3i Infrastructure plc

9 May 2019

Results for the year to 31 March 2019

3i Infrastructure (the ‘Company’) today announces a strong 15.4% return for the year and a 6.4% increase in the target dividend for FY20 to 9.20 pence per share.

Richard Laing, Chair of 3i Infrastructure plc, said: “The Company continued to outperform. We are confident in our portfolio and in our ability to deliver on our strategy and objectives.”

Phil White, Managing Partner, Infrastructure, 3i Investments plc, said: “It has been another strong year for the Company. The portfolio is performing well, we made another excellent realisation and we have continued to make attractive new investments in a very competitive market.”

Performance highlights

Strong portfolio performance drove growth in net asset value (‘NAV’)	15.4% Total return on opening NAV £258m Total return for the year 234.7p NAV per share
Realised investment in XLT	£333m Net realisation proceeds in the year
Success in new investment across our target markets	£377m New investments or commitments in the year
Delivered the dividend target for FY19	8.65p Full year dividend per share for FY19
6.4% increase in the dividend target for FY20	9.20p Target dividend per share for FY20

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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 2019 have not yet been delivered to the Jersey Financial Services Commission. The statutory accounts for the year to 31 March 2018 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 2018.

Note 2
Subject to shareholder approval, the proposed final dividend is expected to be paid on 8 July 2019 to holders of ordinary shares on the register on 14 June 2019. The ex-dividend date for the final dividend will be on 13 June 2019.

Note 3
The preliminary announcement has been extracted from the annual report and accounts 2019. The annual report and accounts 2019 will be available on the Company's website today. Printed copies of the annual report and accounts 2019 will be distributed to shareholders who have elected to receive printed copy communications on or soon after 24 May 2019.

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, an approved UK Investment Trust, listed on the London Stock Exchange and regulated by the Jersey Financial Services Commission. It is a long-term investor in infrastructure businesses and assets. Its 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.

The Company is managed by 3i Investments plc (the 'Investment Manager'), a wholly-owned subsidiary of 3i Group plc, is authorised and regulated in the UK by the Financial Conduct Authority.

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 for the year to 31 March 2019 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.

Chair's statement

"The Company continued to outperform. We are confident in our portfolio and in our ability to deliver on our strategy and objectives."

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

The Company continued to outperform its objectives. During the year, the Investment Manager sold the Company's investment in Cross London Trains ('XLT'), improved the diversification and balance of the portfolio through new investments and a partial sale of an asset, and engaged with portfolio company management teams to drive growth. 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 its contribution during this busy year and to the Investment Manager for its hard work to achieve this outperformance. I am delighted to have secured the continued services of the Investment Manager under the new Investment Management Agreement.

Performance

The Company generated a total return of £258 million in the year ended 31 March 2019, or 15.4% on opening NAV, again exceeding the target of 8% to 10% per annum to be achieved over the medium term. The NAV per share increased to 234.7 pence. We delivered a Total Shareholder Return ('TSR') of 33.4% in the year (FTSE 250: 1.0%). Since IPO, the Company's annualised TSR was 13.4%, comparing favourably with the broader market (FTSE 250: 7.4% annualised over the same period). The Company has achieved this performance with relatively low share price volatility. The Company's share price performance relative to the FTSE 250 has been particularly strong over the last five years.

Portfolio activity

The Company sold XLT at a compelling price after a competitive process run by the Investment Manager. New investment commitments totalling £377 million were made in two attractive businesses. The Investment Manager's review describes in more detail the investments made during the year, alongside portfolio developments.

Dividend

Following the payment of the interim dividend of 4.325 pence per share in January 2019, the Board is recommending a final dividend for the year of 4.325 pence per share, meeting our target for the year of 8.65 pence per share, 10% above last year's total dividend. We expect the final dividend to be paid on 8 July 2019. Consistent with our progressive dividend policy, we are announcing a total dividend target for the year ending 31 March 2020 of 9.20 pence per share, representing a year-on-year increase of 6.4%. We expect this target dividend to be fully covered by income and non-income cash receipts from our portfolio.

Corporate governance

Good governance is a fundamental part of how we do business. The Board has continued to focus on and develop the Company's corporate governance arrangements. More detail can be found in the Governance section of our Annual report and accounts 2019.

The Company's Annual General Meeting ('AGM') was held on 5 July 2018. 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 4 July 2019.

An Extraordinary General Meeting ('EGM') was held on 17 September 2018, at which shareholders approved the resolution regarding the terms of the new Investment Management Agreement between the Company and the Investment Manager.

The management and tax domicile of the Company moved to the UK on 15 October 2018. 3i Investments plc was appointed as the Investment Manager and is the Company's alternative investment fund manager. This move aligns the Company's tax and commercial arrangements with the tax base erosion and profit shifting ('BEPS') initiatives implemented by the OECD countries. The Company is an alternative investment fund ('AIF') and is approved and managed as a UK investment trust.

Outlook

Our purpose is to deliver a long-term sustainable return to shareholders from investing in infrastructure. The Company is very well positioned, having built a strong portfolio which delivers a reliable level of income and is capable of generating capital growth over time. The portfolio is more balanced than in previous years, with seven of the assets each representing between 8% and 15% of portfolio value, and is diversified across sectors and geographies. We have invested in sectors that benefit from long-term sustainable trends such as increasing demand for waste treatment (Attero), from mobile connectivity and digitisation of the economy (WIG and Tampnet) and from the transition to low carbon energy (Valorem and Joulz). Further information can be found in the Sustainability report towards the end of this document.

We remain confident in our business model and our ability to continue to deliver on our strategy and objectives.

Richard Laing
Chair, 3i Infrastructure plc
8 May 2019

Our markets

Key drivers and trends

Competition for new investments is still intense. Low interest rates have persisted across the markets in which we invest. Terms and availability of credit remain favourable for investment in infrastructure assets.

Market activity

Competition remains intense in Europe, the Company's primary investment region, with the aggregate value of deals increasing to €135 billion in 2018 (2017: €73 billion, source: Prequin). In 2018, Europe saw the highest aggregate value of infrastructure deals of any region.

Few new greenfield projects have been commissioned in the last year across our target markets, and we expect the pipeline for these types of projects to remain thin over the next year.

Brexit impact

Whilst the long-term economic implications of Brexit are uncertain, we believe that the Company's diversified portfolio of infrastructure businesses, providing essential services to a broad range of customers across Europe, offers some protection against any resulting economic volatility in the UK.

The impact of Brexit will probably be felt most directly by companies that trade goods which could attract a tariff between the UK and the rest of the EU. None of the companies in our portfolio does this.

Read more in our Risk report

Interest rates

Benchmark rates remained low in the UK and the Eurozone over the year.

The table below shows the movement in the UK 10-year government bond yield over the life of the Company, with a fall in the 'risk-free' rate in the first five years, followed by a relatively stable period of low rates in the wake of the global financial crisis.

UK 10-year government bond yield movement since March 2008 %

Mar 08	4.4
Mar 09	3.2
Mar10	3.9
Mar11	3.7
Mar12	2.2
Mar 13	1.8
Mar 14	2.7
Mar 15	1.6
Mar 16	1.4
Mar 17	1.1
Mar 18	1.4
Mar 19	1.0

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

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 low 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 or government bonds.

2018 was a very strong year for fundraising in the unlisted infrastructure space, with a number of new managers entering the market and existing managers raising new funds to target the sector. The competition for new investments, combined with the availability and attractive pricing of debt finance, 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, which are perceived as low risk. The size of these investments makes them attractive to both direct investors and fund managers.

This demand was evident in the recent sale of XLT from our portfolio, where the price that incoming investors were willing to pay was such that continuing to hold this asset within our portfolio at that level would have been materially dilutive to the Company's 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

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 and/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 that 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.
15% **Largest single investment in the portfolio by value** 27 **Investments**	£377m **New investments or commitments in the year**	17.5% **Total portfolio return in the year** 3 **Bolt-on acquisitions by our platform investments in the year**	£266m **Cash balances (of which 77% is committed)** £550m **Total liquidity**

How we measure our performance and KPIs

Total return

% on opening Net Asset Value

2015	24.6%
2016	14.0%
2017	9.4%
2018	28.6%
2019	**15.4%**

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 15.4% for the year to 31 March 2019.

Performance against target
Continued 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 management and performance fees and operating and finance costs. It also includes movements in the fair value of derivatives and taxes
- Total return, measured as a percentage, is calculated against the opening NAV, net of the final dividend for the previous year, and adjusted (on a time weighted average basis) to take into account any equity issued and capital returned in the year

Performance over the year

- Total return of £258 million in the year, or 15.4% on opening NAV
- The portfolio performed well overall with strong performance in particular from TCR, WIG, Attero and Valorem
- The outperformance in total return was driven mainly by the sale of the Company's holding in XLT
- The hedging programme continues to reduce the volatility in NAV from exchange rates
- Costs were managed in line with expectations

Annual distributions

pence per share

2015	7.00p
2016	7.25p+
2017	7.55p
2018	7.85p+
2019	**8.65p**

+ Special dividends

2016: 17p 2018: 41.4p

Target
Progressive dividend per share policy.

Targeting a full year dividend for FY19 of 8.65 pence per share.

Outcome for the year
Total dividend of 8.65 pence per share paid and proposed.

Performance against target
Target met.

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 8.65 pence per share, or £70 million, is in line with the target set at the beginning of the year
- Income generated from the portfolio and cash deposits, including non-income cash distributions and other income from portfolio companies, totalled £202 million for the year. Operational costs and finance costs used to assess dividend coverage totalled £37 million in the year. The dividend was fully covered for the year
- Setting a total dividend target for FY20 of 9.20 pence per share, 6.4% higher than for FY19

2019 realisation

Cross London Trains

£333m
Net proceeds received

5.9x
Return on investment
(Total cash return over cost)

3i Infrastructure sold its stake in XLT in February 2019.

Key achievements during our ownership include:

- Formed a consortium in 2008 to procure and lease out the rolling stock for use on the London Thameslink passenger rail franchise
- Developed our bid for the contract with the UK's Department for Transport over three years after which XLT was named preferred bidder
- Financial close achieved in March 2013
- Hired an experienced management team
- Refinanced the business in 2015
- Managed the delivery of 115 next-generation trains to operate across the Thameslink network on time and budget – one of the UK's largest ever train orders
- Managed costs effectively and successfully delivered additional investment in Wi-Fi and seat-back tables
- Awarded train of the year in the National Rail Awards 2018

Review from the Managing Partner

“It has been another strong year for the Company. The portfolio is performing well, we made another excellent realisation and we have continued to make attractive new investments in a very competitive market.”

