3i Infrastructure plc

11 May 2018

Results for the year ending 31 March 2018

3i Infrastructure today announces an outstanding 28.6% return for the year and a 10% increase in the target dividend for FY19 to 8.65 pence per share.

Richard Laing, Chairman of 3i Infrastructure plc, said: “The Company had an outstanding year. The realisations of our holdings in Elenia and Anglian Water Group generated exceptional value for shareholders.”

Phil White, Managing Partner, Infrastructure, 3i Investments plc, said: “The outstanding return delivered through the sales of Anglian Water Group and Elenia has underpinned a very strong year for the Company. As well as the special dividend paid in March, the proceeds have been invested to further diversify and balance our portfolio.”

Performance highlights

Outstanding portfolio performance drove growth in net asset value	**28.6%** Total return on opening NAV **£480m** Total return for the year **211.0p** NAV per share
Delivered the dividend target for FY18	**7.85p** Full year dividend per share for FY18
Proposed 10% increase in the dividend target for FY19	**8.65p** Target dividend per share for FY19
Strong income progression	**£156m** Total income and non-income cash
Success in new investment across our target markets	**£525m** Invested or committed in the year
Returned £425m to shareholders as a special dividend	**£425m** Cash returned to shareholders in the year
Maintained an efficient balance sheet	**£285m** Cash balances

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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 2018 have not yet been delivered to the Jersey Financial Services Commission. The statutory accounts for the year to 31 March 2017 have been delivered to the Jersey Financial Services Commission. The auditor's reports on the statutory accounts for these years are unqualified. This announcement does not constitute statutory accounts. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year to 31 March 2017.

Note 2
Subject to shareholder approval, the proposed final dividend is expected to be paid on 9 July 2018 to holders of ordinary shares on the register on 15 June 2018. The ex-dividend date for the final dividend will be on 14 June 2018.

Note 3
The preliminary announcement has been extracted from the annual report and accounts 2018. The annual report and accounts 2018 will be available on the Company's website today. Printed copies of the annual report and accounts 2018 will be distributed to shareholders who have elected to receive printed copy communications on or soon after 24 May 2018.

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 annual report and accounts 2018 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 had an outstanding year. The realisations of our holdings in Elenia and Anglian Water Group generated exceptional value for shareholders."

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

The Company exceeded its stated objectives with the highest total return in our history. During the year, the Investment Adviser actively managed the portfolio through well-managed sales, continued focus on diversification and engagement with management teams to achieve growth potential. The portfolio is well balanced and positioned to provide a sustainable mix of income yield and capital appreciation. I am grateful to the Board for their support during this busy year and to the Investment Adviser for its hard work to achieve this outperformance.

Performance

The Company generated a total return of £480 million in the year ended 31 March 2018, or 28.6% on opening NAV (adjusted on a time weighted average basis for the return of cash to shareholders), far exceeding the target of 8% to 10% per annum to be achieved over the medium term. The NAV per share increased to 211.0 pence. We delivered a Total Shareholder Return ('TSR') of 11.8% in the year (FTSE 250: 5.3%). Since IPO, the Company's annualised TSR was 11.9%, 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.

Portfolio activity

The Company sold its two largest assets at compelling prices after competitive processes run by the Investment Adviser. New investment commitments totalling £525 million were made in good businesses, through bilateral transactions, and follow-on investments in existing portfolio companies. The Investment Adviser's review describes the investments made during the year, alongside portfolio developments, in more detail.

Special dividend

A special dividend of £425 million was paid on 29 March 2018, giving to shareholders substantially all of the uplift on opening value of the stakes in Anglian Water Group ('AWG') and Elenia. This was consistent with our aim to minimise return dilution to shareholders by returning cash promptly, while retaining a good level of liquidity for future investment.

Dividend

Following the payment of the interim dividend of 3.925 pence per share in January 2018, the Board is recommending a final dividend for the year of 3.925 pence per share, meeting our target for the year of 7.85 pence per share. We expect the final dividend to be paid on 9 July 2018. Consistent with our progressive dividend policy, we are announcing a total dividend target for the year ending 31 March 2019 of 8.65 pence per share, representing an exceptional year-on-year increase of 10%. This target rebases the dividend to a higher level aligned to the income generating potential of the portfolio. We expect this target dividend to be fully covered by income and non-income cash from our portfolio.

Corporate governance

We have continued to monitor the development of tax changes recommended by the OECD's Base Erosion and Profit Shifting ('BEPS') project. In June 2017, representatives from 68 countries and jurisdictions signed a Multilateral Instrument which provides a mechanism for amending tax treaties for several of the BEPS recommendations including those concerning prevention of treaty abuse. In order to mitigate the risk of tax leakage for the Company, the Board intends to move the tax domicile and management of the Company to the UK with effect from 1 October 2018. We are pursuing a project plan to achieve this, which includes an application to HMRC for UK approved investment trust status.

Steven Wilderspin stepped down as a non-executive Director on 31 December 2017. Steven had been a Board member since 20 September 2007 and was the Chairman of the Audit and Risk Committee. We are extremely grateful to Steven for his valuable contribution to the Board over the past 10 years. Wendy Dorman took over as Chairman of the Audit and Risk Committee with effect from 1 January 2018. Robert Jennings CBE was appointed as a non-executive Director on 1 February 2018. Robert brings an in-depth understanding of investing in infrastructure with over 20 years' experience in the sector.

He is currently Chairman of Sequoia Economic Infrastructure Income Fund Limited and a non-executive director of Crossrail Limited and was, until February 2017, Chairman of Southern Water.

The Company's Annual General Meeting ('AGM') was held on 6 July 2017. 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 5 July 2018. An Extraordinary General Meeting was held on 14 March 2018, at which shareholders approved all resolutions, including for a share consolidation of every 19 existing ordinary shares into 15 new ordinary shares which occurred on 15 March 2018. The share consolidation maintains comparability, as far as possible, of the Company's share price before and after the payment of the special dividend.

Outlook

Following the sales of Elenia and AWG, the Company's portfolio now has a greater exposure to economic and competitive market factors than previously and, accordingly, we should expect more volatility within individual company performance. However, the portfolio is now more balanced, with five of the assets each representing between 10% and 20% of portfolio value, and is diversified across sectors and geographies. We remain confident in our business model and our ability to continue to deliver on our strategy and objectives.

Richard Laing
Chairman, 3i Infrastructure plc
10 May 2018

Infrastructure market

Infrastructure investments remain an attractive source of income and capital appreciation for investors.

Demand for infrastructure investment remains strong. In the current low interest rate and growth environment, investors are attracted by the perceived stability of infrastructure assets and the potential for higher yields on investment than achievable through holding cash.

Competition for new investments combined with the availability of debt finance for infrastructure investment on attractive terms has driven the price of infrastructure assets materially higher over recent years and therefore projected returns lower.

In particular, we continue to see high levels of competition for large core economic infrastructure assets. The relative size of these investments and their supporting regulatory environment make investments of this nature attractive for both direct investors and fund managers.

This demand has been evident in the recent sales of Anglian Water Group and Elenia from our portfolio.
In both examples, the price incoming investors were willing to pay meant that continuing to hold these assets within our portfolio would have been dilutive to our target return and yield.

Investment focus

Our investment activity remains focused on:

Economic infrastructure businesses

with characteristics that can be managed to enhance value over the period of ownership, including for example some level of demand or market risk.

£50m–£250m Typical equity investment	**9%–14%** Typical range of returns per annum

Greenfield projects

£5m–£50m Typical equity investment	**9%–12%** Typical range of returns per annum

Realisations

Elenia

3i Infrastructure acquired its interest in Elenia in January 2012 as part of a consortium. Key achievements during our ownership include:

- Rebranded the business and strengthened the management team
- Increased the rate of capex deployment:
  - invested over €600 million to improve reliability of electricity supply for customers
  - increased the underground cabling rate from 23% at the beginning of 2012 to 40% in 2017
  - realised cost savings through a supplier partnership model
  - reduced customer outages by over 10 hours per year
- Refinanced the business increasing flexibility to fund future capex requirements
- Invested in leading digital network management and 'smart' customer usage and outage monitoring

£738m Gross proceeds received	**4.5x** Return on investment (Total cash return)

Anglian Water Group

3i Infrastructure acquired its stake upon its IPO in 2007, following the take-private of AWG in 2006. Key achievements during our ownership include:

- Since the original acquisition AWG has invested over £4 billion to:
  - replace ageing infrastructure
  - improve resilience
  - address supply and demand imbalance in one of the UK's driest regions
- Strong operating and financial performance:
  - one of the top performing companies in its sector
  - improved health, safety and environmental performance
  - significantly reduced leakage
  - high customer satisfaction
  - BITC Responsible Business of the Year 2017

£399m Gross proceeds received	**3.3x** Return on investment (Total cash return)

Our objectives and strategic priorities

Our objectives

To provide shareholders with:

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

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 we may realise investments when we believe a sale would maximise value for shareholders.

Clear strategic priorities

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

How we measure our performance and KPIs

Total return

% on opening Net Asset Value

Year	%
2014	6.6%
2015	24.6%
2016	14.0%
2017	9.4%
2018	**28.6%**

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

Outcome for the year
Total return of 28.6% for the year to 31 March 2018.

Performance against target
Exceptional outperformance.

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 £480 million in the year, or 28.6% on opening net asset value, adjusted for the payment of the £425 million special dividend
- The return was driven by the sale of the Company's holdings in Elenia and AWG, and a valuation uplift from XLT where all trains have now been built
- The hedging programme continues to reduce the volatility in net asset value from exchange rates
- Costs were managed in line with expectations

Annual distributions

pence per share

Year	pence
2014	6.70p
2015	7.00p
2016	7.25p+
2017	7.55p
2018	**7.85p+**

+ Special dividends
2016: 17p
2018: 41.4p

Target
Progressive dividend per share policy.

Targeting a full year dividend for FY18 of 7.85 pence per share.

Outcome for the year
Total dividend of 7.85 pence per share paid and proposed.

