return of £146.3m for the year consistent with 8% to 10% return target over the medium term. • Net asset value ("NAV") of £1,735m at 31 March (2016: £1,277m).
£479m Invested or committed in the year	Success in new investment across our target markets	• Further progress made in growing and diversifying the portfolio. • £479m of investments completed in the year: WIG, TCR, Valorem, Infinis and the Hart van Zuid and A27/A1 PPP projects.
£86m Total income	Good income progression	• Income growth driven by new investments made in the year. • Total income of £85.6m in the year, in line with expectations. In addition, non-income cash of £18.2m was received.
£20m Cash balances **£170m** Undrawn RCF balance	Managed our balance sheet efficiently while maintaining a good level of liquidity to invest	• Revolving Credit Facility ("RCF") was extended to May 2019 during the year, and again to May 2020 since the year end. • Demonstrated our flexible funding model by increasing the size of the RCF on a temporary basis during the year. The undrawn balance of the RCF was £170m at 31 March, increased to £370m since the year end, providing liquidity for new investments.
7.55p Full year dividend per share	Delivered the dividend target	• Delivered the total dividend target for FY17 of 7.55p per share, representing growth of over 4% on FY16. • Announcing a target dividend of 7.85p per share for FY18, a 4% increase on FY17.
£385m New equity raised in the year	Raised new equity of £385m, fully deployed in the year	• £385m of new equity raised from existing and new shareholders, the offer was substantially oversubscribed. • All of the proceeds deployed into new investments within the financial year.

Richard Laing, Chairman of 3i Infrastructure plc, said: "The Company has had a strong year. In a competitive market, we completed six new investments totalling £479 million and executed a successful capital raise. We have delivered our target dividend of 7.55 pence per share for the year."

Phil White, Managing Partner, Infrastructure, 3i Investments plc, said: "We successfully deployed all of the proceeds from the capital raise, further enhancing the quality and diversity in our portfolio. The new investments, along with the existing portfolio, are performing well, driving growth in NAV and the continued progression of the Company's income during the year. We continue to see a good flow of new investment opportunities, but we remain disciplined to invest selectively and focused on maintaining a balanced and attractive portfolio for shareholders"

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For further information regarding the announcement of results for 3i Infrastructure plc please see 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 2017 have not yet been delivered to the Jersey Financial Services Commission. The statutory accounts for the year to 31 March 2016 have been delivered to the Jersey Financial Services Commission. The auditors' 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 2016.

Note 2
Subject to shareholder approval, the proposed final dividend is expected to be paid on 10 July 2017 to holders of ordinary shares on the register on 16 June 2017. The ex-dividend date for the final dividend will be on 15 June 2017.

Note 3
The preliminary announcement has been extracted from the annual report and accounts 2017. The annual report and accounts 2017 will be available on the Company's website today. Printed copies of the Annual report and accounts 2017 will be distributed to shareholders who have elected to receive printed copy communications on or soon after 26 May 2017.

Note 4
This announcement may contain certain statements about the future outlook for 3i Infrastructure plc. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Notes to editors

3i Infrastructure plc is a Jersey-incorporated, closed-ended investment company, listed on the London Stock Exchange and regulated by the Jersey Financial Services Commission. The Company is a long-term investor in infrastructure businesses and assets. The Company's market focus is on economic infrastructure and greenfield projects in developed economies, principally in Europe, investing in operating businesses and projects which generate long-term yield and capital growth.

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 Adviser 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 Half-yearly 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 the expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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.

Chairman’s statement

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

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

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

Performance

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

Capital raise and liquidity

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

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

Investment activity

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

Dividend

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

Corporate governance

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

Outlook

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

Richard Laing
Chairman, 3i Infrastructure plc
10 May 2017

Our objectives and strategic priorities

Our objectives

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

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

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

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

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

Clear strategic priorities

Maintaining a balanced portfolio Delivering an attractive mix of income yield and capital growth for our shareholders Investing in a diversified portfolio in developed markets, with a focus on the UK and Europe	**Disciplined approach to new investment** Focusing selectively on investments that are value enhancing to the Company's portfolio and with returns consistent with our objectives
Managing the portfolio intensively Driving value from our portfolio through our engaged asset management approach Delivering growth through platform investments	**Maintaining an efficient balance sheet** Minimising return dilution to shareholders from holding excessive cash, while retaining a good level of liquidity for future investment