Phil White
Managing Partner and Head of Infrastructure, 3i Investments plc
8 May 2019

Portfolio review

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

Our portfolio is performing well overall, with strong operating and financial results and good progress from Attero, WIG, Valorem and TCR in particular.

We managed our portfolio actively during the year. We syndicated half of our original investment in Attero, a European leader in waste treatment and processing; 3i Investments plc manages and retains governance over the half of Attero that the Company originally acquired. Alongside the opening of the 120MW steam turbine at Attero’s Moerdijk energy-from-waste facility earlier in the year, Attero also hosted the First Vice-President of the European Commission to open its new polymer recycling plant (‘PRP’) in March. This plant will enable Attero to recycle 24,000 tonnes of used plastic packaging into high quality regranulate each year. The regranulate will be used in the production of new plastic products, making a strong contribution towards a circular economy. Further information about Attero and the circular economy can be found in the Sustainability report later in this document.

We supported the growth of our ‘platform’ businesses through further bolt-on acquisitions. WIG signed contracts for two such acquisitions in October, a portfolio of towers in Ireland and Arqiva’s Indoor Networks business. In March, TCR acquired Aerolima, a French competitor in the ground support equipment (‘GSE’) leasing market. These acquisitions add value and did not require additional equity investment from the Company.

ESVAGT appointed Peter Lytzen as CEO and Sisse Mai as the new CFO in the year. The company continues to experience a challenging market, but the recent stability in oil prices has seen the demand and utilisation outlook for the business improve. The company announced contracts with MHI Vestas to provide three new wind farm service operation vessels (‘SOV’), underlining its market-leading position in the offshore wind industry.

Valorem has achieved further growth of its portfolio of wind and solar projects, doubling the generating capacity of the business since acquisition in September 2016. During the year, Valorem closed its first photovoltaic project, an important milestone for the business.

Infinis continues to make a strong contribution to yield and to perform well operationally. The integration of Alkane Energy is complete. However, Infinis has had to contend with negative industry-wide regulatory developments around ‘embedded benefits’ and the suspension of capacity market payments.

Oystercatcher’s terminals continue to experience challenging market conditions. Whilst the outlook is improving, soft demand for storage of certain oil product types has put downward pressure on pricing and has led to some vacant capacity.

Infinis, WIG, TCR and Attero were all refinanced during the year. These transactions were secured on attractive terms. They provide the refinanced companies with flexibility for further growth and extend their debt maturity profiles, whilst also having delivered non-income cash distributions to the Company.

We continue to work with the portfolio companies to assess new investment and capital expenditure programmes, as well as value adding acquisitions.

Realisation

This year we sold our investment in XLT, a company established to procure and lease out the rolling stock for use on the Thameslink passenger rail franchise. Over the last 11 years, since the procurement process began, our partnership with our co-shareholders has helped to deliver, on time and on budget, a key element of London's commuter rail infrastructure. The sale generated net proceeds to the Company of £333 million, in addition to income of £12 million received in January prior to the sale, representing a 27% premium to our September 2018 valuation of £271 million and a 5.9x return on our original investment in 2013.

The XLT realisation, combined with sales achieved in previous years and the continued good performance of the current portfolio, has underpinned an annualised asset IRR for the Company since IPO of 19%.

Investment activity

This year we have achieved a good level of new investment, recycling the proceeds from the realisation of XLT into two new economic infrastructure businesses with higher expected returns, and funding a number of existing commitments.

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 £377 million were:

- a €219 million (£187 million) investment in Tampnet, in a consortium with Danish pension fund ATP, our first investment in fibre-based communications infrastructure. 3i Investments plc manages the investment on behalf of the consortium. Tampnet provides low latency, high bandwidth connectivity to offshore operations in the North Sea and the Gulf of Mexico. This investment provides an attractive yield for the Company and further diversifies the portfolio's geographic exposure. The investment completed in March 2019; and

- a €220 million (£190 million) commitment to acquire 100% of Joulz Diensten B.V. ('Joulz'), a leading owner and provider of essential energy infrastructure equipment and services in the Netherlands. Joulz was acquired from Stedin Holding N.V., a Dutch distribution grid operator. The investment completed in April 2019 after receipt of certain third party approvals. Joulz leases essential energy infrastructure equipment and meters to a large and diversified customer base of industrial, commercial and public sector customers.

Existing commitments of €45.1 million (£40.1 million) were funded during the year. These comprised:

- a €12.0 million (£10.7 million) investment in Valorem for the development of its pipeline of wind and solar projects; and

- a €10.9 million (£9.5 million) investment in La Santé prison in France and €22.2 million (£19.9 million) in the A9 motorway in the Netherlands, as these projects approach operational status.

These new investments have added further diversification to the Company's portfolio, which is now better balanced by size of investment, and has exposure to a range of countries, sectors and risk factors. While exposure to regulatory risks has been reduced over recent years, there is now increased potential volatility from market factors, including commodity prices and GDP growth. We are confident in our new acquisitions, and 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 maintained its high returns performance, outperforming our objectives. The portfolio is demonstrating the resilience inherent in infrastructure businesses and is delivering value enhancement from operational efficiency and growth initiatives.

Competition for new investments remains intense, but we have a strong origination platform across Europe and an attractive, well-balanced portfolio on which to build.

We continue to see a good flow of new investment opportunities, but we remain disciplined to invest selectively.

Phil White
Managing Partner and Head of Infrastructure, 3i Investments plc
8 May 2019

Investment activity

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

New investment

Tampnet

Invested

€219m

Equity stake

50%

3i Infrastructure acquired 50% of Tampnet in March 2019 alongside Danish pension fund ATP, having committed to invest in July 2018. The Investment Manager manages the investment on behalf of the consortium.

Tampnet is the leading independent offshore communications network operator in the North Sea and the Gulf of Mexico.

Investment rationale

- Tampnet's fibre optic links provide customers with mission-critical reliable communications.
- Benefits from the growing requirement for high bandwidth and low latency in data networks.
- More than 50 customers including oil and gas operators, offshore service providers and telecom operators.
- Opportunity to grow into new segments such as offshore wind, commercial vessels and the point-to-point carrier segment.

Business model characteristics

Asset intensive or long-term concessions Established and comprehensive network of fibre optic cables, 4G base stations and microwave links providing high speed, low latency and resilient data connectivity offshore.	**Opportunities to enhance value** Tampnet is expected to benefit from customers requiring increased bandwidth and growth of the network. Expansion into new segments and other locations will be explored.
Essential services Provides essential and reliable communications in an often hostile environment, enabling customers to operate more efficiently and safely.	**Target sectors** Essential communications networks is a target sector.
Acceptable element of market/usage risk Large and loyal customer base, who use Tampnet's network to improve efficiency and extend hydrocarbon field lives.	**Geographical focus** Tampnet is headquartered in Norway, with operations in the UK, Scandinavia and the USA.

New investment

Joulz

Committed

€220m

Equity stake

100%

3i Infrastructure committed to acquire Joulz in March 2019. The acquisition completed in April 2019.

Joulz is a leading owner and provider of essential energy infrastructure equipment and services in the Netherlands.

Investment rationale

- Strong established asset base as well as good potential for growth.
- Joulz is set to benefit from the Dutch government's commitment to decarbonise the economy (the 'Energy Transition').
- The Energy Transition is expected to increase electricity consumption and demand for Joulz's equipment and services.
- 3i Infrastructure has relevant experience of investing in the Netherlands and previous investments in the electricity and leasing sectors.

Business model characteristics

Asset intensive or long-term concessions Joulz's infrastructure services business owns and leases medium voltage electricity infrastructure such as transformers, switchgear and cables under long-term contracts. The metering business owns and leases approximately 50,000 electricity and gas meters for non-household customers under medium-term contracts.	**Opportunities to enhance value** Joulz is strongly positioned to benefit from the Energy Transition. The focus on increased energy efficiency is expected to drive growth in sub-meters and data analytics.
Essential services Joulz has a large and diversified customer base of industrial, commercial and public sector customers who rely on Joulz's essential energy infrastructure equipment and meters.	**Target sectors** Energy infrastructure leasing is in our utilities sector.
Acceptable element of market/usage risk Joulz is well positioned in its local market with good revenue visibility from its contracts with customers.	**Geographical focus** Joulz is based in the Netherlands.

Portfolio

The portfolio has grown in value through the new investments, including Attero and Tampnet, partly offset by the realisation of XLT. We are confident that the portfolio is well positioned to deliver our target returns.

The Company's portfolio is valued at £1,681.1 million (2018: £1,545.9 million), and delivered a total portfolio return in the year of £325.4 million including income and allocated foreign exchange hedging (2018: £613.2 million).

Table 1 below summarises the valuations and movements in the portfolio, as well as the return for each investment, for the year. In accordance with accounting standards, 'Investments at fair value through profit or loss' as reported in the Consolidated balance sheet includes, in addition to the portfolio asset valuation, the cash and other net assets held within intermediate unconsolidated holding companies. These amounts are set out at the foot of the table below, to provide a reconciliation between the Directors' valuation of the portfolio assets and 'Investments at fair value through profit or loss' reported in the Consolidated financial statements. Accrued income is now classified within 'Investment at fair value through profit or loss' and is included in Table 1. In prior periods, accrued income was classified within 'Trade and other receivables'.

Table 1: Portfolio summary (31 March 2019, £m)

Portfolio assets	Directors' valuation 31 March 2018	Investment in the year	Divestment in the year	Accrued income movement[1]	Value movement	Foreign exchange translation	**Directors' valuation 31 March 2019**	Allocated foreign exchange hedging	Underlying portfolio income in the year	**Portfolio total return in the year[2]**
Infinis	310.7	–	(45.7)[3]	4.5	19.5	–	**289.0**	–	19.5	**39.0**
WIG	300.4	7.9[4]	(43.5)[3]	2.9	20.1	–	**287.8**	–	12.7	**32.8**
Tampnet	–	187.3	–	0.2	6.7	3.9	**198.1**	0.1	0.2	**10.9**
TCR	179.5	0.2[4]	(3.7)[3]	1.3	9.8	(0.4)	**186.7**	2.9	15.7	**28.0**
ESVAGT	149.1	16.9[4]	–	4.4	(8.6)	(2.0)	**159.8**	1.1	17.3	**7.8**
Oystercatcher	181.3	–	–	–	(31.9)	5.7	**155.1**	(3.6)	16.9	**(12.9)**
Attero	–	88.4[4,5]	(1.3)[6]	0.9	16.3	(2.1)	**102.2**	2.1	1.4	**17.7**
Valorem	54.8	10.7[7]	–	0.7	12.0	(1.6)	**76.6**	1.6	3.4	**15.4**
XLT	166.3	–	(332.1)	–	165.8	–	**–**	–	14.4	**180.2**
Economic infrastructure portfolio	**1,342.1**	**311.4**	**(426.3)**	**14.9**	**209.7**	**3.5**	**1,455.3**	**4.2**	**101.5**	**318.9**
Projects	167.0	30.7[4,7]	(1.3)[3]	1.6	(0.2)	(1.1)	**196.7**	0.7	13.5	**12.9**
India Fund	36.8	–	(1.3)	–	(7.3)	0.9	**29.1**	–	–	**(6.4)**
Total portfolio	**1,545.9**	**342.1**	**(428.9)**	**16.5**	**202.2**	**3.3**	**1,681.1**	**4.9**	**115.0**	**325.4**
Adjustments related to unconsolidated subsidiaries[8]	6.4	0.2	0.2	1.6	7.5	–	**15.9**	(0.8)	(5.2)	**1.5**
Reported in the Consolidated financial statements	**1,552.3**	**342.3**	**(428.7)**	**18.1**	**213.0**	**–**	**1,697.0**	**4.1**	**109.8**	**326.9**

1 The movement in accrued income comprises £3.9 million of movement in the year and £12.6 million in relation to the reclassification of the opening balance at 31 March 2018.
2 This comprises the aggregate of value movement, foreign exchange translation, allocated foreign exchange hedging and underlying portfolio income in the year.
3 Shareholder loan repaid.
4 Capitalised interest.
5 Net of syndication.
6 Represents receipt of realised value gain on syndication.
7 Drawdown of commitment.
8 Income statement adjustments explained in Table 14 and Balance sheet adjustments explained in Table 15 in the Financial review.