Special dividend of 41.4 pence per share paid in March 2018.

Performance against target
Exceptional outperformance.

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 7.85 pence per share, or £72 million, is 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 £159 million for the year. Operational costs and finance costs used to assess dividend coverage totalled £43 million in the year. The dividend was fully covered for the year
- Setting a total dividend target for FY19 of 8.65 pence per share, 10% higher than for FY18

Investment Adviser's review

Review from the Managing Partner

"It was a very strong year for the Company – excellent realisations, a high level of new investment, good performance from the portfolio, and a special dividend for shareholders."

Realisations

This year we sold our two largest investments. We had held our stake in Anglian Water since our IPO in 2007 and we are proud of the development of that business in our period of ownership. As well as delivering a good return for its shareholders in that time, Anglian Water provides excellent service to its customers, ranking very highly in OFWAT's customer service metrics, and has taken great strides in reducing leakage to record low levels and in improving its environmental and health and safety performance. However, dividends had shrunk in the current regulatory period and we did not see this improving, while the intense political and media scrutiny on the broader sector meant that future returns were unlikely to meet the Company's objectives. Despite that backdrop, we were successful in running a tight sale process which produced attractive offers, and we secured for the Company what we regard as an excellent outcome representing an annualised return of 16%.

Our investment in Elenia was realised at a truly exceptional annualised return of 31%. Elenia is a great company, leading its sector in Finland and prioritising investment in improving the reliability of electricity supply to its customers by burying cables underground where they are much less susceptible to severe weather. In our six years of ownership, capital expenditure of over €600 million helped reduce power outages by over 10 hours per customer. We worked very closely with the management team, our co- shareholders and advisers to prepare detailed plans for the sale process, while keeping open the option for the Company to retain its stake if offers received were not compelling value. The process attracted offers from bidders across four continents, and this strong competitive dynamic coupled with excellent execution, secured a binding offer at a price we consider to be outstanding.

These two realisations, combined with sales achieved in previous years and the continued good performance of the current portfolio, have increased the asset IRR for the Company since IPO to 19% per annum.

Portfolio review

We have a large and diversified investment portfolio across sector, geography and investment maturity. We are engaged investors and work closely with our management teams to define their strategic direction and business plans, implement efficient and prudent capital structures, drive operational performance and support continued investment in their asset bases.

At Infinis, alongside the acquisition of Alkane Energy, we strengthened the board, appointing Tony Cocker (former CEO of E.ON UK) as Chairman and Scott Longhurst (Group Finance Director at AWG) as non-executive director and Chairman of the Audit Committee. We have also provided a further £12 million of equity investment to fund the development of alternative uses for surplus grid connection and engine capacity.

All of the 115 trains in the XLT fleet have been manufactured, and over 100 of these have now completed the testing and acceptance process. The performance of the trains is ahead of plan and remains on a positive trajectory.

We supported the expansion of TCR's footprint across Europe (notably Italy and Germany), continued to build its presence in Malaysia through new contract wins and seen TCR's entry into the Australian market through the acquisition of a leading local repair and maintenance business. We appointed Declan Collier, the former CEO of London City Airport, as a non-executive director.

At WIG, we continue to support management's growth plans. In September, WIG launched the UK's first 5G-ready, fibre-connected, outdoor small cell network in Aberdeen, working in partnership with Telefonica.

We refinanced debt facilities at ESVAGT and Oystercatcher, lengthening the maturity of the facilities and providing a natural hedge for Singapore dollar exposure in Oystercatcher. Valorem refinanced its operational portfolio with a long-term facility.

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.

Investment activity

This year we have sustained the high level of new investment seen in the previous year, deploying a material proportion of the proceeds from the divestments of Elenia and AWG.

We continue to target attractive risk-adjusted returns in mid-market economic infrastructure businesses as well as greenfield projects. Where possible, we seek to secure investments on a bilateral basis, developing a robust and aligned investment case with management and minimising the transaction costs for the Company.

Total new investment commitments in the year of £525 million were:

- £190 million to increase our ownership share in WIG, the independent communications infrastructure provider. The Company now owns 93%, alongside management;

- £136 million into Infinis to fund the acquisition of Alkane Energy, a business generating power from coal mine methane gas, and to support the development of alternative uses for spare engines and grid connections;

- £176 million committed to acquire 50% of Attero, a leading waste processing business based in the Netherlands; and

- £23 million aggregate investment into ESVAGT and Oystercatcher to support further growth of those businesses.

These new investments have added further diversification to the Company's portfolio, which is now much better balanced by size of investment, and has exposure to a range of countries, sectors and risk factors. While exposure to regulatory outcomes has been reduced, there is now increased potential volatility from market factors, including commodity prices and GDP growth. Overall, we believe that the portfolio is well-positioned to meet the Company's return and dividend targets over the medium term.

Outlook

The Company has delivered very strong returns during the year, driven largely from the divestments of its two largest assets but underpinned by the continued performance of the broader portfolio.

We are continuing to see significant levels of competition for high quality infrastructure businesses in the UK and across Europe. The demand for large 'core' infrastructure assets was demonstrated by the prices we were able to achieve for AWG and Elenia, and we see this persisting in the medium term. Our investment focus remains on areas of the infrastructure market which offer more attractive risk-adjusted returns, in mid-market economic infrastructure businesses and greenfield projects. The new investments completed by the Company in the year demonstrate our ability to continue to access attractive investments in our target markets, including through existing portfolio company platforms.

As our new team in North America invests, 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.

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.

The Investment Adviser has added further to the team during the year, which now comprises around 50 people covering origination, execution, asset management and support functions. The team is based in London and Paris and also draws on 3i Group's broader network of offices. The 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.

Phil White
Managing Partner, Infrastructure, 3i Investments plc
10 May 2018

Investment activity

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

New investment

Alkane

3i Infrastructure increased its investment in Infinis to fund the acquisition of Alkane Energy ('Alkane').

Alkane is an independent power generator from both Coal Mine Methane ('CMM') and Reserve Power ('Peaking') operations and is the largest generator of electricity from CMM in the UK. The transaction completed in April 2018.

Investment rationale:

- Investment through an existing portfolio company, negotiated on a bilateral basis, which will create a business with significant scale and synergies
- Cash-generative business with potential for improving operational efficiencies by leveraging Infinis's best-in-class asset maintenance capabilities
- Diversified revenue mix between baseload and Peaking
- Development project pipeline to grow Peaking capacity and supplement the high near-term yield from CMM and landfill gas

£125m Invested	**100%** Equity stake

Asset intensive or long-term concessions
Alkane is the largest generator of electricity from coal mine methane in the UK, alongside Reserve Power operations that are complementary to Infinis's assets.

Essential services
Alkane performs a vital environmental service, extracting methane from abandoned coal mines that would otherwise be released into the atmosphere.

Acceptable element of market/usage risk
By using the CMM to generate electricity, Alkane supplies distribution networks with a reliable source of baseload power.

Opportunities to enhance value
The merger of Alkane with Infinis will create a business with significant scale, offer operational improvement opportunities and the potential to further elevate Alkane's generation performance and growth potential.

Target sectors
Generation is in our Utilities sector.

Geographical focus
Alkane is based in the UK.

New investment commitment
Attero

3i Infrastructure committed to acquire a 50% stake in Attero alongside DWS's infrastructure fund.

Attero is one of the largest waste treatment and disposal companies in the Netherlands.

Investment rationale:

- Attractive opportunity in a new sector for the Company, with favourable long-term dynamics
- Attero operates two of the largest and best located waste treatment facilities in Western Europe, resulting in high efficiency and a low marginal cost
- The European Union requires member states to reduce landfill use, increasing the volume of waste requiring incineration
- Good revenue visibility from long-term waste supply contracts with municipalities, industrial customers, and waste exporters

€201m Committed	**50%** Equity stake

Asset intensive or long-term concessions
Attero owns two energy from waste ('EfW') plants, two sorting and pre-treatment facilities, six anaerobic digestion facilities, seven composting facilities and 10 landfills.

Essential services
Attero processes waste from a diverse mix of domestic municipalities, commercial and industrial customers, as well as a number of UK and Irish exporters.

Acceptable element of market/usage risk
Attero has good revenue visibility due to its long-term contracts with customers. It is well positioned within the Dutch market with two of the largest and most efficient EfW plants in the country, strategically positioned with good port, road and rail access for both import and domestic waste supply.

Opportunities to enhance value
Attero is strongly positioned to benefit from favourable underlying trends in the European waste market, driven by EU directives targeting more recycling.

Target sectors
Waste management is in our Utilities sector.

Geographical focus
Headquartered in the Netherlands, with customers in a number of Northern European countries.