The infrastructure asset class

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

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

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

Target investment characteristics

Asset intensive or long-term concessions	**Essential services**	**Acceptable element of market/usage risk**
Businesses with a significant asset base that they own in perpetuity, or long-term concessions backed by robust regulatory frameworks, generating stable long-term cash flows	Businesses that provide essential services to the communities in which they operate, or to other businesses operating in markets with high barriers to entry and providing some downside protection	Downside protection from limited competition Potential upside through an acceptable level of demand risk
Opportunities to enhance value	**Target sectors**	**Geographical focus**
Partnering with management teams and/or operational partners to deliver enhancements to the current business plan or to develop appropriate growth opportunities	For economic infrastructure – focus on investments within the core and adjacent sectors outlined in the diagram above For projects – focus on greenfield projects	Developed markets, principally the UK and Europe

Market conditions

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

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

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

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

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

Market conditions have shaped our investment activity to focus on:

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

Our target markets for new investment

Economic infrastructure businesses Dynamic businesses that own their asset base in perpetuity		
Businesses generally: • own their asset base in perpetuity • provide essential services • have a strong market position • generate stable cash flows Some businesses may have some characteristics which, through an engaged asset management approach, can enhance returns, including: • growth opportunities • demand/market dynamics • greater operational complexity	£50–250m Typical range of equity investments 9–14% Typical range of returns per annum	**Our approach** We originate investments through the Investment Adviser's dedicated team based in London and Paris, as well as drawing from its broader European network of offices. We generate returns during our ownership through the Investment Adviser's engaged asset management approach. The Investment Adviser represents the Company on the boards of our investments, engaging with senior management to support the development and execution of their strategy. We will sell investments when a sale would maximise value for our shareholders.

Greenfield projects Concession-based projects in construction ("primary") or in operation		
PPPs to build, commission and operate infrastructure such as government buildings, social infrastructure and roads Low-risk energy projects, other means of energy generation, transmission and storage, telecommunications, accommodation and transportation projects	£5–50m Typical range of equity investments 9–12% Typical range of returns per annum	**Our approach** Our approach is to originate attractive opportunities through the Investment Adviser's relationships with project developers, including construction companies. We also leverage the Investment Adviser's expertise in the assessment and management of construction risk. We generate returns by managing greenfield projects through their construction phase and operational ramp-up. Once projects become operational, they can be held for yield or sold to crystallise value.

Key performance indicators

Total return % on opening Net Asset Value	
2013	8.6%
2014	6.6%
2015	24.6%
2016	14.0%
2017	**9.4%**

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 9.4% for the year to 31 March 2017.	Within target range.

Rationale and definition

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

Performance over the year

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

Annual distribution pence per share	
2013	6.49p
2014	6.70p
2015	7.00p
2016	7.25p
2017	**7.55p**

Target	Outcome for the year	Performance against target
Progressive dividend per share policy. Targeting a full year dividend for FY17 of 7.55 pence per share.	Total dividend of 7.55 pence per share paid and proposed.	Target delivered.

Rationale and definition

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

Performance over the year

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

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

Review from the Managing Partner

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

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

About the Investment Adviser

3i Investments plc ("3i Investments"), a wholly-owned subsidiary of 3i Group plc ("3i Group"), acts as the investment adviser (the "Investment Adviser") to the Company through its infrastructure investment team (the "investment advisory team"). The investment advisory team provides advice to the Company on the origination and execution of new investments, on the management of the portfolio and on realisations, as well as on funding requirements. 3i Group was among the subscribers to the Company's Initial Public Offering in 2007 and subsequent offer in 2008 and, most recently, the £385 million capital raise completed on 10 June 2016. 3i Group owns approximately 34% of the equity in the Company.

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

Our investment approach

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

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

The Investment Adviser will:

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

Implementation of our investment approach

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

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

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

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

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

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

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

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

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

Driving value from the economic infrastructure portfolio

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

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

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

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

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

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

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

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

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

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

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

Continuing to manage the assets in the India Fund

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

Outlook

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

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

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

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

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

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

Portfolio

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

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

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

1 Capitalised income and shareholder loan repaid in the year.
2 Investments in the Mersey Gateway Bridge, A9, La Santé, RIVM, Condorcet Campus, Hart van Zuid and A27/A1 primary projects.
3 Drawdown of commitment.
4 Income statement adjustments explained in Table 13 and Balance sheet adjustments explained in Table 14 in the Financial review.

Investment and realisation activity

Investment

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

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

Economic infrastructure businesses

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

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

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

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

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

Greenfield projects

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

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

Movements in portfolio value

As set out in Table 2, the portfolio assets were valued at £1,805.9 million at 31 March 2017, compared to £1,222.1 million at the beginning of the financial year. The movement in portfolio value was driven principally by investments during the year, as well as by good value growth in the portfolio and by foreign exchange translation.