The total portfolio return in the year of £325.4 million is 17.5% of the aggregate of the opening value of the portfolio and investments in the year (excluding capitalised interest), which total £1,861.7 million. This return was driven primarily by a valuation uplift and subsequent realisation of the investment in XLT, together with good performance overall across the rest of the portfolio.

Table 2 below shows the portfolio return in the year for each asset as a percentage of the aggregate of the opening value of the asset and investments in the asset in the year (excluding capitalised interest). The return of 5.8% for Tampnet is for part of the year only. The table shows the strong performance of Valorem, Attero, TCR and WIG in the year, and the impact of tougher trading conditions on Oystercatcher and ESVAGT.

Table 2: Portfolio return by asset (year to 31 March 2019)

Total portfolio return	**17.5%**
Infinis	12.6%
WIG	10.9%
Tampnet	5.8%
TCR	15.6%
ESVAGT	5.2%
Oystercatcher	(7.1)%
Attero	20.0%
Valorem	23.5%
XLT	108.4%
Projects	6.5%
India Fund	(17.4)%

Movements in portfolio value

The movement in portfolio value was driven principally by the realisation of the Company's holding in XLT for a price considerably above its opening valuation, and by new investments during the year, as well as by the delivery of planned cash flows and other asset outperformance. A reconciliation of the movement in portfolio value is shown in Table 3 below. 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 4 below.

Economic infrastructure portfolio

The economic infrastructure portfolio generated a value gain of £209.7 million in the year (or £213.2 million including exchange movements).

The sale of **XLT** for a 27% premium to the September 2018 valuation reflected the impressive reliability performance of the trains, a scarcity of similar assets attracting aggressively priced bids and a well-run sale process with good competitive tension.

Infinis completed a full refinancing in August 2018 which reduced the all-in cost of debt and will be used to fund growth capital expenditure. This supported value growth of £19.5 million in the year and also funded £40.0 million of the total shareholder loan repayments received of £45.7 million.

WIG acquired Arqiva's Indoor Networks business in the UK and, in Ireland, it acquired Highpoint Communications Limited. Both acquisitions were self-funded by WIG. In August 2018, WIG completed a refinancing on more favourable terms than assumed in our investment case, which contributed to a £20.1 million value uplift and resulted in a £43.5 million repayment of shareholder loan.

Tampnet has performed above our investment case since the investment was signed in July 2018, leading to a valuation uplift.

TCR completed the acquisition of Aerolima, a French competitor in the GSE leasing market. The transaction was self-funded by TCR. In June 2018, TCR completed a refinancing on attractive terms, which contributed to a £9.8 million value uplift. The increase in value in the year also reflects continued growth of the business.

ESVAGT had a negative value movement of £8.6 million as we have assumed a slower recovery in the Emergency Rescue and Response Vessel ('ERRV') market resulting in lower average utilisation of the fleet in the short term.

The value reduction in **Oystercatcher** of £31.9 million was driven principally by lower profit expectations over the near term reflecting softer demand for storage of certain product types, resulting in downward pressure on pricing, some customer churn and some vacant capacity. The valuation of Oystercatcher is exposed to the euro and Singapore dollar exchange rate, and the value loss was partially offset by positive currency movements as the Singapore dollar strengthened against sterling during the year. The euro and Singapore dollar exposures are partially hedged, as described in Table 8 of the Financial review.

Attero achieved value growth of £16.3 million principally due to updated third-party power price forecasts and a refinancing achieved on improved terms. Attero also delivered two key strategic initiatives in the year, as described in the Review from the Managing Partner.

Valorem increased in value in the year with a reduction in the discount rate as the business continued to develop its pipeline of projects into operation.

Table 3: Reconciliation of the movement in portfolio value (year to 31 March 2019, £m)

Opening portfolio value at 1 April 2018	**1,545.9**
Investment[1]	342.1
Divestment/capital repaid	(428.9)
Value and accrued income movement	218.7
Exchange movement[2]	3.3
Closing portfolio value at 31 March 2019	**1,681.1**

1 Excludes investment commitments, is net of syndication and includes capitalised interest.
2 Excludes movement in the foreign exchange hedging programme (see Table 8 in the Financial review).

Projects portfolio

The projects portfolio increased in value, reflecting the investment of £9.5 million in the La Santé prison project in France and £19.9 million in the A9 motorway project in the Netherlands as these projects approached operational status in the year. The investments in La Santé and A9 were made in September and, therefore, the return for those investments was for part of the year only.

India Fund

The India Fund declined in value by £7.3 million due to continued delays in project completion and funding constraints for the road projects.

We achieved a partial sale of the KMC roads portfolio within the India Fund and are continuing to pursue exits for the remaining assets.

Summary of portfolio valuation methodology

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

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

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

- earnings multiples;
- recent transactions; and
- quoted market comparables.

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

Table 4: Components of value movement (year to 31 March 2019, £m)

Value movement component	Value movement in the year	Description
Planned value growth	56.2	Net value movement resulting from the passage of time, consistent with the discount rate and cash flow assumptions at the beginning of the year less distributions received in the year.
Other asset performance	71.8	Net value movement arising from actual performance in the year and changes to future cash flow projections, including financing assumptions and changes to regulatory determination assumptions. Includes the uplift on the sale of XLT since the half year.
Discount rate movement	73.1	Value movement relating to changes in the discount rate applied to the portfolio cash flows. Includes a reduction in the discount rate of XLT in the first half of the year.
Macro-economic assumptions	1.1	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	**202.2**	
Foreign exchange retranslation	3.3	Movement in value due to currency translation to year-end date.
Total value movement	**205.5**	

Discount rate

Table 5 below shows the movement in the weighted average discount rate applied to the portfolio at the end of each year since the Company's inception and the position as at March 2019. During the year, the weighted average discount rate increased following the sale of XLT and the new investments in Tampnet and Attero.

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 a progressive annual dividend;
- consistent capital growth; and
- strong capital profits from realisations.

These have contributed to a 19% annualised asset IRR since the Company's inception. The European portfolio has generated strong returns, in line with, or in many cases ahead of, expectations.

These returns were underpinned by substantial cash generation in the form of income or capital profits.

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

The valuation of the India Fund, which represents approximately 1% of the portfolio, has been affected by currency and macro-economic issues, as well as a number of issues related to specific investments.

Portfolio asset returns in Table 6 include an allocation of FX hedging where applicable.

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

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

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 Total return					
Infinis		322	289	56	31
WIG		265	288	43	10
Tampnet		187	198	–	–
Oystercatcher		139	155	–	124
TCR		151	187	4	20
ESVAGT		132	160	–	–
Attero		88	102	1	–
Valorem		59	77	–	4
Projects		155	197	6	78
India Fund		108	29	25	–
Realised assets Total return					
XLT (realised March 2019)	5.9x	63		332	38
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 2019

Portfolio asset returns include allocation of FX hedging where applicable. Dates of asset realisations refer to completion dates.
1 Other includes junior debt portfolio, T2C and Novera.

Financial review

"We run an efficient balance sheet, avoiding dilution of returns from holding surplus cash and we have liquidity available for further selected investments from our pipeline."

James Dawes
CFO, Infrastructure
8 May 2019

Key financial measures (year to 31 March)

	2019	2018
Total return[1]	**£258.5m**	**£479.6m**
NAV	**£1,901.8m**	**£1,710.2m**
NAV per share	**234.7p**	**211.0p**
Total income[2]	**£114.9m**	**£100.0m**
Total income and non-income cash	**£201.2m**	**£156.4m**
Portfolio asset value[2]	**£1,681.1m**	**£1,545.9m**
Cash balances[2]	**£265.8m**	**£284.6m**
Total liquidity[3]	**£549.5m**	**£534.0m**

1 IFRS Total comprehensive income for the year.
2 Reconciliation of measures to the financial statement balances is set out in Tables 14 and 15.
3 Includes cash balances of £256.8 million (2018: £282.0 million), unrestricted cash in subsidiaries of £9.0 million (2018: £2.6 million) and £283.7 million (2018: £249.4 million) undrawn balances available under the Company's revolving credit facility.

The Company delivered another year of strong financial performance. The proceeds from the realisation of XLT, together with the remaining cash from the large realisations of Elenia and AWG in the prior year, were reinvested in Attero, Tampnet and the commitment to Joulz. We have run an efficient balance sheet throughout the year, avoiding dilution of returns to shareholders from holding surplus cash balances, and we have liquidity available for further investments from our pipeline.

The portfolio at the end of March 2019 has the income-generating capacity to support the progressive dividend policy. The target for FY20 of 9.20 pence per share is an increase of 6.4% over FY19. This dividend is expected to be fully covered, and to continue to grow progressively in future years.

Returns

Total return

The Company generated a total return for the year of £258.5 million, representing a 15.4% return on opening NAV (2018: £479.6 million, 28.6%). This performance is ahead of the target return of 8% to 10% per annum over the medium term.

This outperformance was driven by the outstanding return from the sale of XLT and 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 Manager's review.

Total income and non-income cash of £201.2 million in the year was 29% higher than last year. Both elements of this measure contributed to this significant increase.

Total income of £114.9 million in the year grew by 15% on the previous year, reflecting XLT distributions following full delivery of the fleet and growth in the portfolio. The dividend to shareholders for FY19 was fully covered, with a significant surplus.