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 2018, £m)

Portfolio assets	Directors' valuation 31 March 2017	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	**Directors' valuation 31 March 2018**	Allocated foreign exchange hedging	Underlying portfolio income in the year	**Asset total return in the year**[6]
Economic infrastructure businesses									
Elenia	413.1	–	(777.3)[1]	350.4	13.8	**–**	(17.4)	15.8	**362.6**
AWG	280.8	–	(398.4)[1]	117.6	–	**–**	–	7.5	**125.1**
Infinis	183.7	136.5	(10.5)[1]	1.0	–	**310.7**	–	12.0	**13.0**
WIG	78.4	193.7[2]	–	28.3	–	**300.4**	–	7.3	**35.6**
Oystercatcher	203.3	2.3	–	(17.6)	(6.7)	**181.3**	6.0	15.9	**(2.4)**
TCR	164.1	4.7[2]	–	7.5	3.2	**179.5**	(2.6)	11.1	**19.2**
XLT	125.6	–	–	40.7	–	**166.3**	–	4.8	**45.5**
ESVAGT	112.7	47.5[2]	–	(11.2)	0.1	**149.1**	(0.1)	12.9	**1.7**
Valorem	50.0	–	–	3.5	1.3	**54.8**	(1.6)	2.2	**5.4**
	1,611.7	**384.7**	**(1,186.2)**	**520.2**	**11.7**	**1,342.1**	**(15.7)**	**89.5**	**605.7**
Projects									
Greenfield projects[3]	0.1	–	–	–	**–**	**0.1**	–	–	**–**
Operational projects									
Elgin	48.7	–	(0.2)[1]	(0.1)	–	**48.4**	–	3.4	**3.3**
Octagon	45.6	–	–	1.8	–	**47.4**	–	2.3	**4.1**
WODS	21.8	0.6[2]	–	(0.6)	–	**21.8**	–	1.8	**1.2**
Dalmore	17.6	–	(0.2)[1]	1.2	–	**18.6**	–	0.7	**1.9**
Mersey Gateway	–	13.1[4]	–	(0.6)	–	**12.5**	–	0.5	**(0.1)**
NMM	8.5	–	–	(1.2)	0.2	**7.5**	(0.3)	0.8	**(0.5)**
A12	6.0	–	(0.1)[1]	(0.3)	0.2	**5.8**	(0.2)	0.6	**0.3**
Ayrshire College	5.0	0.1[2]	–	(0.2)	–	**4.9**	–	0.5	**0.3**
	153.3	**13.8**	**(0.5)**	**0.0**	**0.4**	**167.0**	**(0.5)**	**10.6**	**10.5**
India Fund									
3i India Infrastructure Fund	40.9	–	(1.1)	1.9	(4.9)	**36.8**	–	–	**(3.0)**
Total portfolio	**1,805.9**	**398.5**	**(1,187.8)**	**522.1**	**7.2**	**1,545.9**	**(16.2)**	**100.1**	**613.2**
Adjustments related to unconsolidated subsidiaries[5]	9.7	–	(0.6)	(2.7)	–	**6.4**	1.5	(5.9)	**(7.1)**
Reported in the Consolidated financial statements	**1,815.6**	**398.5**	**(1,188.4)**	**526.6**	**–**	**1,552.3**	**(14.7)**	**94.2**	**606.1**

1 Includes shareholder loan repaid in the year.
2 Includes capitalised income.
3 Investments in A9, La Santé, RIVM, Condorcet Campus, Hart van Zuid and A27/A1 greenfield projects.
4 Drawdown of commitment in September 2017. The bridge opened to traffic on 14 October 2017 and is shown as operational in this report.
5 Income statement adjustments explained in Table 13 and Balance sheet adjustments explained in Table 14 in the Financial review. The value movement in unconsolidated subsidiaries includes a provision for the loss of value of £1.8 million for the A9 project from draft tax legislation in the Netherlands resulting from BEPS.
6 This comprises the aggregate of value movement, foreign exchange translation, allocated foreign exchange hedging and underlying portfolio income in the year.

Movements in portfolio value

The movement in portfolio value was driven principally by the realisation of the Company's holdings in Elenia and AWG for prices considerably above their opening valuation, and by new investments during the year, as well as by good value growth in the remaining portfolio. A reconciliation of the movement in portfolio value is shown in Table 2. The portfolio summary shown in Table 1 shows the analysis of these movements by asset. Changes to portfolio valuations arise due to several factors, as shown in Table 3.

Economic infrastructure portfolio

The economic infrastructure portfolio generated a value gain of £520.2 million in the year (or £531.9 million including exchange movements). A large part of this was from the uplift in value achieved on the sales of Elenia and AWG.

Infinis increased in value, driven by follow-on investments totalling £136.5 million to fund the acquisition of Alkane and to support growth projects.

WIG increased in value from the further investment of £193.7 million, including capitalised interest of £3.6 million, to acquire a further stake in the business, bringing our equity ownership up to 93%.

Oystercatcher declined in value during the year. The five terminals continue to perform well both operationally and financially, with capacity substantially let and a good level of throughput. However, we have taken into account the softening of demand for gasoil storage experienced in the Amsterdam and Ghent terminals and for fuel oil storage in Singapore. The valuation of Oystercatcher is exposed to the euro and Singapore dollar exchange rate, and the value loss included negative currency movements in the year. The euro and Singapore dollar exposures are partially hedged, as described in Table 4. We have refinanced the Oystercatcher debt, which is now all fixed-rate and long-dated. This benefited the valuation.

Table 2: Reconciliation of the movement in portfolio value (for the year to 31 March 2018, £m)

Opening portfolio value at 1 April 2017	**1,805.9**
Investment[1]	398.5
Divestment/capital repaid	(1,187.8)
Value movement	522.1
Exchange movement[2]	7.2
Closing portfolio value at 31 March 2018	**1,545.9**

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

TCR increased in value in the year, reflecting continued growth of the business.

XLT increased in value by 32% over the year. The discount rate has been reduced following the completion of the manufacturing programme and the delivery and acceptance of over 100 trains out of the 115 total fleet as at 31 March 2018 and the corresponding reduction in risk in the project.

ESVAGT increased in value after an investment of £47.5 million, including capitalised interest of £26.8 million, to support the development of the offshore wind pipeline. After a difficult start to the year, the market conditions in which ESVAGT operates are gradually improving. The oil price has increased from recent lows and emergency rescue and response vessel market supply dynamics are improving. In addition, ESVAGT is continuing to make good progress in the offshore wind segment. We refinanced the business, extending the term of the debt and benefiting the valuation.

Valorem increased in value in the year as the business continued to develop its pipeline of projects into operation and completed a refinancing of the portfolio.

Projects portfolio

The projects portfolio increased in value, reflecting the investment of £13.1 million in the Mersey Gateway project which reached operational status in the year.

3i India Infrastructure Fund

The 3i India Infrastructure Fund (the 'India Fund') declined in value after exchange losses of £4.9 million as the Indian rupee weakened against sterling in the year, as shown in Table 4. We have achieved a partial sale of the KMC roads portfolio within the India Fund and are pursuing exits for the remaining assets.

Table 3: Components of value movement (year to 31 March 2018, £m)

Value movement component	Value movement in the year	Description
Planned value growth	59.4	Net value movement resulting from the passage of time, consistent with the discount rate and cash flow assumptions at the beginning of the period less distributions received in the period. This includes the planned value growth in AWG and Elenia to the half year.
Other asset performance	423.6	Net movement arising from actual performance in the period and changes to future cash flow projections, including financing assumptions and changes to regulatory determination assumptions. Includes the uplift on the sale of AWG and Elenia since the half year.
Discount rate movement	22.0	Value movement relating to changes in the discount rate applied to the portfolio cash flows.
Macro-economic assumptions	17.1	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	**522.1**	
Foreign exchange retranslation	7.2	Movement in value due to currency translation to period-end date.
Total value movement	**529.3**	

Foreign exchange impact

As shown in Table 4, the reported foreign exchange gain on investments of £7.2 million included a loss of £4.9 million from the Company's exposure to the Indian rupee, which is not hedged and depreciated by 11.2% against sterling in the year.

There was a £12.1 million foreign exchange gain as sterling weakened against other currencies in the year. This was offset by a £16.2 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. The euro element of the hedging programme is valued using euro forward exchange rates which only partly benefited from the spot exchange rate appreciation as a result of increased interest rate expectations in the UK relative to the Eurozone.

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.

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.

Table 4: Impact of foreign exchange ('FX') movements on portfolio value (year to 31 March 2018, £m)

	Hedged assets €/SGD/DKK/NOK	Unhedged assets £/rupee
FX gains/(losses) before hedging	12.1	(4.9)
FX losses after hedging	(4.1)	(4.9)

Note: SGD exposure is within Oystercatcher, a euro denominated investment.

Discount rate

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 2018. During the year, the weighted average discount rate increased following the sale of Elenia and AWG. In addition, the investment in Alkane increased the weighted average, offset by the reduction in the discount rates used to value XLT and WIG.

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 19% 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.

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% and Elenia and AWG in 2018, which generated IRRs of 31% and 16% respectively.

The valuation of the India Fund, which represents only 2% of the portfolio, has continued to be affected by currency and macro-economic issues, as well as a number of issues related to specific investments.

Table 5: Portfolio weighted average discount rate (31 March 2018, %)

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
March 2018	10.5

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					
Infinis		322	311	10	16
WIG		265	304	–	4
Oystercatcher		139	181	–	107
TCR		151	180	–	5
Cross London Trains		63	168	–	23
ESVAGT		132	153	–	–
Valorem		48	55	–	1
Existing PPP portfolio		121	169	4	65
3i IIF		107	37	24	–
Realised assets	**Total return**				
Elenia (realised February 2018)	4.5x	195		766	106
AWG (realised February 2018)	3.3x	173		410	154
Eversholt (realised April 2015)	3.3x	151		391	114
Realised PPP assets	1.6x	173		250	22
Other[1]	1.2x	138		145	24

19% Annualised asset IRR from IPO to 31 March 2018

Portfolio asset returns include allocation of FX hedging where applicable.
1 Other includes Junior debt portfolio, T2C and Novera.

Financial review

"We demonstrated our efficient balance sheet management, distributing surplus cash promptly and avoiding dilution of returns."

James Dawes
CFO, Infrastructure 10 May 2018

Key financial measures (year to 31 March)	**2018**	2017
Total return[1]	**£479.6m**	£146.3m
Net asset value	**£1,710.2m**	£1,734.6m
Net asset value per share	**211.0p**	169.0p
Total income[2]	**£100.0m**	£85.6m
Portfolio asset value[2]	**£1,545.9m**	£1,805.9m
Cash balances[2]	**£284.6m**	£20.0m
Total liquidity[3]	**£534.0m**	£189.7m

1 IFRS Total comprehensive income for the year.
2 Reconciliation of measures to the financial statement balances is set out in Tables 13 and 14.
3 Includes cash balances of £282.0 million (2017: £17.1 million), unrestricted cash in subsidiaries of £2.6 million (2017: £2.9 million) and £249.4 million (2017: £169.7 million) undrawn balances available under the Company's revolving credit facility.