Capital repayments and divestment proceeds

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

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

Table 2: Reconciliation of the movement in portfolio value (year to 31 March 2017**,** £m)

Opening portfolio value at 1 April 2016	1,222.1
Investment	469.2
Divestment/capital repaid	(33.2)
Unrealised value movement	70.0
Exchange movement	77.8[1]
Closing portfolio value at 31 March 2017	1,805.9

1 Excludes movement in the foreign exchange hedging programme (see Table 4).

Unrealised value movement

The unrealised value movement in the year, before foreign exchange impacts, totalled £70.0 million (2016: £138.6 million). Unrealised value movement represents the change in the portfolio valuation within a measurement period. Changes to portfolio valuations arise due to several factors, as shown in Table 3**.**

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

Economic infrastructure portfolio

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

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

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

Oystercatcher was valued at £203.3 million at March 2017 (2016: £186.9 million), including foreign exchange gains of £21.8 million. The five terminals continue to perform well both operationally and financially, with capacity substantially let and a good level of throughput. However, we have moderated certain assumptions for future growth and pricing. The valuation of Oystercatcher is exposed to the euro and Singapore dollar exchange rate, and the value gain included positive currency movements in the year. The euro and Singapore dollar exposures are partially hedged, as described in Table 4.

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

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

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

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

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

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

Projects portfolio

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

3i India Infrastructure Fund

The India Fund was valued at £40.9 million at March 2017 (2016: £52.9 million), after exchange gains of £6.7 million as the Indian rupee strengthened against sterling in the year, as shown in Table 4. Continued delays in project execution and funding constraints for the road projects, and the pricing and availability of fuel for the investments in the power sector, have resulted in a fall in value of £5.7 million in the year. The sale of the holding in Adani Power gave rise to a small loss on disposal of £0.6 million.

Table 3: Components of value movement (year to 31 March 2017, £m)

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

Foreign exchange impact

As shown in Table 4, the reported net foreign exchange gain on investments of £21.0 million included a gain of £6.7 million from the Company's exposure to the Indian rupee, which is not hedged and gained in value by 10% against sterling in the year.

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

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

Table 4: Impact of foreign exchange movements on portfolio value (year to 31 March 2017, £m)

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

Summary of portfolio valuation methodology

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

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

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

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

Table 5 shows the movement in the weighted average discount rate applied to the portfolio at the end of each year since the Company's inception and the position as at March 2017. During the year, the weighted average discount rate was updated to reflect the addition of the investments in Infinis, WIG, TCR and Valorem in the portfolio.

3i India Infrastructure Fund and Dalmore Capital Fund

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

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

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

Table 5: Portfolio weighted average discount rate (31 March 2017, %)

March 2008	12.4
March 2009	13.8
March 2010	12.5
March 2011	13.2
March 2012	12.6
March 2013	12.0
March 2014	11.8
March 2015	10.2
March 2016	9.9
March 2017	10.0

Investment track record
As shown in Table 6, since its launch in 2007, 3i Infrastructure has built a portfolio that has provided:

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

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

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

The value created through this robust investment performance was crystallised in a number of instances through well managed realisations, shown as "Realised assets" in Table 6. While the Company is structured to hold investments over the long term, it has sold assets where compelling offers have generated additional shareholder value. This was the case with Eversholt Rail in 2015, which generated an IRR in excess of 40%.

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

Table 6: Portfolio asset returns throughout holding period (since inception, £m)

	Total cost	Value including accrued income	Proceeds on disposals/ capital returns	Cash income
Existing portfolio				
Elenia	195	418	17	93
AWG	173	282	12	145
Oystercatcher	137	203	–	96
Infinis	185	187	–	–
TCR	151	165	–	2
ESVAGT	111	130	–	–
Cross London Trains	63	127	–	18
WIG	75	80	–	3
Valorem	48	51	–	–
Existing PPP portfolio	112	155	4	56
3i IIF	107	41	23	–
Realised assets (no realisations during the year)				
Eversholt Rail	151	–	391	114
Realised PPP assets	173	–	250	22
Junior debt portfolio	120	–	135	24
T2C and Novera	18	–	10	–

Financial review

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

James Dawes
CFO, Infrastructure
10 May 2017

Key financial measures (year to 31 March)

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

1 Reconciliation of measures to the financial statement balances is set out in Tables 13 and 14.
2 Includes cash balances of £20.0 million and £169.7 million undrawn balances available under the Company's revolving credit facility.

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

Returns

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

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

Table 7 shows an analysis of these elements of the return. The financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) for its reporting. The non-material adjustments required to reconcile this analysis to the financial statements are shown in Table 13.

Total return

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

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

Table 7: Summary total return (year to 31 March, £m)

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

Capital return

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

Unrealised value movement, including foreign exchange movements

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

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

Realised return

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

Net capital return

Net capital return, including the loss of £56.8 million in the fair value of foreign currency hedging derivatives, was £90.4 million (2016: £142.9 million), as shown in Table 8 below.