This growth in income was supported by non-income cash receipts of £86.3 million during the year following refinancing activity (2018: £56.4 million). These non-income cash receipts reflect distributions from underlying portfolio companies, which would usually be income to the Company, but which are distributed as a repayment of investment for a variety of reasons. Whilst non-income cash does not form part of the total return shown in Table 7 below, it is included when considering dividend coverage.

An analysis of the elements of the total return for the year is shown in Table 7.

The Financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) basis for its reporting. The non-material adjustments required to reconcile this analysis to the Financial statements are shown in Table 14.

Capital return

The capital return is the largest element of the total return. The portfolio generated a value gain of £203.9 million in the year to 31 March 2019 (2018: £520.3 million), as shown in Table 9. These value movements are described in the Movements in portfolio value section of the Investment Manager's review.

During the year, the Company sold its equity investment in the RIVM project to an existing shareholder at book value and the corresponding commitment was cancelled with no impact on the capital return. This followed extended delays in agreeing an appropriate design for the building.

Table 7: Summary total return (year to 31 March, £m)	**2019**	2018
Capital return (excluding exchange)	**203.9**[1]	520.3
Foreign exchange movement in portfolio[2]	**3.3**	7.2
Capital return (including exchange)	**207.2**	527.5
Movement in fair value of derivatives	**4.9**	(16.2)
Net capital return	**212.1**	511.3
Total income[3]	**114.9**	100.0
Costs	**(69.0)**	(133.0)
Other net income/(costs) including exchange movements[2]	**0.5**	1.3
Total return	**258.5**	479.6

1 Includes the reversal of a provision of £1.7 million introduced in the prior year for the A9 project from draft tax legislation in the Netherlands resulting from BEPS.

2 Foreign exchange movement in portfolio is shown within Net capital return. Non-portfolio foreign exchange movement is shown within Other net income/(costs).

3 Includes negative bank interest receivable of £0.1 million (2018: £0.1 million), reflecting the return on euro cash holdings.

Foreign exchange impact

As shown in Table 8 below, the reported foreign exchange gain on investments of £3.3 million (2018: gain of £7.2 million) included a gain of £0.9 million from the Company's exposure to the Indian rupee, which is not hedged and appreciated by 1.3% against sterling in the year.

There was a £2.4 million foreign exchange gain as sterling weakened against other currencies in the year (2018: £12.1 million). This was accompanied by a £4.9 million gain on the hedging programme (2018: loss of £16.2 million).

The positive hedge benefit resulted from interest rate differentials on the euro hedging programme. The hedging programme has been designed to reduce the volatility in the NAV of the Company from currency movements.

Table 8: Impact of foreign exchange ('FX') movements on portfolio value (year to 31 March 2019, £m)

	Hedged assets €/SGD/DKK/NOK	Unhedged assets £/rupee
FX gains before hedging	2.4	0.9
FX gains after hedging	7.3	0.9

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

Income

The portfolio generated income of £115.0 million in the year (2018: £100.1 million) offset by negative interest receivable of £0.1 million (2018: negative interest of £0.1 million). Of this amount, £35.4 million was through dividends (2018: £23.1 million) and £79.6 million through interest on shareholder loans (2018: £77.0 million). The strong contribution from the economic infrastructure investments offset the loss of contribution from the sales of Elenia and AWG in the prior year. A breakdown of portfolio income is provided in Table 10 below.

Interest income accrued during the year from Infinis increased to £19.5 million (2018: £12.0 million) following the additional investment to fund the acquisition of Alkane in March 2018.

The additional investment made in WIG at the end of the last financial year to acquire a further stake in the business led to an increase in interest accrued during the year to £12.7 million (2018: £7.3 million).

A dividend was received from TCR following the successful refinancing during the year.

Interest income from ESVAGT increased year-on-year after capitalisation of outstanding interest in December 2018.

Table 9: Reconciliation of the movement in NAV (year to 31 March 2019, £m)

Opening NAV at 1 April 2018[1]	**1,678.4**
Capital return	203.9
Net foreign exchange movement[2]	8.2
Total income	114.9
Net costs including management/advisory fees[3]	(68.5)
NAV before distributions	**1,936.9**
Distribution to shareholders	(35.1)
Closing NAV at 31 March 2019	**1,901.8**

1 Opening NAV of £1,710.2 million net of final dividend of £31.8 million for the prior year.
2 Foreign exchange movements are described in Table 8.
3 Includes non-portfolio exchange.

A dividend of £8.4 million was received from XLT prior to sale. Income from XLT was higher than in previous years after the full fleet was delivered in the year.

The Projects portfolio generated income of £13.5 million (2018: £10.6 million). The increase in the year was principally due to interest earned on the new investments in La Santé and A9 projects and a full year of income from the Mersey Gateway project.

Interest income from cash and cash equivalents was negative £0.1 million (2018: negative £0.1 million), reflecting negative interest earned on euro balances.

Costs

Management/advisory fees and performance fees

During the year to 31 March 2019, the Company and its unconsolidated subsidiaries incurred advisory and management fees of £30.1 million (2018: £33.2 million). The management/advisory fee, payable to 3i plc, is based on the opening portfolio value and the cost of any new investments or commitments made during the year. The management/advisory fee for new project investments was 1.0%. For non-project investments the management 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 fee rate chargeable for those investments (eg three of the five terminal investments held within Oystercatcher, Octagon, XLT, Elgin, NMM, Mersey Gateway, a portion of the Dalmore investment and the various assets within the India Fund) was 1.25%.

An annual performance fee was also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the growth in NAV per annum per share and subject to a high water mark requirement. This hurdle was exceeded for the year ended 31 March 2019 resulting in a performance fee payable to 3i plc in respect of the year ended 31 March 2019 of £31.0 million (2018: £89.8 million). For a more detailed explanation of how advisory, management and performance fees are calculated and of the high water mark definition, please refer to Note 18 to the accounts.

Following the signing of a new Investment Management Agreement with 3i Investments plc, new management and performance fees are payable from 1 April 2019.

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 2019, fees payable totalled £0.6 million (2018: £0.4 million).

Table 10: Breakdown of portfolio income (year to 31 March, £m)

	2019		2018		
	Dividends	**Interest**	Dividends	Interest	**Comments**
Infinis	**–**	**19.5**	–	12.0	Investment in Alkane in March 2018
ESVAGT	**–**	**17.3**	–	12.9	Interest capitalised in the year
Oystercatcher	**16.9**	**–**	15.9	–	
WIG	**–**	**12.7**	–	7.3	Further stake acquired in January 2018
TCR	**4.4**	**11.3**	–	11.1	Dividend received following refinancing
Elenia	**–**	**–**	–	15.8	Realisation in the prior year
AWG	**–**	**–**	3.3	4.2	Realisation in the prior year
XLT	**8.4**	**6.0**	–	4.8	Realisation in the year
Valorem	**0.6**	**2.8**	–	2.2	Additional investment in the year
Attero	**–**	**1.4**	–	–	New investment
Tampnet	**–**	**0.2**	–	–	New investment
Projects portfolio	**5.1**	**8.4**	3.9	6.7	New investment in A9 and La Santé projects
Total	**35.4**	**79.6**	23.1	77.0	

Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £3.2 million in the year (2018: £2.8 million). Other professional fees included fees in relation to the transfer of management and tax domicile to the UK.

Finance costs of £4.1 million (2018: £6.8 million) in the year comprised arrangement, commitment and utilisation fees for the Company's £300 million revolving credit facility ('RCF'). These were lower than in the previous year as the facility was not utilised as frequently during the year.

Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in Table 11 below, against the average NAV over the reporting period.

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ('AIC') recommended methodology and was 1.81% for the year to 31 March 2019 (2018: 2.06%). 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 3.52% (2018: 7.18%). The total return of 15.4% for the year is after deducting this performance fee and ongoing charges.

Balance sheet

The NAV at 31 March 2019 was £1,901.8 million (2018: £1,710.2 million). The principal components of the NAV are the portfolio assets, cash holdings, the fair value of derivative financial instruments and other net assets and liabilities. A summary balance sheet is shown in Table 12 below.

The accounting standards require cash or other net assets and liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and total aggregate cash and net assets/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 15.

At 31 March 2019, the Company's net assets after the deduction of the final dividend were £1,866.7 million (2018: £1,678.4 million).

Cash and other assets

Cash balances at 31 March 2019 totalled £265.8 million (2018: £284.6 million), including £9.0 million (2018: £2.6 million) of unrestricted cash balances held within intermediate unconsolidated holding companies. The majority of this cash balance was invested in Joulz on 30 April 2019.

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

The movement in Other net liabilities from the prior year represents a decrease in the performance fee accrual.

Borrowings

The Company has a £300 million RCF in order to maintain a good level of liquidity for further investment whilst minimising returns dilution from holding excessive cash balances. This is a three-year facility, which was extended by a year since the year end. The maturity date is now April 2022, and the facility has a further one-year extension option.

At 31 March 2019, the RCF was not cash drawn but had been used to issue letters of credit for undrawn commitments to projects comprising €6.6 million (£5.7 million) for the A27/A1 project, €7.9 million (£6.7 million) for the Condorcet project and €4.5 million (£3.9 million) for the Hart van Zuid project.

Table 11: Ongoing charges (year to 31 March, £m)	2019	2018
Investment Manager's fee[1]	**30.1**	33.2
Auditor's fee	**0.4**	0.3
Directors' fees and expenses	**0.5**	0.5
Other ongoing costs	**1.8**	2.0
Total ongoing charges	**32.8**	36.0
Ongoing charges ratio	**1.81%**	2.06%

1 Includes Investment Adviser's fee prior to 15 October 2018.

NAV per share

The total NAV per share at 31 March 2019 was 234.7 pence (2018: 211.0 pence). This reduces to 230.4 pence (2018: 207.1 pence) after the payment of the final dividend of 4.325 pence (2018: 3.925 pence). There are no dilutive securities in issue.

Dividend and dividend cover

The Board has proposed a dividend for the year of 8.65 pence per share, or £70.1 million in aggregate (2018: 7.85 pence; £72.1 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 13 below shows the calculation of dividend coverage and dividend reserves. The final dividend cover surplus is £94.9 million for the year (2018: £43.6 million). The retained amount available for distribution, following the payment of the final dividend, will be £678.1 million (2018: £345.3 million).