The Company undertook a record level of activity in the year which delivered outstanding results. Two large realisations generated proceeds of £1.1 billion and the Company made £525 million of new investments and commitments. This required careful management of the balance sheet in order to avoid dilution of returns to shareholders from holding surplus cash balances, and to have the liquidity available for additional investments in WIG, Infinis, ESVAGT and Oystercatcher. We used the revolving credit facility ('RCF'), including the accordion, to fund these investments so that approximately 20% of the proceeds from the realisations was reinvested before we received the cash.

The portfolio at the end of March 2018 has the income-generating capacity to support a higher level of dividend distribution to shareholders. We have rebased the target for FY19, increasing by 10% to 8.65 pence per share. This dividend is expected to be fully covered, and to grow progressively from this new level.

Returns

Total return

The Company generated a total return for the year of £479.6 million, representing a 28.6% return on opening net asset value (2017: £146.3 million, 9.4%). This performance is considerably ahead of the target return of 8% to 10% per annum over the medium term, and significantly ahead of the total return for last year.

This performance was driven by the outstanding returns from the sales of AWG and Elenia but also driven by the delivery of planned cash flows and other asset outperformance. Changes in the valuation of the Company's portfolio assets are described in the Movements in portfolio value section of the Investment Adviser's review.

Total income of £100.0 million in the year has grown by 17% on last year, reflecting a full year of yield on investments made during the last financial year. The dividend to shareholders is fully covered for FY18, supported by this growth in income, together with non-income cash receipts of £56.4 million during the year, which was also higher than the £18.2 million from the prior year.

These non-income cash receipts reflect distributions from underlying portfolio companies, which would usually be income to the Company, but that are instead distributed as a repayment of investment for a variety of reasons. Whilst non-income cash does not form part of the total return shown in Table 7, it is included when considering dividend coverage.

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.
- Table 7 shows an analysis of these elements of the return.

Table 7: Summary total return (year to 31 March, £m)	**2018**	2017
Capital return	**527.5**[1]	147.2
Movement in fair value of derivatives	**(16.2)**	(56.8)
Net capital return	**511.3**	90.4
Total income	**100.0**	85.6
Costs	**(133.0)**	(34.3)
Other net income/(costs) including exchange movements	**1.3**	4.6
Total return	**479.6**	146.3

1 Includes a provision for the loss of value of £1.8 million for the A9 project from draft tax legislation in the Netherlands resulting from BEPS.

The Directors consider that it is helpful for users of the accounts to be able to consider the aggregate returns and costs for the Company's underlying portfolio assets in this financial review. 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) consolidation exemption for its reporting. The non-material adjustments required to reconcile this analysis to the financial statements are shown in Tables 13 and 14.

Capital return

The capital return was £520.3 million (2017: £69.4 million), before the impact of foreign exchange including the hedging programme, as shown in Table 8. The value movements of £522.1 million within this capital return are described in the Movements in portfolio value section of the Investment Adviser's review. The capital return also includes a £1.8 million reduction in value for the A9 project in the Netherlands in relation to expected tax changes.

We aim to deliver steady NAV growth for shareholders, and the foreign exchange hedging programme enables us to do this by reducing our exposure to fluctuations in the foreign exchange markets.

Foreign exchange movements, after accounting for the hedging programme, reduced the net capital return by £9.0 million. Movements in the fair value of derivatives represents a loss of £16.2 million (2017: loss of £56.8 million) in the fair value of the euro, Singapore dollar, Norwegian krone and Danish krone hedging programme. This offsets the foreign exchange gain in the European portfolio of £12.1 million (2017: £71.1 million). The residual impact after hedging comes from movement in the Indian rupee, which is not cost effective to hedge, and the impact of changing interest rate expectations in the UK and continental Europe which affects the future foreign exchange forward rates.

Value movement, including foreign exchange movements

The portfolio generated a value gain of £527.5 million in the year to 31 March 2018 (2017: £147.8 million). This comprised a £520.3 million value increase (2017: £70.0 million) and a £7.2 million foreign exchange gain (2017: £77.8 million). These value movements are described in the Movements in portfolio value section of the Investment Adviser's review.

Table 8: Reconciliation of the movement in net asset value (year to 31 March 2018, £m)

Opening NAV at 1 April 2017[1]	**1,695.9**
Capital return	520.3
Net foreign exchange movement[2]	(9.0)
Total income	100.0
Net costs including advisory fees[3]	(131.7)
NAV before distributions	2,175.5
Distribution to shareholders	(465.3)
Closing NAV at 31 March 2018	**1,710.2**

1 Opening NAV of £1,734.6 million net of final dividend of £38.7 million for the prior year.
2 Foreign exchange movements are described in Table 4.
3 Includes non-portfolio exchange.

Income

Total income

Total income of £100.0 million (2017: £85.6 million) comprises portfolio income of £100.1 million (2017: £85.1 million) offset by negative interest receivable on euro cash balances of £0.1 million (2017: income of £0.4 million).

Portfolio income

The portfolio generated income of £100.1 million in the year (2017: £85.1 million). Of this amount, £23.1 million was through dividends (2017: £21.9 million) and £77.0 million through interest on shareholder loans (2017: £63.2 million). The most significant reason for the year-on-year increase was the contribution of £32.6 million from a full year of ownership in the new investments made last year in Infinis, WIG, TCR and Valorem, a £16.1 million increase on the prior year. A breakdown of portfolio income is provided in Table 9.

The Company accrued interest of £15.8 million from Elenia to the point of sale (2017: £19.5 million). The year-on-year decrease was due to the sale of the investment at the end of February 2018 and a number of partial loan repayments in the intervening period.

AWG paid dividends of £3.3 million in the year (2017: £2.3 million); the Company also accrued interest of £4.2 million (2017: £4.8 million). The accrued interest was lower due to the sale of the investment in mid-February 2018.

Dividends from Oystercatcher fell in the year due to lower dividends received from Oiltanking Amsterdam and Singapore which have seen some softness in demand for storage for certain product types.

Interest income from ESVAGT increased year-on-year after capitalisation of outstanding interest in December 2017.

The Projects portfolio generated income of £10.6 million (2017: £8.6 million). The increase in the year was due to interest earned on the subordinated debt investment into Mersey Gateway in October 2017, increased level of dividends from Elgin predominantly driven by Redcar Schools following the completion of the South Bank school rebuild and a first dividend from NMM which is performing well with no significant deductions incurred to date.

Interest receivable on cash balances

Interest income from cash and cash equivalents was negative £0.1 million (2017: £0.4 million), reflecting a decrease in the average cash balances held during the year compared to last year and negative interest earned on euro balances. The Company's cash balances generated interest at an average rate of (0.1)% in the year (2017: 0.4%). At 31 March 2018, the Company's cash balance was £284.6 million (2017: £20.0 million).

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

	2018		2017		
	Dividends	**Interest**	Dividends	Interest	**Comments**
Elenia	**–**	**15.8**	–	19.5	Realisation in the year
AWG	**3.3**	**4.2**	2.3	4.8	Realisation in the year
Oystercatcher	**15.9**	**–**	17.1	–	
TCR	**–**	**11.1**	–	7.4	Full year of ownership
ESVAGT	**–**	**12.9**	–	11.5	Interest capitalised in the period
XLT	**–**	**4.8**	–	4.8	
Infinis	**–**	**12.0**	–	3.8	Full year of ownership
WIG	**–**	**7.3**	–	4.1	Full year of ownership
Valorem	**–**	**2.2**	–	1.2	Full year of ownership
Projects portfolio	**3.9**	**6.7**	2.5	6.1	Investment in Mersey Gateway in October 2017
Total	**23.1**	**77.0**	21.9	63.2	

Costs

Advisory fees and performance fees

During the year to 31 March 2018, the Company and its unconsolidated subsidiaries incurred advisory fees of £33.2 million (2017: £24.3 million). The increase is due to new investment activity in the year. The advisory fee, payable to 3i plc, is calculated as 1.0% to 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 project investments is 1.0%. For non-project investments the advisory fee is 1.5% reducing 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, Octagon, Elgin, a portion of the Dalmore investment and the various assets within the 3i India Infrastructure 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 per share and subject to a high water mark requirement. This hurdle was exceeded for the year ended 31 March 2018 resulting in a performance fee payable to 3i plc in respect of the year ended 31 March 2018 of £89.8 million (2017: £3.9 million). For a more detailed explanation of how advisory and performance fees are calculated and of the high water mark definition, please refer to Note 8 in the financial statements.

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 2018, fees payable totalled £0.4 million (2017: credit of £1.0 million).

Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £2.8 million in the year (2017: £2.6 million). Other professional fees included the investor perception study and advice on the return of capital and the impact and mitigation of BEPS risk.

Finance costs of £6.8 million (2017: £4.5 million) in the year comprised £5.2 million of arrangement, commitment and utilisation fees for the Company's £300 million revolving credit facility, together with £1.6 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.

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 2.06% for the year to 31 March 2018 (2017: 1.71%). The ongoing charges ratio is higher in periods where new investment levels are high and new equity is raised or capital is returned to shareholders.

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 7.18% (2017: 1.96%). The total return of 28.6% for the year is after deducting this performance fee and ongoing charges.

Table 10: Ongoing charges (year to 31 March, £m)	**2018**	2017
Investment Adviser's fee	**33.2**	24.3
Auditor's fee	**0.3**	0.3
Directors' fees and expenses	**0.5**	0.5
Other ongoing costs	**2.0**	1.8
Total ongoing charges	**36.0**	26.9
Ongoing charges ratio	**2.06%**	1.71%

Balance sheet

The net asset value at 31 March 2018 was £1,710.2 million (2017: £1,734.6 million). The principal components of the net asset value are the portfolio assets, cash holdings, borrowings, the fair value of derivative financial instruments and other net assets and liabilities, principally relating to accrued interest. A summary balance sheet is shown in Table 11.

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 2018, the Company's net assets after the deduction of the final dividend were £1,678.4 million (2017: £1,695.9 million).