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

Table 8: Reconciliation of the movement in net asset value (year to 31 March 2017, £m)

Opening NAV at 1 April 2016[1]	**1,248.3**
Equity raise	378.8
Adjusted opening NAV	1,627.1
Capital return	69.4
Net foreign exchange movement[2]	21.0
Total income	85.6
Net costs including advisory fees[3]	(29.7)
NAV before distributions	1,773.4
Distribution to shareholders	(77.5)
Closing NAV at 31 March 2017	**1,695.9**

1 Net of final dividend for the prior year.
2 Foreign exchange movements are described in Table 4.
3 Includes non-portfolio exchange.

Income

Total income

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

Portfolio income

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

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

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

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

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

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

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

Interest receivable on cash balances

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

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

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

Costs

Advisory fees and performance fees

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

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

Fees payable

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

Other operating and finance costs

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

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

Ongoing charges ratio

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

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

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

Table 10: Ongoing charges (year to 31 March, £m)

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

Balance sheet

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

The financial statements require cash or other net assets and liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and total aggregate cash and net assets/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 14.

At 31 March 2017, the Company's net assets after the deduction of the final dividend were £1,695.9 million (2016: £1,248.3 million). A summary balance sheet is included in Table 11.

Cash and other assets

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

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

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

Borrowings

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

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

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

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

Table 11: Summary balance sheet (as at 31 March, £m)

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

Capital raise

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

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

Net asset value per share

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

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

Dividend and dividend cover

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

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

Table 12 below shows the calculation of dividend coverage and dividend reserves. The final dividend cover shortfall of £3.3 million (2016: £13.1 million), which was expected following the capital raise and accommodated in the Company's cash flow planning, is covered from retained amounts available for distribution. The Board is therefore proposing that the final dividend payment is made in line with the Company's FY17 full year dividend target. The retained amount available for distribution, following the payment of the final dividend, will be £42.4 million (2016: £55.0 million).

Table 12: Dividend cover (year to 31 March 2017)

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

Table 13: Reconciliation of summary total return (year to 31 March 2017, £m)

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

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

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

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

Table 14: Reconciliation of summary balance sheet (year to 31 March 2017, £m)

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

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

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

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

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

Risk report

“Effective risk management underpins the successful delivery of the Company’s strategy.”

Steve Wilderspin
Chairman, Audit and Risk Committee
10 May 2017

Approach to risk governance

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

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

The Company is also reliant on the risk management framework of the Investment Adviser and other key service providers, as well as on the risk management operations of each portfolio company.

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

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

Risk review process

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

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

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

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

Risk appetite

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

Review of significant key risks

The disclosures below 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 large Core assets. This has supported value gains for existing assets in the portfolio. In this challenging environment, the Investment Adviser continues to leverage its network and skills to make investments that can continue to deliver attractive risk-adjusted returns to the Company's shareholders.

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

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

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

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

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

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

External risks – regulatory and tax

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

The Company and the Investment Adviser continue to monitor, and where relevant contribute to, the development of tax changes recommended by the OECD's Base Erosion and Profit Shifting ("BEPS") project. Of the 15 "BEPS Actions" comprising the BEPS project, the two which have been identified as most relevant to the Company and its investments are Action 4 – "Limit base erosion via interest deductions", and Action 6 – "Prevent treaty abuse".
The UK is well advanced in its plans to introduce new tax rules to give effect to the recommendations of BEPS Action 4. The Investment Adviser has been involved in contributing to representations made by infrastructure bodies in

the development of these rules. The expected impact of the new UK interest deductibility rules has been reflected in the valuation of the Company's UK investments as at 31 March 2017. A number of European jurisdictions have tax regimes which already limit interest deductions and further changes are not therefore expected to have a material impact.