Table 12: Summary balance sheet (as at 31 March, £m)	2019	2018
Portfolio assets	**1,681.1**	1,545.9
Cash balances	**265.8**	284.6
Derivative financial instruments	**(16.4)**	(37.3)
Other net liabilities	**(28.7)**	(83.0)
NAV	**1,901.8**	1,710.2

Table 13: Dividend cover (year to 31 March, £m)	2019	2018
Total income, other income and non-income cash	**202.4**	158.5
Operating costs including management/advisory fees	**(37.4)**	(42.8)
Dividends paid and proposed	**(70.1)**	(72.1)
Dividend surplus for the year	**94.9**	43.6
Dividend reserves brought forward from prior year	**345.3**	42.4
Realised profits or losses over cost on disposed assets	**268.9**	774.1
Special dividend paid	**–**	(425.0)
Performance fees	**(31.0)**	(89.8)
Dividend reserves carried forward	**678.1**	345.3

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. A new APM, Total portfolio return percentage, is presented in this Annual report. The remaining four APMs are consistent with those disclosed in prior years.

- Total return on opening NAV reflects the performance of the capital deployed by the Company during the year. This measure is not influenced by movements in share price or ordinary dividends to shareholders.

- The NAV per share is a common measure of the underlying asset base attributable to each ordinary share of the Company and is a useful comparator to the share price.

- Total income and non-income cash 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.

- Total portfolio return percentage reflects the performance of the portfolio assets during the year.

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

The table below defines our APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Total return on opening NAV	A measure of the overall financial performance of the Company. For further information see the KPI section.	It is calculated as the total return of £258.5 million, as shown in the Consolidated statement of comprehensive income, as a percentage of the opening NAV of £1,710.2 million net of the final dividend for the previous year of £31.8 million.	The calculation uses IFRS measures.
NAV per share	A measure of the NAV per share in the Company.	It is calculated as the NAV divided by the total number of shares in issue at the balance sheet date.	The calculation uses IFRS measures and is set out in Note 14 to the accounts.
Total income and non-income cash	A measure of the income and other cash receipts by the Company which support the payment of expenses and dividends.	It is calculated as the total income from the underlying portfolio and other assets plus non-income cash being the repayment of shareholder loans not resulting from the disposal of an underlying portfolio asset.	The reconciliation of Total income to IFRS is shown in Table 14. The proceeds from partial realisations of investments are shown in the Consolidated cash flow statement. The realisation proceeds which result from a partial sale of an underlying portfolio asset are not included within non-income cash.
Investment value including commitments	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company.	It is calculated as the portfolio asset value plus the amount of the contracted commitment.	The calculation uses portfolio assets shown in the reconciliation in Table 15, together with the value of future commitments of £205.6 million, as set out in Note 16 to the accounts. Undrawn loan commitments to the India Fund are not included as these are not expected to be drawn.
Total portfolio return percentage	A measure of the financial performance of the portfolio.	It is calculated as the total portfolio return in the year of £325.4 million, as shown in Table 1, as a percentage of the sum of the opening value of the portfolio and investments in the year (excluding capitalised interest) of £1,861.7 million.	The calculation uses capital return (including exchange), movement in fair value of derivatives, underlying portfolio income, opening portfolio value and investment in the year. The reconciliation of all these items to IFRS is shown in Table 1.

In addition to the APMs, the Annual report shows portfolio information including cash and other net assets held within intermediate unconsolidated holding companies. Tables 14 and 15 show a reconciliation of this portfolio information to the information presented in the Consolidated financial statements. Table 16 shows the calculation of Total income and non-income cash.

Reconciliation to Financial statements

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

Derivatives relating specifically to the Oystercatcher subsidiary are reclassified as capital return in this analysis.

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.

Some dividend income received from Portfolio assets into unconsolidated 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 14: Reconciliation of summary total return (year to 31 March 2019, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial statements
Capital return (including exchange)	207.2	5.8[1,2,3]	213.0
Movement in fair value of derivatives	4.9	(0.8)[1]	4.1
Net capital return	**212.1**	**5.0**	**217.1**
Total income	114.9	(5.2)[2]	109.7
Costs	(69.0)	0.3[2]	(68.7)
Other net income/(costs)	0.5	(0.1)	0.4
Total return	**258.5**	**–**	**258.5**

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 Dividend income, received by unconsolidated subsidiaries from Portfolio assets, not paid up to the Company prior to the year end is reflected in capital return as it has increased the carrying value of these subsidiaries.
3 Operating expenses of £0.3 million were incurred within unconsolidated subsidiaries. These are reflected in capital returns or income as they have reduced either the carrying value, or the income distributed from these subsidiaries.

Table 15: Reconciliation of summary balance sheet (year to 31 March 2019, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries[1]	Financial statements
Portfolio assets	1,681.1	15.9	1,697.0[2]
Cash balances	265.8	(9.0)[3]	256.8
Derivative financial instruments	(16.4)	(0.4)[4]	(16.8)
Other net assets	(28.7)	(6.5)	(35.2)
NAV	**1,901.8**	**–**	**1,901.8**

1 'Investments at fair value through profit or loss' in the Financial statements includes £9.0 million of unrestricted cash balances and £6.5 million of other net assets with or within intermediate unconsolidated holding companies and a £0.4 million reclassification of derivative liabilities relating to the Oystercatcher subsidiary. The 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 £9.0 million.
4 A £0.4 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.

Table 16: Total income and non-income cash (year to 31 March, £m)	2019	2018
Total income	**114.9**	100.0
Non-income cash	**86.3**	56.4
Total	**201.2**	156.4

Risk report

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

Wendy Dorman
Chair, Audit and Risk Committee
8 May 2019

Approach to risk governance

The Board is ultimately responsible for the risk management of the Company. It seeks to achieve an appropriate balance between mitigating risk and generating long-term and sustainable 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 Manager and other key service providers, as well as on the risk management operations of each portfolio company.

The Board manages risks through updates from the Investment Manager and other service providers and through representation on portfolio companies’ boards by investment management team members.

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

Risk related reporting

Internal

- Monthly management accounts
- Internal and external audit reports
- Service provider control reports
- Risk logs
- Compliance reports

External – Annual report

- Risk appetite
- Viability statement
- Internal controls
- Going concern
- Statutory/accounting disclosures

Risk review process

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

- infrastructure and broader market overviews;
- key macro-economic indicators and their impact on the performance and valuation of portfolio companies;
- regular updates on the operational and financial performance of portfolio companies;
- experience of investment and divestment processes;
- compliance with regulatory obligations;
- analysis of new and emerging regulatory initiatives, such as the General Data Protection Regulation ('GDPR'), Packaged Retail and Insurance-based Investment Products Regulation and UK Corporate Governance Code;
- liquidity management;
- analysis of changes in operational, financial and regulatory risk following the move in management and tax domicile of the Company from Jersey to the UK;
- consideration of scenarios which may impact the viability of the Company;
- assessment of emerging risks; and
- review of the Company's risk log.

The Audit and Risk Committee uses the risk framework to identify a number of key risks. It evaluates the impact and likelihood of identified risks, 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 reviewed at a 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 plausible outcomes should the principal risks be experienced, as well as consideration of stressed scenarios that could result in the Company ceasing to be viable. The Company is an investment company, therefore the stressed scenarios reflect cash flow from investments being reduced, such that debt covenants are breached and liabilities not met. The Investment Manager models the impact of these scenarios on the Company and reports the results to the Board. The modelling relates to the Company's investment portfolio, as the Company is an investment company and this is therefore most relevant to an assessment of viability. The resulting assessment of viability is included in this Risk report.

Risk appetite

The Committee has reviewed the risk matrix and set out the Company's appetite for each of the key risks. As an investment company, the Company seeks to take investment risk. The appetite for investment risk is described in the Investment policy towards the end of this document. 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 materially affect 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 Manager continues to leverage its network and skills to make investments that can deliver attractive and sustainable risk-adjusted returns to the Company's shareholders.

The terms on which the UK could leave the EU remain uncertain and 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 withdrawal deal. Attero imports waste from the UK, which is not a traded good at risk of tariffs. Potential delays in transporting waste from the UK to the Netherlands are not expected to have a material impact on Attero.

Inflation has increased in Europe whilst decreasing in the UK. This has been beneficial for the European assets which have revenues at least partially linked to inflation, although higher inflation may also result in increased costs.

Short-term interest rates and future interest rate expectations in the UK and Europe have remained close to historically low levels during the year. This had positive implications for some of the portfolio assets and contributed to the favourable refinancing of debt in WIG, TCR, Infinis and Attero.

There was significant volatility in sterling exchange rates during the year, in response to continuing uncertainty concerning the UK leaving the EU. Sterling ended the year 1.7% stronger against the euro. The Company's objective is to hedge substantially its direct and indirect euro, Danish krone, Norwegian krone and Singapore dollar exposures. The revaluation of the hedging programme is impacted by movements in forward exchange rates which are not necessarily matched exactly by an equivalent change in the spot exchange rate at which the assets are translated. This benefited the Company this year.

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

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

Although the revenues of Infinis are underpinned by the inflation-linked UK Renewables Obligation Certificate regime until 2027, the valuation of the business is also dictated by the evolution of long-term power prices, fluctuations in the power price and UK energy market policy.

At Attero, increasing power price forecasts have given positive momentum to future fees expected from the sale of electricity. The supply of waste exceeds treatment capacity across much of Europe resulting in gate fees at waste treatment plants increasing significantly. The majority of Attero's capacity is contracted, so the short-term impact of higher pricing is muted.

The recovery and stabilisation of the oil price during the year led to increasing contract rates and demand for ESVAGT's vessels. However, this recovery remains in its early stages.

As expected, the oil storage market has continued to face challenges caused by an extended period of backwardation in oil product markets and a simultaneous period of uncertainty in the bunker fuel market prior to the introduction of IMO 2020. We expect the market backdrop to improve later in 2019 as IMO 2020 nears. We expect the market to continue to alternate between periods of backwardation and contango as has been observed over recent decades, resulting in an improved market environment for Oystercatcher.

External risks – regulatory and tax

Further to the review of the impact of tax changes resulting from the OECD's BEPS initiative, the management and tax domicile of the Company moved from Jersey to the UK on 15 October 2018 and the Company successfully applied to HM Revenue & Customs for approved investment trust status. With effect from 15 October 2018 the Company is subject to tax compliance requirements applicable to UK tax domiciled companies and will also need to comply with certain conditions to maintain its approved investment trust company status. The affairs of the Company will be directed to enable it to maintain its UK tax domiciliation and its approved investment trust company status. The impact of BEPS is no longer considered a principal risk following these changes.

The Company's investment in Infinis is exposed to regulatory risk around the receipt of embedded benefits for exporting power directly to distribution networks. The outlook for these embedded benefits is currently uncertain. Ofgem believes that the current charging regime results in an inefficient use of networks with higher costs passed onto the consumers. The process of reform which started in 2017 with the announcement of the phasing out of 'triad' embedded benefits is therefore underway. The Capacity Market ('CM') has been suspended since November 2018 following a European Court of Justice ruling on illegal state aid and as such CM payments have not been received by 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 XLT, the Company reinvested some of the proceeds into Tampnet and had sufficient cash available to complete the committed investment in Joulz. The Company has good liquidity available for future investment through the RCF. The facility includes 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 11% 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.