Cash and other assets

Cash balances at 31 March 2018 totalled £284.6 million (2017: £20.0 million), including £2.6 million (2017: £2.9 million) of unrestricted cash balances held within intermediate unconsolidated holding companies.

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 an increase in the performance fee accrual.

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, which was refinanced since the year-end at a reduced cost. The maturity date is now May 2021, and the facility has two one-year extension options.

In April 2017, the Company increased the size of the RCF from £300 million to £500 million on a temporary basis to March 2018. This increase was cancelled in February 2018 following receipt of the proceeds from the divestment of AWG.

At 31 March 2018, the RCF was not cash drawn but has been used to issue letters of credit for undrawn commitments to projects comprising €22.2 million (£19.5 million) for the A9 project, €6.6 million (£5.8 million) for the A27/A1 project, €4.8 million (£4.3 million) for the RIVM project, €11.7 million (£10.2 million) for the La Santé project, €7.9 million (£6.9 million) for the Condorcet project and €4.5 million (£3.9 million) for the Hart van Zuid project.

Table 11: Summary balance sheet (as at 31 March, £m)	**2018**	2017
Portfolio assets	**1,545.9**	1,805.9
Cash balances	**284.6**	20.0
Other financial assets	**–**	32.1
Borrowings	**–**	(100.0)
Derivative financial instruments	**(37.3)**	(52.5)
Other net (liabilities)/assets	**(83.0)**	29.1
Net asset value	**1,710.2**	1,734.6

Return of capital and share consolidation

On 21 February 2018, the Company announced that it would return £425 million to shareholders by way of a special dividend of 41.4 pence per share, to enable shareholders to participate directly in the exceptional value generated by the sale of Elenia and AWG. The Company also announced a 15 for 19 share consolidation, which was approved by shareholders at the Extraordinary General Meeting ('EGM') on 14 March 2018, to neutralise the impact of the payment of the special dividend on the share price. The special dividend was paid to shareholders on 29 March 2018. The Company now has a total of 810,434,010 shares in issue. Trading in the new ordinary shares commenced on 15 March 2018.

Net asset value per share

The total net asset value per share at 31 March 2018 was 211.0 pence (2017: 169.0 pence). This reduces to 207.1 pence (2017: 165.2 pence) after the payment of the final dividend of 3.925 pence (2017: 3.775 pence). There are no dilutive securities in issue.

Dividend and dividend cover

The Board has proposed a dividend for the year of 7.85 pence per share, or £72.1 million in aggregate (2017: 7.55 pence; £77.5 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 surplus is £43.6 million (2017: shortfall of £3.3 million). The Board is therefore proposing that the final dividend payment is made in line with the Company's FY18 full year dividend target. The retained amount available for distribution, following the payment of the final dividend, will be £345.3 million (2017: £42.4 million).

Alternative Performance Measures ('APMs')

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

These APMs are used to present a clearer picture of how the Company has performed over the year and are all financial measures of historical performance. They are consistent with the APMs we have presented in prior periods.

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

Table 12: Dividend cover (year to 31 March 2018)	£m
Total income, other income and non-income cash	158.5
Operating costs including advisory fees	(42.8)
Dividends paid and proposed	(72.1)
Dividend surplus for the year	**43.6**
Dividend reserves brought forward from prior year	42.4
Realised profits or losses over cost on disposed assets	774.1
Special dividend paid	(425.0)
Performance fees	(89.8)
Dividend reserves carried forward	**345.3**

The table below defines our APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Total return on opening NAV	A measure of the overall financial performance of the Company. For further information see the Key performance indicators.	It is calculated as the total return of £479.6 million, as shown in the Consolidated statement of omprehensive income, as a percentage of the opening NAV of £1,734.6 million net of the final dividend for the previous year of £38.7 million, adjusted on a time weighted basis for the payment of the £425 million special dividend to shareholders on the register on 14 March 2018. An adjustment to reduce the opening NAV of £19.8 million is required for this time weighting.	The calculation uses IFRS measures.
NAV per share	A measure of the NAV per share in the Company.	It is calculated as the NAV divided by the total number of shares in issue at the balance sheet date.	The calculation uses IFRS measures and is set out in Note 5 to the accounts.
Total income and non-income cash	A measure of the income and other cash receipts by the Company which support the payment of expenses and dividends.	It is calculated as the total income from underlying portfolio and other assets plus the non-income cash being the repayment of shareholder loans not resulting from the disposal of an underlying portfolio asset.	The reconciliation of Total income to IFRS is shown in Table 13. The proceeds from partial realisations of investments is shown in the Consolidated cash flow statement. The realisation proceeds which result from a partial sale of an underlying portfolio asset are not included within non-income cash.
Investment value including commitments	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company.	It is calculated as the portfolio asset value plus the amount of the contracted commitment.	The calculation uses portfolio assets shown in the reconciliation in Table 14, together with the value of future commitments of £237.0 million, as set out in Note 16 to the accounts in our Annual report and accounts 2018. Undrawn loan commitments to the 3i Indian Infrastructure Fund are not included as these are not expected to be drawn.

In addition to the APMs, the Annual report shows portfolio information including cash and other net assets held within intermediate unconsolidated holding companies. Tables 13 and 14 show a reconciliation of this portfolio information to the information presented in the Consolidated financial statements.

Reconciliation to financial statements

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

Derivatives relating specifically to the Oystercatcher subsidiary are reclassified as capital return in this analysis. The size of this adjustment is expected to reduce in future periods as the derivatives relating to the interest rate exposure have been closed out during the year and the new Singapore dollar debt taken out by the subsidiary has created a natural hedge, which has reduced the requirement for Singapore dollar hedging.

Management fees paid directly to 3i plc by intermediate unconsolidated holding companies are shown as costs in this analysis, instead of a reduction of income or capital in the financial statements. Following the sale of AWG and Elenia, the fees due from the entities holding these investments are no longer payable and the relevant cash balances in these entities will be distributed to the Company.

Some dividend income received from portfolio assets by unconsolidated Luxembourg subsidiaries was not paid up to the Company prior to the year end and is therefore not recognised as income in the financial statements but appears as a capital return in the financial statements.

Table 13: Reconciliation of summary total return (year to 31 March 2018, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial statements
Capital return	527.5	(0.9)[1,2]	526.6
Movement in fair value of derivatives	(16.2)	1.5[1]	(14.7)
Net capital return	**511.3**	**0.6**	**511.9**
Total income	100.0	(5.9)[2]	94.1
Costs	(133.0)	5.4[2]	(127.6)
Other net income/(costs)	1.3	(0.1)	1.2
Total return	**479.6**	**–**	**479.6**

1 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.
2 Costs of £5.4 million were incurred within unconsolidated subsidiaries, comprising predominantly fees paid directly to 3i plc (£5.2 million), and operating expenses (£0.2 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 2018, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries[1]	Financial statements
Portfolio assets	1,545.9	6.4	1,552.3[2]
Cash balances	284.6	(2.6)[3]	282.0
Financial assets	–	–	–
Borrowings	–	–	–
Derivative financial instruments	(37.3)	(0.3)[4]	(37.6)
Other net assets	(83.0)	(3.5)	(86.5)
Net asset value	**1,710.2**	**–**	**1,710.2**

1 'Investments at fair value through profit or loss' in the financial statements includes £2.6 million of unrestricted cash balances and £3.5 million of other net liabilities with or within intermediate unconsolidated holding companies and a £0.3 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) positions, 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 £2.6 million.
4 A £0.3 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

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

Wendy Dorman
Chairman, Audit and Risk Committee
10 May 2018

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 by investment advisory team members.

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

Further detail on these committees can be found in the Governance section of our Annual report and accounts 2018.

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; specific reviews in the year on cyber and terrorism related risk;
- 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, General Data Protection Regulation ('GDPR'), Packaged Retail and Insurance-based Investment Products ('PRIIPs') Regulation, Markets in Financial Instruments Directive ('MIFID II'), 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, 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 in the Risk report are not an exhaustive list of risks and uncertainties faced by the Company, but rather a summary of significant key risks which are under active review by the Board. These significant key risks have the potential to affect materially the achievement of the Company's strategic objectives and impact its financial performance. This disclosure shows developments in these significant key risks for the year. The risks that have been identified as principal risks are described in more detail in the Principal risks and mitigations table.

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

External risks – market and competition

The markets in which the Company seeks to invest, and in particular the European economic infrastructure market, are competitive, with strong demand for new investments. This has supported value gains for existing assets in the portfolio and realisations. In 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 have progressed and are now looking likely to conclude in 2020, but the final details remain uncertain and could create a generally less favourable financial environment for the Company and its investments. The majority of the Company's investments are in domestic businesses with limited cross-border trading. This mitigates the risk to the Company of the UK leaving the EU without a trade deal.

Inflation, particularly in the UK, was running ahead of long-term targets during the year. This has been beneficial for the assets with inflation-linked revenues, such as WIG and Infinis, although partially offset by increases in costs.

Interest rates have risen slightly in the year but remained low. This had positive implications for some of the portfolio assets and allowed for the favourable refinancing of debt in ESVAGT and Oystercatcher, and the operational wind portfolio in Valorem.

There was significant currency volatility in the year, with sterling depreciating by 2.6% against the euro in response to continuing uncertainty concerning the UK leaving the EU. The Company's objective is to hedge substantially its direct euro and Danish krone exposures and indirect Singapore dollar and Norwegian krone exposures. The revaluation of the hedging programme is impacted by movements in forward exchange rates which are not necessarily matched exactly by an equivalent change in the spot exchange rate at which the assets are translated.

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. During the year, 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.

The recovery and stabilisation of the oil price during the year has led to increasing contract rates and utilisation for ESVAGT's tonnage.

The introduction of stricter standards for sulphur content in fuel oil used by ships from 2020 is impacting parts of the oil storage sector. It has led to a deterioration in fuel oil trading margins, and reduced traders' appetite to store this product. This has caused a sudden drop in market wide fuel oil storage rates and has also caused some storage capacity that was being used for fuel oil, and that in some instances can also accommodate gasoil, to become available in the market. At the same time many product markets are in backwardation. Oystercatcher has seen some softening of demand for storage of certain product types as a result of these market changes.