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

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

Strategic risks

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

Investment risks

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

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

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

Operational

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

Viability statement

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

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

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

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

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

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

Principal risks and mitigation

Principal risks	Risk description	Risk mitigation
External		
Legal, tax, compliance and accounting	Changes to the following areas may impact upon the operation of the Company: • Legal – changes to listing rules • Tax – changes to the rules which affect the Jersey nil rated regime • Compliance – increased regulation eg AIFMD, FATCA • Accounting rules pertaining to disclosure/consolidation • Regulatory – changes to the regulatory regime of the Company, the Investment Adviser and portfolio companies can impact the operating model and/or profitability	• Company has retained legal advisers and the Investment Adviser has in-house lawyers • Tax advice taken on transactions and at other times as necessary • Investment Adviser has an in-house Compliance team to provide advice on regulatory issues • Accounting advice and updates provided by external firms if required
OECD BEPS initiative	• Changes to the tax regime applicable to the Company, subsidiaries or portfolio companies that increase tax leakage and/or affect the Company's relative attractiveness as an investment vehicle due to the OECD BEPS initiative or associated UK and EU initiatives	• The impact on the portfolio or investment strategy of changes to applicable standards and regulation is closely monitored • Tax regimes exist in other jurisdictions which limit tax leakage for investment companies
Market/economic	• Macro-economic or market volatility flows through to pricing, valuations and portfolio performance • Fiscal tightening impacts market environment • Risk of sovereign default lowers market sentiment and increases volatility • Misjudgement of inflation and/or interest rate outlook	• Advice of Investment Adviser 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 other advisers
Competition	• Increased competition for the acquisition of assets in the Company's strategic focus areas • Deal processes 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 of Investment Adviser • Strong track record and strength of 3i Infrastructure brand
Strategic		
Unbalanced portfolio	• Failure to ensure adequate spread of assets invested to minimise concentration risks (eg by geography, sector, demand driver, regulator) and fulfil investment policy • Difficulty in maintaining geographical diversity, or sale of large assets, may lead to unbalanced portfolio • Misjudgement of risk when entering new sectors, industries or geographies	• Investment process explicitly addresses questions of geographical/sector balance in the portfolio • Portfolio concentration measures are reviewed periodically by the Board • The Investment Adviser undertakes a concentration review for each new investment
Investment		
Inappropriate rate of investment	• Failure to achieve new investment impacts shareholder perception, returns and growth prospects • Excess "vintage risk" magnifies the impact of poor performance from a vintage of investments • Poor management of investment pipeline	• Efficient balance sheet maintained and monitored regularly by the Board • Portfolio concentration measures are reviewed periodically by the Board • The Investment Adviser undertakes a concentration review for each new investment
Operational		
Loss of senior Investment Adviser staff	• Members of the deal team at Investment Adviser leave and "deal-doing" and portfolio management capability in the short to medium term is restricted	• Benchmarked compensation packages and deferred remuneration • Notice periods within employment contracts • Size of the senior team and strength of 3i brand
Cyber	• 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

Corporate responsibility

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

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

Responsible Investment policy

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

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

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

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

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

The main features of the policy include:

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

Details of the Investment Adviser's RI policy are available on 3i Group's website: www.3i.com.

Governance

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

Bribery Act

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

Environment

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

Procurement

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

Prompt Payment Code

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

Modern Slavery Act

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

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

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

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

Consolidated statement of comprehensive income

For the year to 31 March

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

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2017	Notes	**Stated capital account £m**	**Retained reserves £m**	**Total shareholders' equity £m**
Opening balance at 1 April 2016		**181.6**	**1,095.4**	**1,277.0**
Issue of shares	4	**378.8**	**-**	**378.8**
Total comprehensive income for the year		**-**	**146.3**	**146.3**
Dividends paid to shareholders of the Company during the year	6	**-**	**(67.5)**	**(67.5)**
Closing balance at 31 March 2017		**560.4**	**1,174.2**	**1,734.6**

For the year to 31 March 2016		Stated capital account £m	Retained reserves £m	Total shareholders' equity £m
Opening balance at 1 April 2015		181.6	1,139.7	1,321.3
Total comprehensive income for the year		–	166.2	166.2
Dividends paid to shareholders of the Company during the year	6	–	(210.5)	(210.5)
Closing balance at 31 March 2016		181.6	1,095.4	1,277.0

Consolidated balance sheet

As at 31 March

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Investments at fair value through profit or loss	3	**1,815.6**	1,228.8
Investment portfolio		**1,815.6**	1,228.8
Derivative financial instruments		**4.4**	6.4
Total non-current assets		**1,820.0**	1,235.2
Current assets			
Derivative financial instruments		**1.3**	4.1
Trade and other receivables		**35.1**	16.6
Other financial assets		**32.1**	36.7
Cash and cash equivalents		**17.1**	47.5
Total current assets		**85.6**	104.9
Total assets		**1,905.6**	1,340.1
Liabilities			
Non-current liabilities			
Derivative financial instruments		**(43.4)**	(28.2)
Trade and other payables		**(3.8)**	(2.0)
Loans and borrowings		**(100.0)**	-
Total non-current liabilities		**(147.2)**	(30.2)
Current liabilities			
Trade and other payables		**(5.4)**	(22.8)
Derivative financial instruments		**(18.4)**	(10.1)
Total current liabilities		**(23.8)**	(32.9)
Total liabilities		**(171.0)**	(63.1)
Net assets		**1,734.6**	1,277.0
Equity			
Stated capital account	4	**560.4**	181.6
Retained reserves		**1,174.2**	1,095.4
Total equity		**1,734.6**	1,277.0
Net asset value per share			
Basic and diluted (pence)	5	**169.0**	161.0

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

Steven Wilderspin
Director

Consolidated cash flow statement

For the year to 31 March

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

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

Reconciliation of net cash flow to movement in net debt

For the year to 31 March

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

Significant accounting policies

Corporate information

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

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

Statement of compliance

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

These financial statements have also been prepared in accordance with and in compliance with the Companies (Jersey) Law 1991.