Following the sale of XLT, the portfolio is less exposed to the UK, and following the investments in Tampnet and Joulz is more diversified across sector and geography. No investment is now above 15% of portfolio value.

Investment risks

The Company made two new investment commitments during the year, in Tampnet and Joulz. In line with the Company's investment focus, these new investments have characteristics which may increase volatility in returns from time to time, for example from exposure to demand or technology 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 refinancings undertaken for TCR, WIG, Infinis and Attero mitigates against this risk by extending the maturity of their debt.

The performance of the investments in the India Fund remains weak. The remaining portfolio, which now represents approximately 1% of the Company's portfolio, is being managed for realisation.

Operational risk

The key areas of operational risk include the loss of key personnel at the Investment Manager, and whether the Investment Manager's team can continue to support the delivery of the Company's objectives. The Board monitors the performance of the Investment Manager through the Management Engagement Committee. It also monitors the performance of key service providers, receiving reports of any significant control breaches. The Board reviewed its service providers during the year as part of the project to move management of the Company to the UK. A new investment management agreement was put in place with 3i Investments plc, previously the Investment Adviser to the Company. A depositary, Citibank Europe plc, was appointed together with a new corporate company secretary, 3i plc. The residual Jersey administration and compliance services continue to be provided by Link Asset Services.

Emerging risks

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

Principal risks and mitigations

<table>
<tr><th>Principal risks</th><th>Risk description</th><th>Risk mitigation</th></tr>
<tr><td colspan="3">External</td></tr>
<tr><td>Market/economic

Risk exposure has increased</td><td>• 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</td><td>• Resources and experience of the Investment Manager on deal-making, asset management and hedging solutions to market volatility
• Periodic legal and regulatory updates on the Company's markets and in-depth market and sector research from the Investment Manager and other advisers
• Portfolio diversification to mitigate the impact of a downturn in any geography or sector</td></tr>
<tr><td>Competition

Risk exposure has increased</td><td>• Increased competition for the acquisition of assets in the Company's strategic focus areas
• Deal processes become more competitive and prices increase
• New entrants compete with a lower cost of capital</td><td>• Continual review of market data and review of Company return target compared to market returns
• Origination experience and disciplined approach of Investment Manager
• Strong track record and strength of 3i Infrastructure brand</td></tr>
<tr><td>Debt markets deteriorate

Risk exposure has increased</td><td>• Debt becomes increasingly expensive, eroding returns
• Debt availability is restricted
• The Company's RCF or portfolio company debt cannot be refinanced due to lack of appetite from banks</td><td>• The Investment Manager maintains close relationships with a number of banks and monitors the market through transactions and advice
• Regular reporting of Company liquidity and portfolio company refinancing requirements
• Investment Manager has an in-house Treasury team to provide advice on treasury issues</td></tr>
<tr><td colspan="3">Strategic</td></tr>
<tr><td>Unbalanced portfolio

Risk exposure has decreased</td><td>• 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</td><td>• Investment process explicitly addresses questions of geographical and sector balance in the portfolio
• Portfolio concentration measures are reviewed periodically by the Board
• The Investment Manager is selective when making new investment commitments
• Portfolio has become more diverse</td></tr>
</table>

Principal risks	Risk description	Risk mitigation
Strategic		
Deliverability of return target No significant change in risk exposure	• Failure to ensure the investment strategy can deliver the return target and dividend policy of the Company • Failure to adapt the strategy of the Company to changing market conditions	• Market returns are reviewed regularly • The Investment Manager and other advisers to the Company report on market positioning • Investment process addresses expected return on new investments and the impact on the portfolio
Investment		
Inappropriate rate of investment Risk exposure has decreased	• Failure to achieve new investment impacts shareholder perception, returns and growth prospects • Excess 'vintage risk' magnifies the impact of poor performance from a vintage of investments • Poor management of investment pipeline	• Good flow of new investment opportunities • Portfolio concentration measures, including vintage diversification, are reviewed periodically by the Board • The Investment Manager undertakes a concentration review for each new investment • Efficient balance sheet maintained and monitored regularly by the Board
Security of assets Risk exposure has increased	• Destruction of value and reputation from an incident, such as a cyber or terrorist attack • Unauthorised access of information and operating systems • Regulatory and legal risks from failure to comply with cyber related laws and regulations, including data protection	• Regular review of the Company and key service providers • Regular review and update of cyber due diligence for potential investments • Review of portfolio companies for cyber risk management and incident readiness
Operational		
Loss of senior Investment Manager staff No significant change in risk exposure	• Members of the deal team at the Investment Manager leave and 'deal-doing' and portfolio management capability in the short to medium term is restricted	• Benchmarked compensation packages and deferred remuneration • Notice periods within employment contracts • Size of the senior team and strength of the 3i Group brand

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 Manager has a strong track record of investing in carefully selected businesses and projects, and driving value through an engaged asset management approach. The Directors consider that this portfolio can continue to meet the Company's objectives.

The Directors have assessed the viability of the Company over a three-year period to March 2022. 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, plausible 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 proposed scenarios were evaluated by the Board, the assumptions set, and the analysis produced and reviewed. The analysis included the impact of a Brexit outcome that is unfavourable to the Company, consideration of dramatic political events and widespread economic turmoil, a tightening of debt markets and the loss of a large investment.

The assumptions used to model these scenarios included a fall in value of some or all of the portfolio companies, a reduction in the level of new investment, the imposition of additional taxes on distributions from or transactions in the portfolio companies, an increase in the cost of debt and restriction in debt availability and an inability for the Company to raise equity. The implications of changes in the inflation, interest rate and foreign exchange environment were also considered, separately and in combination.

The results of this stress testing showed that the Company would be able to withstand the impact of these scenarios occurring over the three-year period. The Directors also considered scenarios that would represent a serious threat to its liquidity and viability in that time period. These scenarios were considered to be remote, such as a fall in equity value of the portfolio of materially more than 50% whilst being fully drawn on the RCF including the accordion, or an equivalent fall in income.

The Directors consider that a three-year period to March 2022 is an appropriate period to review for assessing the Company's viability. This reflects greater predictability of the Company's cash flows over that time period, the term of the Company's RCF, and increased uncertainty surrounding economic, political and regulatory changes over the longer term.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to March 2022.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and in the Financial statements and related Notes of our Annual report and accounts 31 March 2019. The financial position of the Company and its consolidated subsidiary, its cash flows, liquidity position and borrowing facilities are described in the Financial statements and related Notes to the accounts.

In addition, Note 9 to the accounts includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Company has liquid financial resources and a strong investment portfolio providing a predictable income yield and an expectation of medium-term capital growth. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully and to cover its dividend in the next financial year. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.

Sustainability report

There is a strong link between companies that have high environmental, social and governance ('ESG') standards and those that are able to achieve long-term sustainable business growth. This is aligned with the Company's purpose and our experience.

The Company has a long history of investing into businesses that align to long-term sustainability megatrends around decarbonisation, management of scarce resources and the treatment and management of waste. The Company, through its Investment Manager, has embedded sustainability as a core part of the tool set that is used to manage the portfolio. This involves both addressing and mitigating material risks within each portfolio company, but also seeking opportunities to increase financial returns through the smart application of technologies and policies aligned to the most material sustainability issues facing each company.

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

Investing responsibly

We aim to invest responsibly. The Investment Manager 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/sustainability**. The adoption of these policies by the Investment Manager meets the Company's objectives in this area.

Please go to **www.3i-infrastructure.com** to view 3i's statement under section 54 of the Modern Slavery Act 2015.

Our influence and approach to ESG management

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.

The Investment Manager uses a proprietary ESG assessment tool to review prospective investments and to monitor, with direct input from our portfolio company management teams, the performance of the existing portfolio. This tool has been developed in house and has been in use by the Investment Manager for over eight years. During the year, we conducted a bottom-up review of this tool, benchmarking the assessment against a number of third-party standards-based sustainability models.

The Investment Manager completes the assessment for every new investment and prepares and prioritises, alongside management, an action plan for the business based on the recommendations from the assessment. The Investment Manager's engaged asset management approach seeks to improve and enhance the ESG performance 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 a sustainable financing structure for the business.

This process also actively considers ESG value creation opportunities. These ideas are then reviewed and prioritised with the portfolio company management teams for further action.

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. Our most recent investment, Attero, is a leader 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.

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 UK Financial Conduct Authority and the Jersey Financial Services Commission. We encourage our portfolio companies to comply with their respective statutory obligations, and monitor this through our engaged asset management process.

We moved the tax domicile and management of the Company from Jersey to the UK with effect from 15 October 2018. This is expected to simplify the management of its portfolio of investments across Europe.

Details of the Company's policies relating to the UK Bribery Act, Modern Slavery Act, procurement, prompt payment, whistleblowing and the environment can be found on our website www.3i-infrastructure.com.

Renewable energy capacity.

Since 2016, the Company has invested in three businesses that generate electricity from renewable resources. The installed capacity across these businesses is now almost 900 MW, enough to power all of the households in Ireland. This is set to grow to more than 1 GW from new capacity already in development by our portfolio companies, and we have a long pipeline of new potential generating capacity for future development.

Attero: Contributing to the circular economy

We own 25% of Attero, a leading Energy from Waste ('EfW') operator and waste management provider in the Netherlands.

Attero takes unsorted household and commercial waste from a range of countries across Europe. Through a process of sorting, separation and treatment, the business converts this waste into raw material and recycled products which can be resold, along with heat and power. This reduces the amount of waste going to landfill, increases the volume of recycled materials in use and provides a source of renewable energy.

Attero's business model is backed by important environmental policy targets across Europe. The EU Action Plan for the Circular Economy prescribes a steep reduction in landfilling of waste across Europe.

Attero is one of the largest providers of integrated waste management processing in Europe supporting this important goal.

Energy from EfW plants is considered renewable energy generation in the Netherlands.

Since our investment in June 2018, the Dutch and UK waste markets have continued to experience insufficient capacity in EfW and plastics recycling installations, a trend which continues to support Attero's business model. In the last six months, Attero unveiled a new steam turbine which can supply 120 MW to the grid, as well as a new Polymer Recycling Plant which can convert 24,000 tons of waste plastics per year into low-density polyethylene which is widely used to manufacture plastic containers and bags.

The investment into these new capabilities grows Attero's footprint across the waste processing chain and sustainable energy generation.

100% of the organic waste is turned into compost and energy and only a minimal amount of the ash generated from the thermal treatment of residual waste is sent to landfill.