External risks – regulatory and tax

We have continued to monitor 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'.

In relation to BEPS Action 4, the expected impact of interest deductibility rules in the UK and some European countries has been reflected in the valuation of the Company's investments as at 31 March 2018. A number of other European jurisdictions have tax regimes which already limit interest deductions and further changes are not therefore expected to have a material impact.

In June 2017, representatives from 68 countries and jurisdictions signed a Multilateral Instrument which provides a mechanism for amending tax treaties for several of the BEPS recommendations including those concerning BEPS Action 6, prevention of treaty abuse. Following domestic ratification by more than five countries or jurisdictions, this will come into effect from 1 January 2019. In order to mitigate the risk of tax leakage for the Company, the Board intend to move the tax domicile and management of the Company to the UK with effect from 1 October 2018. We are pursuing a project plan to achieve this, which includes an application to HMRC for UK approved investment trust status.

The Company's investment in Infinis is exposed to regulatory risk around 'embedded benefits'. In June 2017, Ofgem confirmed its intention to cut the value of one of those benefits, known as 'Triads', which is reflected in the valuation of Infinis. Ofgem will publish the conclusions of its Significant Code Review by early 2019, with implementation due to come into effect from the 2020/21 charging year. This is not expected to have a material impact on the value of Infinis.

Strategic risks

The Company manages its balance sheet and liquidity position actively, seeking to maintain adequate liquidity to pursue new investment opportunities, while not diluting shareholder returns by holding surplus cash balances. Following the receipt of proceeds from the sale of Elenia and AWG, the Company returned £425 million to shareholders as a special dividend on 29 March 2018.

The Company has sufficient cash available to complete the committed investment in Attero, and has good liquidity available for future investment through the RCF which has been refinanced since the year-end. The facility has a £200 million accordion feature which the Company could seek to exercise if required.

The projects portfolio is based on long-term contracts with public sector counterparties. There is a risk, particularly in the UK, that the public sector may wish to terminate these contracts early. In most cases, the contracts have robust provisions which set out the basis on which investors will be compensated in the event of early termination at the request of the public sector. Where such provisions do not exist, termination and associated compensation is subject to mutual agreement. The Company's projects portfolio is widely diversified by counterparty and legal jurisdiction, and represents 12% of the total portfolio including investment commitments, of which 8% is UK PFIs. Overall, we consider the risk of a material loss arising from widespread early termination of the projects to be low.

At the start of the financial year, Elenia represented 22% of portfolio value including investment commitments. This increased to 25% at the half year. Together with AWG, the two largest investments in the portfolio represented 40% of portfolio value at the half year. Following the sale of Elenia and AWG, the portfolio is more evenly balanced across investments, with no investments above 20% of portfolio value.

Investment risks

The Company made six investments and commitments during the year, in Attero, Alkane Energy through Infinis, and follow-ons in Oystercatcher, WIG, Infinis and ESVAGT. In line with the Company's investment focus, described in the Infrastructure market section, 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.

Ongoing access to debt markets is important to assets in the portfolio, particularly as existing debt matures. Changes in the terms and availability of debt finance, including from underlying performance of portfolio assets, could impact valuations. The refinancing undertaken for ESVAGT, Oystercatcher and the operational portfolio in Valorem mitigates against this risk by extending the maturity of debt.

The performance of the investments in the India Fund remains weak. The remaining portfolio, which now represents less than 2% of the Company's 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 and terrorism risk within portfolio companies.

Viability statement

The Directors consider the long-term prospects of the Company to be favourable. The Company has a diverse portfolio of infrastructure investments, producing good and reasonably predictable levels of income which cover the dividend and costs. The Investment Adviser has a strong track record of investing selectively in good businesses and projects, and driving value through an engaged asset management approach. The Directors consider that this portfolio can continue to meet the Company's objectives.

The Directors have assessed the viability of the Company over a three-year period to March 2021. 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 produced 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 and viability in the time period. These scenarios were considered to be remote, such as a fall in equity value of the portfolio of materially more than 50% whilst being fully drawn on the revolving credit facility including the accordion, or an equivalent fall in income.

The Directors consider that a three-year period to March 2021 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 2021.

Principal risks and mitigations

Principal risks	Risk description	Risk mitigation
External		
Legal, tax, compliance and accounting No significant change in risk exposure	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 No significant change in risk exposure	• 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 • The Board intends to move the tax domicile and management of the Company to the UK on 1 October 2018
Market/economic Risk exposure has increased	• 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 • Change to the political environment that impacts market sentiment, infrastructure projects or portfolio companies	• 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 No significant change in risk exposure	• 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

Principal risks	Risk description	Risk mitigation
Strategic		
Unbalanced portfolio Risk exposure has decreased	• 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 Risk exposure has increased	• 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 No significant change in risk exposure	• 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 the 3i brand
Cyber Risk exposure has increased	• 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

Sustainability

The Board is committed to running the Company in a sustainable way. To us, sustainability includes having an appropriate and long-term business model, supported by the right advisers and service providers who are aligned with this commitment.

For further information, see our website www.3i-infrastructure.com/about-us/corporate-responsibility

Investing responsibly

We aim to invest responsibly. Our Investment Adviser is a signatory to the UN Principles for Responsible Investment, and has embedded responsible investing policies in its investment and asset management processes. 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.

Please go to www.3i.com to view 3i's statement under section 54 of the Modern Slavery Act 2015 in respect of the financial year ended 31 March 2017.

Environmental and social impact

We use our influence, as an investor, to promote a commitment in our portfolio companies to mitigate any adverse environmental and social impacts and enhance positive effects on the environment, workers and relevant stakeholders. We aim to manage effectively environmental, social and governance ('ESG') matters at portfolio companies through our engaged asset management process, and ESG considerations are embedded in our process for evaluating new investments.

Low carbon economy

We support the transition to a low carbon economy, investing in businesses such as Valorem and Infinis which contribute towards sustainable energy generation (see case study). Our most recent investment, Attero, is the leading Dutch player in the waste treatment market. This business sorts and treats waste for recycling, alongside composting and anaerobic digestion facilities, and produces sustainable electricity for 350,000 households by converting waste to energy.

Committed to low carbon

We own 28.5% of Valorem, one of the largest wind farm developers in France. Over the last decade, successive governments have publicly committed to reduce France's reliance on nuclear power, driven both by safety and cost reasons. Climate change and decarbonisation have also become increasingly important issues in France, especially in light of France's pivotal role in the United Nations COP 21 meeting held in Paris in 2015. The reduction in the share of electricity generation from nuclear power is to be achieved by increasing the share of renewable energy to 32% by 2032.

Such a sizeable shift in energy generation presented an attractive investment opportunity aligned to our sustainability commitment. Since our investment in September 2016, Valorem has grown its existing onshore wind asset base by over 50%, and is also developing solar photovoltaic ('PV') projects. The onshore wind asset base is expected to continue to grow through development of our advanced pipeline of new projects. The French Government plans to triple the current installed PV capacity by 2023, and Valorem is developing a pipeline of new projects to support this plan.

Benefits for communities

Investing in infrastructure assets has economic and social sustainability benefits for communities in our target markets. We act as a conduit for institutional and retail savings into these assets, helping our shareholders to achieve their own return objectives in a sustainable way with low levels of volatility and little correlation to wider equity markets.

Governance

We govern the Company and, through the Investment Adviser, the assets in which we invest so as to support our sustainability objectives. More detail on the Company's governance can be found in the Governance section of this report. The Investment Adviser's engaged asset management approach seeks to improve and enhance the governance of businesses that we acquire, through implementing and upgrading policies and procedures as a priority following a new investment, working with management teams to define long term sustainable business plans, and working with lenders and other providers of finance to put in place sustainable financing. Details of the Company's policies relating to the UK Bribery Act, Modern Slavery Act, procurement, prompt payment, and the environment can be found on our website.

Cyber security

Cyber security is a critical issue for all businesses. We conducted a specific review of cyber risk in our portfolio companies. This review was informed by the use of a specialist consultancy firm appointed by the Investment Adviser to assess cyber risks and controls across the portfolio. A number of actions were identified to improve resilience, and the delivery of these actions is monitored through our engaged asset management process.

By engaging with our portfolio companies on ESG matters in a consistent, structured, and informed way, utilising specialist resources where appropriate and sharing best practice, we can improve the sustainability of the companies and of the portfolio as a whole.

Regulation and tax

We aim to act lawfully and with integrity, including complying with all regulatory and statutory obligations and disclosure requirements. We maintain open and constructive relationships with regulators, including the Jersey Financial Services Commission and the UK Financial Conduct Authority. We encourage our portfolio companies to comply with their respective statutory obligations, and monitor this through our engaged asset management process. We intend to move the tax domicile and management of the Company to the UK with effect from 1 October 2018, with an application to HMRC for UK approved investment trust status.

Relationships

We value our relationships with our shareholders and lenders, and ensure time and effort is spent in building and maintaining these relationships. Further detail can be found in the Relations with shareholders section of our Annual report and accounts 2018. On 30 April 2018, we put in place a new revolving credit facility with our existing bank group demonstrating their support for the Company and the long-term relationships that we have built with our lenders.