Basis of preparation

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

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

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

Basis of consolidation

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

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

Key estimates and judgments

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

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

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

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

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

The Company meets the criteria as follows:

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

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

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

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

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

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

The adoption of certain accounting policies by the Group also requires the use of certain critical accounting estimates in determining the information to be disclosed in the financial statements.

Valuation of the investment portfolio

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

The majority of assets in the investment portfolio are valued on a discounted cash flow basis which requires assumptions to be made regarding future cash flows and the discount rate to be applied to these cash flows. Refer to Note 3 for further details of the valuation techniques, significant inputs to those techniques and sensitivity of the fair value of these investments to the assumptions that have been made.

Standards and interpretations issued but not yet effective

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

Disclosure initiative (amendments to IAS 7 – Statement of Cash Flows) (effective for accounting periods commencing on or after 1 January 2017).

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

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

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

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

A Classification

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

(ii) **Associates –** Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those entities.

(iii) **Joint ventures –** Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value. This treatment is permitted by IFRS 11 and IAS 28, which allows interests held by venture capital organisations where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the year.

B Exchange differences

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

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

C Investment portfolio

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

(i) Realised gains or losses on the disposal of investments are the difference between the fair value of the consideration receivable on disposal less any directly attributable costs and its fair value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal; and are recognised in the statement of comprehensive income.

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

Income

Investment income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be an economic benefit and the income can be reliably measured.

The following specific recognition criteria must be met before the income is recognised:

- dividends from equity investments are recognised in the statement of comprehensive income when the Company's rights to receive payment have been established with the exception of dividends paid out of pre-acquisition reserves that are recognised by adjusting the cost of the equity investment upon acquisition;
- income from loans and receivables and debt held at fair value through profit or loss is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value or principal amount;

- distributions from investments in Limited Partnerships are recognised in the statement of comprehensive income when the Company's rights as a Limited Partner to receive payment have been established; and

- fees receivable represent amounts earned from investee companies on completion of underlying investment transactions and are recognised on an accruals basis once entitlement to the revenue has been established.

D Fees

(i) **Fees –** Fees payable represent fees incurred in the process of acquiring an investment and are measured on the accruals basis.

(ii) **Advisory fee –** An annual advisory fee is payable to 3i plc based on the Gross Investment Value of the Group. The fee is payable quarterly in advance and is accrued in the period it is incurred. Further explanations are provided in Note 8.

(iii) **Performance fee –** 3i plc is entitled to a performance fee based on the Adjusted Total Return per ordinary share generated in the period in excess of a performance hurdle (subject to a high watermark requirement being exceeded). The fee is payable annually in arrears and is accrued in the period it is incurred. Further explanations are provided in Note 8.

(iv) **Finance costs –** Finance costs associated with loans and borrowings are recognised on an accruals basis using the effective interest method.

E Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used to manage cash flows and the overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument.

(i) Cash and cash equivalents – Cash and cash equivalents in the balance sheet and cash flow statement comprise cash at bank, short-term deposits with an original maturity of three months or less and AAA rated money market funds. Interest receivable on cash and cash equivalents is recognised on an accruals basis.

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

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

(iv) Derivative financial instruments – Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations in the valuation of the investment portfolio and changes in interest rates on borrowings held by Oystercatcher Luxco 2 S.à r.l., an unconsolidated subsidiary. This is achieved by the use of forward foreign currency contracts and interest rate swaps. Such instruments are used for the sole purpose of efficient portfolio management. All derivative financial instruments are held at fair value through profit or loss.

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

F Other assets

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

G Other liabilities

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

H Equity and reserves

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

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

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

I Income taxes

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

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

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

Notes to the accounts

1 Operating segments

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

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

For the year to 31 March 2017	Economic Infrastructure businesses £m	Projects portfolio £m	India Fund £m	Unallocated £m	Total £m
Investment return	**213.3**	**20.1**	**0.4**	**(1.4)**	**232.4**
Profit/(loss) before tax	**156.9**	**19.7**	**0.4**	**(30.7)**	**146.3**
For the year to 31 March 2016					
Investment return	**247.8**	12.0	(10.3)	(3.9)	245.6
Profit/(loss) before tax	**204.5**	11.6	(10.3)	(39.6)	166.2
As at 31 March 2017					
Assets	**1,659.9**	**187.5**	**41.2**	**20.0**	**1,905.6**
Liabilities	**(65.3)**	**(0.5)**	**-**	**(105.2)**	**(171.0)**
Net assets	**1,591.6**	**187.0**	**41.2**	**(85.2)**	**1,734.6**
As at 31 March 2016					
Assets	1,064.0	173.1	53.2	49.8	1,340.1
Liabilities	(42.4)	(0.4)	-	(20.3)	(63.1)
Net assets	1,021.6	172.7	53.2	29.5	1,277.0

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

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

1 Including Channel Islands. All centrally incurred costs have been deemed to be incurred in the UK and Ireland while recognising these costs support allocations across geographies.
2 Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investments in Oiltanking, including those derived from its underlying business in Singapore.