Global megatrends and our portfolio

Megatrends are shaping the world around us, influencing decision making and changing the demands placed on our economy and services. Through the Investment Manager, the Company seeks to identify investments that benefit from one or more of these trends, providing a supportive environment for long-term sustainable business growth and returns to shareholders.

These trends are often consistent with widely recognised sustainability issues, including climate change and resource scarcity.

Benefits for communities

Investing in infrastructure assets has economic and social sustainability benefits for communities in our target markets. Examples of this include our renewable energy generation assets, the essential mobile communication infrastructure that WIG provides and our road projects in the Netherlands.

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.

Consolidated statement of comprehensive income

For the year to 31 March

	Notes	**Year to 31 March 2019 £m**	Year to 31 March 2018 £m
Net gains on investments	7	**213.0**	526.6
Investment income	7	**109.8**	94.2
Fees payable on investment activities		**(0.4)**	(0.4)
Interest payable		**(0.1)**	(0.1)
Investment return		**322.3**	620.3
Movement in the fair value of derivative financial instruments	5	**4.1**	(14.7)
Management, advisory and performance fees payable	2	**(61.1)**	(117.8)
Operating expenses	3	**(3.0)**	(2.6)
Finance costs	4	**(4.2)**	(6.8)
Other income		**1.0**	1.9
Exchange movements		**(0.6)**	(0.7)
Profit before tax		**258.5**	479.6
Income taxes	6	**–**	–
Profit after tax and profit for the year		**258.5**	479.6
Total comprehensive income for the year		**258.5**	479.6
Earnings per share			
Basic and diluted (pence)	14	**31.9**	47.2

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2019	Notes	**Stated capital account £m**	**Retained reserves[1] £m**	**Capital reserve[1] £m**	**Revenue reserve[1] £m**	**Total shareholders' equity £m**
Opening balance at 1 April 2018		**560.4**	**1,149.8**	**–**	**–**	**1,710.2**
Total comprehensive income for the year		**–**	**163.4**	**64.3**	**30.8**	**258.5**
Dividends paid to shareholders of the Company during the year	15	**–**	**(31.8)**	**–**	**(35.1)**	**(66.9)**
Closing balance at 31 March 2019		**560.4**	**1,281.4**	**64.3**	**(4.3)**	**1,901.8**

For the year to 31 March 2018	Notes	Stated capital account £m	Retained reserves £m	Capital reserve £m	Revenue Reserve £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

1 The Retained reserves, Capital reserve and Revenue reserve are distributable reserves. Further information can be found in Accounting policy H.

Consolidated balance sheet

As at 31 March

	Notes	**2019 £m**	2018 £m
Assets			
Non-current assets			
Investments at fair value through profit or loss	7	**1,697.0**	1,552.3
Derivative financial instruments	10	**4.6**	1.5
Total non-current assets		**1,701.6**	1,553.8
Current assets			
Derivative financial instruments	10	**3.0**	4.3
Trade and other receivables	8	**3.6**	14.1
Cash and cash equivalents		**256.8**	282.0
Total current assets		**263.4**	300.4
Total assets		**1,965.0**	1,854.2
Liabilities			
Non-current liabilities			
Derivative financial instruments	10	**(5.8)**	(29.7)
Trade and other payables	12	**–**	(5.9)
Total non-current liabilities		**(5.8)**	(35.6)
Current liabilities			
Derivative financial instruments	10	**(18.6)**	(13.7)
Trade and other payables	12	**(38.8)**	(94.7)
Total current liabilities		**(57.4)**	(108.4)
Total liabilities		**(63.2)**	(144.0)
Net assets		**1,901.8**	1,710.2
Equity			
Stated capital account	13	**560.4**	560.4
Retained reserves		**1,281.4**	1,149.8
Capital reserve		**64.3**	–
Revenue reserve		**(4.3)**	–
Total equity		**1,901.8**	1,710.2
Net asset value per share			
Basic and diluted (pence)	14	**234.7**	211.0

The Financial statements and related Notes were approved and authorised for issue by the Board of Directors on 8 May 2019 and signed on its behalf by:

Doug Bannister
Director

Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Cash flow from operating activities		
Purchase of investments	**(403.5)**	(349.5)
Repayment of other financial assets	**–**	19.5
Proceeds from partial realisations of investments	**184.0**	57.4
Proceeds from full realisations of investments	**332.8**	1,131.1
Investment income[1]	**78.4**	79.5
Fees received on investment activities	**–**	0.2
Fees paid on investment activities	**(0.7)**	–
Operating expenses paid	**(3.2)**	(2.4)
Interest paid	**(0.1)**	(0.2)
Management, advisory and performance fees paid	**(123.7)**	(27.9)
Amounts (paid)/received on the settlement of derivative contracts	**(16.0)**	(31.3)
Payments for transfer of investments from unconsolidated subsidiaries	**(60.9)**	–
Distributions from transfer of investments from unconsolidated subsidiaries	**60.1**	–
Temporary loan to unconsolidated subsidiaries	**(1.9)**	–
Other income received	**0.9**	1.9
Net cash flow from operations	**46.2**	878.3
Cash flow from financing activities		
Fees and interest paid on financing activities	**(3.9)**	(7.3)
Dividends paid	**(66.9)**	(504.0)
Drawdown of revolving credit facility	**176.6**	272.0
Repayment of revolving credit facility	**(176.6)**	(372.0)
Net cash flow from financing activities	**(70.8)**	(611.3)
Change in cash and cash equivalents	**(24.6)**	267.0
Cash and cash equivalents at the beginning of the year	**282.0**	17.1
Effect of exchange rate movement	**(0.6)**	(2.1)
Cash and cash equivalents at the end of the year	**256.8**	282.0

1 Investment income includes dividends of £13.6 million (2018: £11.3 million), interest of £41.5 million (2018: £36.5 million) and distributions of £23.3 million (2018: £31.7 million) received from unconsolidated subsidiaries.

Reconciliation of net cash flow to movement in net debt

For the year to 31 March

	Notes	**Year to 31 March 2019 £m**	Year to 31 March 2018 £m
Change in cash and cash equivalents		**(24.6)**	267.0
Drawdown of revolving credit facility	11	**176.6**	(272.0)
Repayment of revolving credit facility	11	**(176.6)**	372.0
Change in net cash/(debt) resulting from cash flows		**(24.6)**	367.0
Movement in net cash/(debt)		**(24.6)**	367.0
Net cash/(debt) at the beginning of the year		**282.0**	(82.9)
Effect of exchange rate movement		**(0.6)**	(2.1)
Net cash at the end of the year		**256.8**	282.0

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 financial statements for the year to 31 March 2019 included in this announcement comprise the Company and its consolidated subsidiary as defined in IFRS 10 Consolidated Financial Statements (together referred to as the ‘Group’). The preliminary results for the year ended 31 March 2019 have been extracted from audited accounts which have not yet been delivered to the Jersey Financial Services Commission. The financial statements set out in this announcement do not constitute statutory accounts for the year ended 31 March 2019 or 31 March 2018. The financial information for the year ended 31 March 2018 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 March 2019 and the year ended 31 March 2018 were unqualified.

The financial statements included in this announcement were authorised for issue by the Board of Directors on 8 May 2019.

Basis of preparation

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

The 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 IFRS 9: Financial Instruments (2018: 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 its consolidated subsidiary, 3i Infrastructure Seed Assets GP Limited, a UK incorporated and 100% owned company, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated financial statements. There are no eliminations in relation to transactions between the Company and subsidiaries held at fair value.

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 a wholly owned subsidiary for the investment in Tampnet and two wholly owned subsidiary entities for the new investment commitment in Joulz. The Company also invested a 50.1% stake, alongside two external co-investors, in a holding company for the investment in Attero. Due to the size of its stake, the Company is considered to exercise control over this entity and it is therefore defined as a subsidiary. The Directors have assessed whether any of these entities provide investment-related services and have concluded that they should not be consolidated and that they should all be held at fair value through profit or loss.

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

Key estimation uncertainties

Valuation of the investment portfolio

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

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

New standards adopted for the current year

IFRS 9 Financial Instruments

The Company adopted IFRS 9 Financial Instruments on 1 April 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting of financial assets and liabilities. IFRS 9 is not applicable to items that have already been derecognised at 1 April 2018, the date of initial application.

Financial assets that were previously measured at amortised cost under IAS 39 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Therefore, such instruments continue to be measured at amortised cost under IFRS 9.

The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. The main impact on measurement from the classification of liabilities under IFRS 9 relates to the element of gains or losses for financial liabilities designated at fair value through profit or loss attributable to changes in credit risk. The Company has not designated any financial liabilities at fair value through profit or loss therefore this requirement has not had an impact on the Company.

IFRS 9 requires the Company to record expected credit losses on all of its financial assets, either on a 12 month or lifetime basis. This requirement has not changed the carrying amounts of the Company's financial assets under IFRS 9. The Company's principal financial assets are investments held at fair value through profit or loss which are not impacted by the adoption of IFRS 9. The Company has cash held in AAA rated money market funds that have maturities of three months or less, which have an immaterial expected credit loss, so this change has not had a material impact on the Financial statements of the Company. IFRS 9 also changes the classification of financial assets and implements new rules around hedge accounting. The Company does not have any financial assets whose classification is impacted by the adoption of IFRS 9 nor does it apply hedge accounting to any of its derivatives.

Comparative figures for the year ended 31 March 2018 have not been restated and are still accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers on 1 April 2018. IFRS 15 replaces IAS 18 Revenue and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. The Company'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. Therefore, there was no impact on the Company from the adoption of IFRS 15.

Amendments resulting from Annual Improvements to IFRS 2014-2016 Cycle

None of these amendments have had a material impact on the Financial statements.

Standards and interpretations issued but not yet effective

As at 31 March 2019, 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 16 Leases (effective for accounting periods commencing on or after 1 January 2019).

The Directors have assessed the impact on the adoption of this standard and have concluded that it will not have a material impact on the Financial statements of the consolidated Group in future periods. The adoption of IFRS 16 does not have an impact on the Group as it does not hold any operating leases.

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 Consolidated statement of comprehensive income in the year. The Directors have assessed all entities within the Group structure and concluded that 3i Infrastructure Seed Assets GP Limited is the only subsidiary of the Company that provides investment-related services or activities. This subsidiary has been consolidated with the Company to form 'the Group'.

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

(iii) **Joint ventures –** Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the Consolidated balance sheet at fair value. This treatment is permitted by IFRS 11 and IAS 28, which allows interests held by venture capital organisations where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IFRS 9 (2018: IAS 39 Financial Instruments: Recognition and Measurement), with changes in fair value recognised in the Consolidated statement of comprehensive income in the year.