This Strategic report is approved by order of the Board.
Authorised signatory
Link Alternative Fund Services (Jersey) Limited
Company Secretary 10 May 2018

Consolidated statement of comprehensive income

For the year to 31 March

	Notes	**Year to 31 March 2018 £m**	Year to 31 March 2017 £m
Net gains on investments at fair value through profit or loss	7	**526.6**	150.0
Investment income	7	**94.2**	80.5
Fees payable on investment activities		**(0.4)**	1.4
Fees receivable on investment activities		**–**	0.1
Interest (payable)/receivable		**(0.1)**	0.4
Investment return		**620.3**	232.4
Movement in the fair value of derivative financial instruments	5	**(14.7)**	(58.7)
Advisory and performance fees payable	2	**(117.8)**	(23.7)
Operating expenses	3	**(2.6)**	(2.3)
Finance costs	4	**(6.8)**	(4.5)
Other income		**1.9**	1.7
Exchange movements		**(0.7)**	1.4
Profit before tax		**479.6**	146.3
Tax	6	**–**	–
Profit after tax and profit for the year		**479.6**	146.3
Total comprehensive income for the year		**479.6**	146.3
Earnings per share			
Basic and diluted (pence)	14	**47.2**	14.9

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2018	Notes	**Stated capital account £m**	**Retained reserves £m**	**Total shareholders' equity £m**
Opening balance at 1 April 2017		**560.4**	**1,174.2**	**1,734.6**
Total comprehensive income for the year		**–**	**479.6**	**479.6**
Dividends paid to shareholders of the Company during the year	15	**–**	**(504.0)**	**(504.0)**
Closing balance at 31 March 2018		**560.4**	**1,149.8**	**1,710.2**

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

Consolidated balance sheet

As at 31 March

	Notes	**2018 £m**	2017 £m
Assets			
Non-current assets			
Investments at fair value through profit or loss	7	**1,552.3**	1,815.6
Investment portfolio		**1,552.3**	1,815.6
Derivative financial instruments	10	**1.5**	4.4
Total non-current assets		**1,553.8**	1,820.0
Current assets			
Derivative financial instruments	10	**4.3**	1.3
Trade and other receivables	8	**14.1**	35.1
Other financial assets		**–**	32.1
Cash and cash equivalents		**282.0**	17.1
Total current assets		**300.4**	85.6
Total assets		**1,854.2**	1,905.6
Liabilities			
Non-current liabilities			
Derivative financial instruments	10	**(29.7)**	(43.4)
Trade and other payables	12	**(5.9)**	(3.8)
Loans and borrowings	11	**–**	(100.0)
Total non-current liabilities		**(35.6)**	(147.2)
Current liabilities			
Derivative financial instruments	10	**(13.7)**	(18.4)
Trade and other payables	12	**(94.7)**	(5.4)
Total current liabilities		**(108.4)**	(23.8)
Total liabilities		**(144.0)**	(171.0)
Net assets		**1,710.2**	1,734.6
Equity			
Stated capital account	13	**560.4**	560.4
Retained reserves		**1,149.8**	1,174.2
Total equity		**1,710.2**	1,734.6
Net asset value per share			
Basic and diluted (pence)	14	**211.0**	169.0

The Financial statements and related Notes were approved and authorised for issue by the Board of Directors on 10 May 2018 and signed on its behalf by:

Wendy Dorman
Director

Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2018 £m	Year to 31 March 2017 £m
Cash flow from operating activities		
Purchase of investments	**(349.5)**	(468.5)
Repayment of other financial assets	**19.5**	6.1
Proceeds from partial realisations of investments	**57.4**	19.8
Proceeds from full realisations of investments	**1,131.1**	12.4
Investment income[1]	**79.5**	60.9
Fees received on investment activities	**0.2**	0.2
Fees paid on investment activities	**–**	(1.3)
Operating expenses paid	**(2.4)**	(2.5)
Interest (paid)/received	**(0.2)**	0.4
Advisory and performance fees paid	**(27.9)**	(39.3)
Amounts (paid)/received on the settlement of derivative contracts	**(31.3)**	(28.7)
Other income received	**1.9**	1.8
Net cash flow from operations	**878.3**	(438.7)
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	**(7.3)**	(3.5)
Dividends paid	**(504.0)**	(67.5)
Drawdown of revolving credit facility	**272.0**	110.0
Repayment of revolving credit facility	**(372.0)**	(10.0)
Net cash flow from financing activities	**(611.3)**	407.8
Change in cash and cash equivalents	**267.0**	(30.9)
Cash and cash equivalents at the beginning of the year	**17.1**	47.5
Effect of exchange rate movement	**(2.1)**	0.5
Cash and cash equivalents at the end of the year	**282.0**	17.1

1 Investment income includes dividends of £11.3 million (2017: £11.7 million), interest of £36.5 million (2017: £22.3 million) and distributions of £31.7 million (2017: £26.9 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 2018 £m	Year to 31 March 2017 £m
Change in cash and cash equivalents		**267.0**	(30.9)
Drawdown of revolving credit facility	11	**(272.0)**	(110.0)
Repayment of revolving credit facility	11	**372.0**	10.0
Change in net cash/(debt) resulting from cash flows		**367.0**	(130.9)
Movement in net cash/(debt)		**367.0**	(130.9)
Net (debt)/cash at the beginning of the year		**(82.9)**	47.5
Effect of exchange rate movement		**(2.1)**	0.5
Net cash/(debt) at the end of the year		**282.0**	(82.9)

In the above reconciliation there were no non cash movements.

Significant accounting policies

Corporate information

3i Infrastructure plc (the 'Company') is a company incorporated in Jersey, Channel Islands. The Consolidated financial statements for the year to 31 March 2018 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 2018.

Statement of compliance

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

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

Basis of preparation

The financial statements are prepared on a going concern basis as disclosed in the 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 judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of determining the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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, a UK incorporated and 100% owned company, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. There will be no elimination in relation to transactions between the Company and subsidiaries held at fair value.

Key judgements

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

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

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

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

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

The Company meets the criteria as follows:

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

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

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

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

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

During the year, the Company set up one new subsidiary entity for the new investment commitment in Attero. A further 14 entities included within the Wireless Infrastructure Group became subsidiaries during the year. 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.

Key estimation uncertainties

Valuation of the investment portfolio

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

The majority of assets in the investment portfolio are valued on a discounted cash flow basis which requires assumptions to be made regarding future cash flows and the discount rate to be applied to these cash flows. The methodology for deriving the fair value of the investment portfolio, including the key estimates, is set out in the Portfolio valuation methodology section. 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 2018, 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.

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).

Amendments resulting from Annual Improvements to IFRS 2014-2016 Cycle (effective for accounting periods commencing on or after 1 January 2018).

The Directors have assessed the impact on the adoption of the standards and interpretations listed above and have concluded that they will not have a material impact on the financial statements of the Consolidated Group in future periods. The Group's principal revenue streams are dividends and interest from investments, transaction fees, interest on cash balances and other income comprising fees from asset management services. The Group does not expect IFRS 15 to have a material impact on the accounting for these revenue streams. The adoption of IFRS 16 does not have an impact on the Group as it does not hold any operating leases. IFRS 9 will not have a significant impact on the measurement of the Group's financial assets and liabilities as the Group's principal financial assets are investments held at fair value through profit or loss which are not impacted by the adoption of IFRS 9. IFRS 9 also changes the classification of financial assets and implements new rules around hedge accounting. The Group

does not have any financial assets whose classification will be impacted by adoption of IFRS 9 nor does it apply hedge accounting to any of its derivatives.

The Directors are still undertaking an assessment of the impact of other new standards issued and not endorsed by the EU. It is not anticipated that they would have a material impact on the Group.

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. Foreign exchange differences relating to investments held at fair value through profit or loss are shown within the line Net gains on investments at fair value through profit or loss. Foreign exchange differences relating to other assets and liabilities are shown within the line Exchange movements.

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

C Investment portfolio

Recognition and measurement – Investments are recognised and de-recognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and obtaining capital appreciation from changes in the fair value of investments. Therefore, all quoted investments and unquoted investments are measured 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.

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 investment disposal date, 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;

- interest income from loans that are measured at fair value through profit or loss is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value or principal amount. The remaining changes in the fair value movement of the loans are recognised separately in the line Net gains on investments at fair value through profit or loss in the consolidated statement of comprehensive income.

- 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 water mark 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. In the prior year, these were held on behalf of the Mersey Gateway Bridge and A9 primary PPP projects. The Company retains the right to replace any such 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.

F Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their consideration receivable less impairment losses. Such assets are short term in nature and the carrying value of these assets is considered to be approximate to their fair value. 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. Such liabilities are short term in nature, the carrying value of these liabilities is considered to be approximate to their fair value.

H Equity and reserves

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

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

Tax represents 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 2018:

For the year to 31 March 2018	Economic Infrastructure businesses £m	Projects portfolio £m	India Fund £m	Unallocated £m	Total £m
Investment return/(loss)	**621.3**	**8.9**	**(3.0)**	**(6.9)**	**620.3**
Profit/(loss) before tax	**608.1**	**8.9**	**(3.0)**	**(134.4)**	**479.6**
For the year to 31 March 2017					
Investment return/(loss)	213.3	20.1	0.4	(1.4)	232.4
Profit/(loss) before tax	156.9	19.7	0.4	(30.7)	146.3
As at 31 March 2018					
Assets	**1,364.7**	**167.9**	**36.9**	**284.7**	**1,854.2**
Liabilities	**(48.2)**	**(1.3)**	**–**	**(94.5)**	**(144.0)**
Net assets	**1,316.5**	**166.6**	**36.9**	**190.2**	**1,710.2**
As at 31 March 2017					
Assets	1,656.9	187.5	41.2	20.0	1,905.6
Liabilities	(65.3)	(0.5)	–	(105.2)	(171.0)
Net assets	1,591.6	187.0	41.2	(85.2)	1,734.6

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 2018:

For the year to 31 March 2018	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return/(loss)	**229.2**	**394.1**	**(3.0)**	**620.3**
Profit/(loss) before tax	**104.0**	**378.6**	**(3.0)**	**479.6**
For the year to 31 March 2017				
Investment return	79.7	152.3	0.4	232.4
Profit before tax	50.9	95.0	0.4	146.3
As at 31 March 2018				
Assets	**1,223.1**	**594.2**	**36.9**	**1,854.2**
Liabilities	**(94.6)**	**(49.4)**	**–**	**(144.0)**
Net assets	**1,128.5**	**544.8**	**36.9**	**1,710.2**
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

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

The Group generated 36.9% (2017: 34.3%) of its investment return in the period from investments held in the UK and Ireland and 63.5% (2017: 65.5%) of its investment return from investments held in continental Europe. During the year, the Group generated 99.1% (2017: 91.2%) of its investment return from investments in Economic Infrastructure businesses, 1.4% (2017: 8.6%) from investments in Projects and (0.5)% (2017: 0.2%) from its investment in the India Fund. Given the nature of the Group's operations, the Group is not considered to be exposed to any operational seasonality or cyclicality that would impact the financial results of the Group during the year or the financial position of the Group at 31 March 2018.