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

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

2 Advisory and performance fees payable

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

Total advisory and performance fees payable by the Company for the year to 31 March 2017 were £23.7 million (2016: £30.3 million). In addition to the fees described above, management fees of £4.5 million (2016: £4.2 million) were paid to 3i Group plc from unconsolidated subsidiary entities. Note 8 provides further details on the calculation of the advisory fee, performance fee and management fees.

3 Investments at fair value through profit or loss and financial instruments

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

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

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

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

Financial instruments classification

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

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

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

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

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

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

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

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

Unquoted investments
The Group invests in private companies which are not quoted on an active market. These are measured in accordance with the International Private Equity Valuation guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted investments can be found in the Portfolio valuation methodology section.

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

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

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

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

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

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

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

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

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

Valuation process for Level 3 valuations
Valuations are the responsibility of the Board of Directors of the Company. The valuation of unquoted investments, debt and unlisted funds held by the Group is performed on a half-yearly basis by the valuation team of the Investment Adviser and reviewed by the Investment Committee of the Investment Adviser. The valuations are also subject to quality assurance procedures performed within the valuation team. The valuation team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents and market information. On a half-yearly basis, the Investment Committee presents the valuations to the Board. This includes a discussion of the major assumptions used in the valuations, with an emphasis on the more significant investments and investments with significant fair value changes. The Investment Committee considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen. Any changes in valuation methods are discussed and agreed with the Audit and Risk Committee before being approved by the Board.

4 Issued capital

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

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

On 10 June 2016, 233.3 million shares were admitted for trading further to the offer and placing at an issue price of 165.0 pence per share or an aggregate amount of £385.0 million. Issue costs of £6.2 million arising from this offer have been offset against the stated capital account. Therefore, as at 31 March 2017, the residual value on the stated capital account was £560.4 million.

In the prior year, a share consolidation took place, which was set at a ratio of nine new ordinary shares for every 10 existing shares. The share consolidation ratio was based on a share price of 168.8 pence per share, equivalent to approximately 10% of the market capitalisation of the Company at that time.

5 Per share information

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

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

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

6 Dividends

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

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

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

7 Contingent liabilities

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

8 Related parties

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

The Group has committed US$250 million to the 3i India Infrastructure Fund ("the India Fund") to invest in the Indian infrastructure market. 3i Group has also committed US$250 million of investment capital to the India Fund. No commitments (2016: nil) were drawn down by the India Fund from the Company during the year. In total, commitments of US$183.7 million or £146.8 million re-translated (2016: US$183.7 million or £127.6 million) had been drawn down at 31 March 2017 by the India Fund from the Company. As the India Fund has reached the end of its investment period, the Company's outstanding commitment to the India Fund is limited to 15% of the original US$250 million commitment. At 31 March 2017, the outstanding commitment was US$37.5 million, or £30.0 million re-translated (2016: US$37.5 million or £26.1 million).

3i Networks Finland Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Networks Finland LP, an unconsolidated subsidiary of the Company. During the year, £2.2 million (2016: £2.0 million) was payable directly to 3i Group, of which the Company's share was £1.9 million (2016: £1.7 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2017, nil remained outstanding (2016: nil).

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, an unconsolidated subsidiary of the Company. During the year, £3.8 million (2016: £3.7 million) was payable directly to 3i Group, of which the Company's share was £2.6 million (2016: £2.5 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2017, £0.3 million remained outstanding (2016: £0.3 million).

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company and provides its services under an Investment Advisory Agreement ("IAA"). It also acts as the manager for the India Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company.

Under the IAA, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of the Company at the end of each financial period. Gross Investment Value is defined as the total aggregate value (including any subscription obligations) of the investments of the Group as at the start of a financial period plus any investment (excluding cash) made during the period valued at cost (including any subscription obligations). The applicable annual rate is 1.5%, dropping to an annual rate of 1.25% for investments that have been held by the Group for longer than five years. A lower fee of 1% per annum is applicable for any investments in greenfield projects. The advisory fee accrues throughout a financial period and quarterly instalments are payable on account of the advisory fee for that period. The advisory fee is not payable in respect of cash or cash equivalent liquid temporary investments held by the Group throughout a financial period. For the year to 31 March 2017, £24.3 million (2016: £15.0 million) was payable and nil remained due to 3i plc at 31 March 2017 (2016: £0.8 million). This amount includes fees of £4.5 million (2016: £4.2 million) which were paid directly from unconsolidated subsidiary entities to 3i plc.

The IAA also provides for an annual performance fee to be payable to 3i plc. This becomes payable when the Adjusted Total Return per ordinary share (being mainly closing Net Asset Value per share aggregated with any distributions made in the course of the financial period and any accrued performance fees relating to the financial period) for the period exceeds the Target Total Return per share, being the Net Asset Value per ordinary share equal to the opening Net Asset Value per ordinary share increased at a rate of 8% per annum ("the performance hurdle"). If the performance hurdle is exceeded, the performance fee will be equal to 20% of the Adjusted Total Return per share in excess of the performance hurdle for the relevant financial period, multiplied by the weighted average of the total number of shares in issue over the relevant financial period. In addition, the performance fee includes a high watermark requirement so that, before payment of a performance fee, besides the 8% performance hurdle, the return must also exceed the performance level in respect of which any performance fee has been paid in the previous three financial years. The performance hurdle and high watermark requirement was exceeded for the year to 31 March 2017 and a performance fee of £3.9 million (2016: £19.5 million) has been accrued and £3.9 million remained due to 3i plc (2016: £19.5 million).

Under the IAA, the Investment Adviser's appointment may be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing, to expire no earlier than 8 May 2019, unless 3i Investments plc has previously ceased to be a member of 3i Group, or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Pursuant to the UK Support Services Agreement, the Company also pays 3i plc an annual fee for the provision of support services. Such remuneration is payable quarterly in arrears. The cost incurred for the year to 31 March 2017 was £0.8 million (2016: £0.8 million). The outstanding balance payable as at 31 March 2017 was £0.2 million (2016: £0.2 million).

Investment policy

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

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

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

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

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

No investment made by the Company will represent more than 25% of the Company's gross assets, including cash holdings, at the time of making the investment. It is expected that most individual investments will exceed £50 million. In some cases, the total amount required for an individual transaction may exceed the maximum amount that the Company is permitted to commit to a single investment. In such circumstances, the Company may consider entering into co-investment arrangements with 3i Group (or other investors who may also be significant shareholders), pursuant to which 3i Group and its subsidiaries (or such other investors) may co-invest on the same financial and economic terms as the Company. The suitability of any such co-investment arrangements will be assessed on a transaction-by-transaction basis and would be subject to Board approval. Depending on the size of the relevant investment and the identity of the relevant co-investor, such a co-investment arrangement may be subject to the related party transaction provisions contained in the Listing Rules and may therefore require shareholder consent.

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

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

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 2017.

Board of Directors and their functions

Richard Laing
Non-executive Chairman and chairman of the Management Engagement Committee and of the Nomination Committee.

Doug Bannister
Non-executive Director.

Wendy Dorman
Non-executive Director.

Ian Lobley
Non-executive Director.

Paul Masterton
Non-executive Director and Chairman of the Remuneration Committee.

Steven Wilderspin
Non-executive Director and chairman of the Audit and Risk Committee.

Portfolio valuation methodology

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

Basis of valuation

Investments are reported at the Directors' estimate of fair value at the reporting date in compliance with IFRS 13 Fair Value Measurement. Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.

General

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

Investments may include portfolio assets and other net assets/liabilities balances. The methodology for valuing portfolio assets is set out below. Any net assets/liabilities within intermediate holding companies are valued in line with the Group accounting policy and held at fair value or approximate to fair value.

Quoted investments

Quoted equity investments are valued at the closing bid price at the reporting date. In accordance with International Financial Reporting Standards, no discount is applied for liquidity of the stock or any dealing restrictions. Quoted debt investments will be valued using quoted prices provided by third-party broker information where reliable or will be held at cost less fair value adjustments.

Unquoted investments

Unquoted investments are valued using one of the following methodologies:

- Discounted Cash Flow ("DCF")
- Proportionate share of net assets
- Sales basis
- Cost less any fair value adjustments required

DCF

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

Proportionate share of net assets

Where the Group has made investments into other infrastructure funds, the value of the investment will be derived from the Group's share of net assets of the fund based on the most recent reliable financial information available from the fund. Where the underlying investments within a fund are valued on a DCF basis, the discount rate applied may be adjusted by the Company to reflect its assessment of the most appropriate discount rate for the nature of assets held in the fund. In measuring the fair value, the net asset value of the fund is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, illiquid nature of the investments and other specific factors of the fund.

Sales basis

The expected sale proceeds will be used to assign a fair value to an asset in cases where offers have been received as part of an investment sales process. This may either support the value derived from another methodology or may be used as the primary valuation basis. A marketability discount is applied to the expected sale proceeds to derive the valuation where appropriate.

Cost less fair value adjustment

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