2 Advisory and performance fees payable

	Year to 31 March 2018 £m	Year to 31 March 2017 £m
Advisory fee payable directly from the Company	**28.0**	19.8
Performance fee	**89.8**	3.9
	117.8	23.7

Total advisory and performance fees payable by the Company for the year to 31 March 2018 were £117.8 million (2017: £23.7 million). In addition to the fees described above, management fees of £5.2 million (2017: £4.5 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 2018, 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 2018, there were no transfers of financial instruments between levels of the fair value hierarchy (2017: none).

Financial instruments classification

	As at 31 March 2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investments at fair value through profit or loss	**–**	**–**	**1,552.3**	**1,552.3**
Trade and other receivables	**–**	**12.8**	**–**	**12.8**
Cash and cash equivalents	**282.0**	**–**	**–**	**282.0**
Derivative financial instruments	**–**	**5.8**	**–**	**5.8**
	282.0	**18.6**	**1,552.3**	**1,852.9**
Financial liabilities				
Trade and other payables	**–**	**(100.6)**	**–**	**(100.6)**
Derivative financial instruments	**–**	**(43.4)**	**–**	**(43.4)**
	–	**(144.0)**	**–**	**(144.0)**

	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
Trade and other receivables	–	33.6	–	33.6
Other financial assets	32.1	–	–	32.1
Cash and cash equivalents	17.1	–	–	17.1
Derivative financial instruments	–	5.7	–	5.7
	49.2	39.3	1,815.6	1,904.1
Financial liabilities				
Trade and other payables	–	(9.2)	–	(9.2)
Derivative financial instruments	–	(61.8)	–	(61.8)
	–	(71.0)	–	(71.0)

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 2018 £m
Opening fair value	**1,815.6**
Additions	**398.5**
Disposal proceeds and repayments	**(1,188.4)**
Fair value movement (including exchange movements)	**526.6**
Closing fair value	**1,552.3**

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

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

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

Investment income of £94.2 million (2017: £80.5 million) comprises dividend income of £11.3 million (2017: £11.7 million), interest of £57.5 million (2017: £40.2 million) and distributions of £25.4 million (2017: £28.6 million) from unconsolidated subsidiaries.

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

The Group's policy is to fair value both the equity and shareholder debt investments in infrastructure assets together where they will be managed and valued as a single investment, were invested at the same time and cannot be realised separately. The Directors consider that equity and debt share the same characteristics and risks and they are therefore treated as a single unit of account for valuation purposes and a single class for disclosure purposes. As at 31 March 2018, the fair value of unquoted investments was £1,527.3 million (2017: £1,788.3 million). Individual portfolio asset valuations are shown within the Portfolio summary.

The majority of the assets held within Level 3 are valued on a discounted cash flow basis, hence, the valuations are sensitive to the discount rate assumed in the valuation of each asset. Other significant unobservable inputs include the long-term inflation rate assumption, the interest rates assumption used to project the future cash flows and the forecast cash flows themselves, the sensitivities of which are captured in the market risk section in Note 9 of our Annual report and accounts 2018.

A discussion of discount rates applied can be found in the Movements in 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 £130.1 million (2017: £167.4 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £151.9 million (2017: £200.1 million).

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

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) (2017: 5.0%) to 2.0% (Netherlands) (2017: 2.0%) including the UK at 2.5% (UK RPI) (2017: 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 £39.1 million (2017: £41.3 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 £38.6 million (2017: £40.9 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 £56.3 million (2017: £111.6 million). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £54.3 million (2017: £114.0 million). This calculation does not take account of any offsetting variances which may be expected to prevail if interest rates changed, including the impact of inflation discussed above.

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 2018, the fair value of unlisted funds was £18.6 million (2017: £17.6 million). The fund NAV reflects a 31 March 2018 valuation date (2017: 31 March 2017 valuation date). A 10% adjustment in the NAV of the fund would result in a £1.9 million (2017: £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 2018, the fair value of the other assets and liabilities within these intermediate holding companies was £6.4 million (2017: £9.7 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 price that would be received to sell or transfer the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, 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 2018		As at 31 March 2017	
	Number	**£m**	Number	£m
Issued and fully paid				
Opening balance	**1,026,549,746**	**1,272.8**	793,216,413	887.8
Issued as part of open offer and placing	**–**	**–**	233,333,333	385.0
Share consolidation	**(216,115,736)**	**–**	–	–
Closing balance	**810,434,010**	**1,272.8**	1,026,549,746	1,272.8

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 29 March 2018, the Company paid a special dividend of £425.0 million to shareholders. In order to maintain the comparability of the Company's share price before and after the special dividend, a share consolidation took place. On 14 March 2018, an Extraordinary General Meeting ('EGM') was held to approve the share consolidation, which was set at a ratio of 15 new ordinary shares for every 19 existing shares. The share consolidation ratio was based on a share price of 197.8 pence per share, being the closing share price on the preceding day of posting the EGM circular, and the special dividend was therefore equivalent to approximately 21% of the market capitalisation of the Company at that time.

In the prior year, 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 2018, the residual value on the stated capital account was £560.4 million.

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 2018	Year to 31 March 2017
Earnings per share (pence)		
Basic and diluted	**47.2**	14.9
Earnings (£m)		
Profit after tax for the year	**479.6**	146.3
Number of shares (million)		
Weighted average number of shares in issue	**1,016.5**	981.2
Number of shares at the end of the year	**810.4**	1,026.5

	As at 31 March 2018	As at 31 March 2017
Net assets per share (pence)		
Basic and diluted	**211.0**	169.0
Net assets (£m)		
Net assets	**1,710.2**	1,734.6

6 Dividends

	Year to 31 March 2018		Year to 31 March 2017	
Declared and paid during the year	**Pence per share**	**£m**	Pence per share	£m
Special dividend paid on ordinary shares	**41.400**	**425.0**	–	–
Interim dividend paid on ordinary shares	**3.925**	**40.3**	3.775	38.8
Prior year final dividend paid on ordinary shares	**3.775**	**38.7**	3.625	28.7
	49.100	**504.0**	7.400	67.5

On 29 March 2018, the Company implemented a return of capital by way of a special dividend of 41.4 pence per share which equated to a total amount returned of £425.0 million. The special dividend was paid to those shareholders that were on the register on 14 March 2018.

The Company proposes paying a final dividend of 3.925 pence per share (2017: 3.775 pence) which will be payable to those shareholders that are on the register on 15 June 2018. On the basis of the shares in issue at year end, this would equate to a total final dividend of £31.8 million (2017: £38.7 million).

The final dividend is subject to approval by shareholders at the AGM in July 2018 and has therefore not been accrued in these financial statements.

7 Contingent liabilities

As at 31 March 2018, the Company had issued €57.7 million (£50.6 million) (2017: €35.5 million, £30.3 million) in the form of Letters of Credit, drawn against the Revolving Credit Facility, for future investments into the A27/A1, RIVM, La Santé, Hart van Zuid, Condorcet and A9 PPP projects. The commitment to A9 was previously backed by cash held in a third party bank account and reported as other financial assets in the balance sheet. This was repaid during the year and the commitment is now backed by a Letter of Credit.

8 Related parties

Transactions between 3i Infrastructure and 3i Group
3i Group plc ('3i Group') holds 33.6% (2017: 33.8%) of the ordinary shares of the Company. This classifies 3i Group as a 'substantial shareholder' of the Company as defined by the Listing Rules. During the year, 3i Group received dividends of £169.3 million (2017: £22.9 million) from the Company.

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 (2017: nil) were drawn down by the India Fund from the Company during the year. In total, commitments of US$183.7 million or £130.9 million re-translated (2017: US$183.7 million or £146.8 million) had been drawn down at 31 March 2018 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 2018, the outstanding commitment was US$37.5 million, or £26.7 million re-translated (2017: US$37.5 million or £30.0 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, £2.3 million (2017: £2.2 million) was payable directly to 3i Group, of which the Company's share was £2.0 million (2017: £1.9 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2018, nil remained outstanding (2017: nil). Following the sale of Elenia, which was the only investment held by 3i Networks Finland LP, no further priority profit share is expected to be paid.

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, £4.6 million (2017: £3.8 million) was payable directly to 3i Group, of which the Company's share was £3.2 million (2017: £2.6 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2018, nil remained outstanding (2017: £0.3 million). Following the sale of Anglian Water Group, which was the only investment held by 3i Osprey LP, no further priority profit share is expected to be paid.

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 2018, £33.2 million (2017: £24.3 million) was payable and £3.9 million remained due to 3i plc at 31 March 2018 (2017: nil). This amount includes fees of £5.2 million (2017: £4.5 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 Total Return per ordinary share (being closing Net Asset Value per share aggregated with any distributions made in the course of the financial period and adjusted for 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 water mark 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 water mark requirement was exceeded for the year to 31 March 2018 and a performance fee of £89.8 million (2017: £3.9 million) was accrued and £89.8 million remained due to 3i plc (2017: £3.9 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 2018 was £0.8 million (2017: £0.8 million). The outstanding balance payable as at 31 March 2018 was £0.2 million (2017: £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 and Chairman of the Audit and Risk Committee.

Robert Jennings
Non-executive Director.

Ian Lobley
Non-executive Director.

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

Basis of valuation

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

General

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

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

Quoted investments

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

Unquoted investments

Unquoted investments are valued using one of the following methodologies:

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

DCF

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

Proportionate share of net assets

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

Sales basis

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

Cost less fair value adjustment

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