B Exchange differences

Transactions entered into by the Group in a currency other than its functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated to the functional currency at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation to the functional currency are recognised in the Consolidated statement of comprehensive income. Foreign exchange differences relating to investments held at fair value through profit or loss are shown within the line Net gains on investments. Foreign exchange differences relating to other assets and liabilities are shown within the line Exchange movements.

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

C Investment portfolio

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

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

Income

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

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

- dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the Company's rights to receive payment have been established. Special dividends are credited to capital or revenue according to their circumstances;

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

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

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

D Fees

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

(ii) **Management and advisory fees –** Prior to 15 October 2018, an annual advisory fee was payable to 3i plc based on the Gross Investment Value of the Group, as defined in Note 18. On 15 October 2018 this fee was replaced by a management fee. For the period from 15 October 2018 to 31 March 2019 the management fee was calculated on the same basis as the advisory fee. The fee is payable quarterly in advance and is accrued in the period it is incurred. Further explanations are provided in Note 18.

(iii) **Performance fee –** 3i plc is entitled to a performance fee based on the 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 18.

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

E Treasury assets and liabilities

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

(i) Cash and cash equivalents – Cash and cash equivalents in the Consolidated balance sheet and cash flow statement comprise cash at bank, short-term deposits with an original maturity of three months or less and AAA rated money market funds. Money market funds are accounted for at amortised cost under IFRS 9. However due to their short-term and liquid nature, this is the same as fair value. Interest receivable or payable on cash and cash equivalents is recognised on an accruals basis.

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

(iii) Derivative financial instruments – Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations in the valuation of the investment portfolio. This is achieved by the use of forward foreign currency contracts. Such instruments are used for the sole purpose of efficient portfolio management. All derivative financial instruments are held at fair value through profit or loss.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. All changes in the fair value of derivative financial instruments are taken to the Consolidated statement of comprehensive income. The maturity profile of derivative contracts is measured relative to the financial contract settlement date of each contract and the derivative contracts are disclosed in the Financial statements as either current or non-current accordingly.

F Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their consideration receivable less impairment losses. Such assets are short term in nature and the carrying value of these assets is considered to be approximate to their fair value. 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 Consolidated statement of comprehensive income. An impairment loss is reversed at subsequent financial reporting dates to the extent that the asset's carrying amount does not exceed its carrying value, had no impairment been recognised.

G Other liabilities

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

H Equity and reserves

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

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

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

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

- Net gains on investments are applied wholly to the Capital reserve as they relate to the revaluation or disposal of investments.
- Dividends are applied to the Revenue reserve except under specific circumstances where a dividend arises from a return of capital or proceeds from a refinancing, when they are applied to the Capital reserve.
- Fees payable are applied to the Capital reserve where the service provided is, in substance, an intrinsic part of an intention to acquire or dispose of an investment.
- Movement in the fair value of derivative financial instruments is applied to the Capital reserve as the derivative hedging programme is specifically designed to reduce the volatility of sterling valuations of the non-sterling denominated investments.
- Management fees are applied to the Revenue reserve as they reflect ongoing asset management. Where a transaction fee element is due on the acquisition of an investment it is applied to the Capital reserve.
- Performance fees are applied wholly to the Capital reserve as they arise mainly from capital returns on the investment portfolio.

- Operating costs are applied wholly to the Revenue reserve as there is no clear connection between the operating expenses of the Company and the purchase and sale of an investment.
- Finance costs are applied wholly to the Revenue reserve as the existing borrowing is not directly linked to an investment.
- Exchange movements are applied to the Revenue reserve where they relate to exchange on non-portfolio assets.

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

I Income taxes

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the Consolidated statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the Consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

The main rate of UK corporation tax was reduced from 20% to 19% from 1 April 2017 and will be further reduced to 17% from 1 April 2020. This change will affect future UK corporate taxes payable and the rate at which deferred tax assets are expected to reverse.

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 2019:

For the year to 31 March 2019	Economic Infrastructure businesses £m	Projects portfolio £m	India Fund £m	Unallocated £m	Total £m
Investment return/(loss)	**308.0**	**13.9**	**(6.4)**	**6.8**	**322.3**
Profit/(loss) before tax	**311.4**	**14.6**	**(6.4)**	**(61.1)**	**258.5**
For the year to 31 March 2018	£m	£m	£m	£m	£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
As at 31 March 2019					
Assets	**1,478.0**	**195.8**	**29.6**	**261.6**	**1,965.0**
Liabilities	**(29.4)**	**(1.9)**	**–**	**(31.9)**	**(63.2)**
Net assets	**1,448.6**	**193.9**	**29.6**	**229.7**	**1,901.8**
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

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 2019:

For the year to 31 March 2019	UK and Ireland[1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return/(loss)	**261.0**	**67.7**	**(6.4)**	**322.3**
Profit/(loss) before tax	**193.1**	**71.8**	**(6.4)**	**258.5**
For the year to 31 March 2018	£m	£m	£m	£m
Investment return/(loss)	229.2	394.1	(3.0)	620.3
Profit/(loss) before tax	104.0	378.6	(3.0)	479.6
As at 31 March 2019				
Assets	**991.4**	**944.0**	**29.6**	**1,965.0**
Liabilities	**(32.2)**	**(31.0)**	**–**	**(63.2)**
Net assets	**959.2**	**913.0**	**29.6**	**1,901.8**
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

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 81.0% (2018: 36.9%) of its investment return in the year from investments held in the UK and Ireland and 21.0% (2018: 63.5%) of its investment return from investments held in continental Europe. During the year, the Group generated 97.6% (2018: 99.1%) of its investment return from investments in Economic Infrastructure businesses, 4.4% (2018: 1.4%) from investments in Projects and (2.0)% (2018: (0.5)%) 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 2019.

2 Management, advisory and performance fees payable

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Management and advisory fee payable directly from the Company	**30.1**	28.0
Performance fee	**31.0**	89.8
	61.1	117.8

Total management, advisory and performance fees payable by the Company for the year to 31 March 2019 were £61.1 million (2018: £117.8 million). In addition to the fees described above, no management fees (2018: £5.2 million) were paid to 3i Group plc from unconsolidated subsidiary entities. Note 18 provides further details on the calculation of the management fee, advisory fee, performance fee and management fees from unconsolidated subsidiary entities.

3 Operating expenses

Operating expenses include the following amounts:

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Audit fees	**0.2**	0.3
Directors' fees and expenses	**0.5**	0.5

In addition to the fees described above, fees of £0.08 million (2018: £0.08 million) were paid by unconsolidated subsidiary entities for the year to 31 March 2019 to the Group's auditor.

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

Audit services		Year to 31 March 2019 £m	Year to 31 March 2018 £m
Statutory audit	Group	**0.22**	0.26
	UK unconsolidated subsidiaries[1]	**0.04**	0.04
	Overseas unconsolidated subsidiaries[1]	**0.04**	0.04
		0.30	0.34

1 These amounts were paid from unconsolidated subsidiary entities and do not form part of operating expenses but are included in the net gains on investments.

Non-audit services
Deloitte LLP and their associates provided non-audit services for fees totalling £65,929 for the year to 31 March 2019 (2018: £55,765). This related to a review of the management, advisory and performance fees (£7,000), an interim dividend report for two of the Luxembourg subsidiaries (£18,929) and the review of the Group interim Financial statements (£40,000). In line with the Company's policy, Deloitte LLP provided non-audit services to certain investee companies. The fees for these services are ordinarily borne by the underlying investee companies or unconsolidated subsidiaries, and therefore are not included in the expenses of the Group.

4 Finance costs

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Finance costs associated with the debt facilities	**2.5**	6.0
Professional fees payable associated with the arrangement of debt financing	**1.7**	0.8
	4.2	6.8

The finance costs associated with the debt facilities have decreased in the year ended 31 March 2019 as a result of lower average drawings, a lower margin on the new facility and reduced usage of the accordion facility. A one-off charge of £1.2 million was incurred in relation to the write-off of previously capitalised arrangement fees relating to the old facility. The average monthly drawn position in the year was £6 million (2018: £104 million). The accordion facility was not used in the year (2018: 300 days).

5 Movements in the fair value of derivative financial instruments

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Movement on the fair value of forward foreign exchange contracts	**4.1**	(14.4)
Movement on the fair value of interest rate swaps	**–**	(0.3)
	4.1	(14.7)

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

6 Income taxes

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Current taxes		
Current year	**–**	–
Total income tax charge in the Consolidated statement of comprehensive income	**–**	–

Reconciliation of income taxes in the Consolidated statement of comprehensive income

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

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Profit before tax	**258.5**	479.6
Profit before tax multiplied by rate of corporation tax in the UK of 19% (2018: 19%)	**49.1**	91.1
Effects of:		
Profits subject to tax in Jersey at 0%	**(31.1)**	(91.1)
Non-taxable capital profits due to UK approved investment trust company status	**(16.1)**	–
Non-taxable dividend income	**(1.9)**	–
Total income tax charge in the Consolidated statement of comprehensive income	**–**	–

The Company's affairs are directed so as to allow it to meet the requisite conditions to continue to operate as an approved investment trust company for UK tax purposes. Approved investment trust companies are used as investment fund vehicles. The tax exemption for capital profits which they benefit from allows them to ensure that investors do not ultimately suffer double taxation of their investment returns, ie once at the level of the investment fund vehicle and then again in the hands of the investors.

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

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

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

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

The table below shows the classification of financial instruments held at fair value into the fair value hierarchy at 31 March 2019. For all other assets and liabilities, their carrying value approximates to fair value. During the year ended 31 March 2019, there were no transfers of financial instruments between levels of the fair value hierarchy (2018: none).

Trade and other receivables on the Consolidated balance sheet includes £1.0 million of deferred finance costs relating to the arrangement fee for the RCF. This has been excluded from the table below as it is not categorised as a financial instrument.

Financial instruments classification

	As at 31 March 2019			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investments at fair value through profit or loss	**–**	–	**1,697.0**	**1,697.0**
Trade and other receivables	**–**	**2.6**	**–**	**2.6**
Cash and cash equivalents	**256.8**	–	**–**	**256.8**
Derivative financial instruments	**–**	**7.6**	**–**	**7.6**
	256.8	**10.2**	**1,697.0**	**1,964.0**
Financial liabilities				
Trade and other payables	**–**	**(38.8)**	**–**	**(38.8)**
Derivative financial instruments	**–**	**(24.4)**	**–**	**(24.4)**
	–	**(63.2)**	**–**	**(63.2)**

	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)

7 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 2019 £m**
Opening fair value	**1,552.3**
Additions	**342.3**
Disposal proceeds and repayments	**(433.4)**
Movement in accrued income	**18.1**
Fair value movement (including exchange movements)	**217.7**
Closing fair value	**1,697.0**

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

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

	As at 31 March 2019 £m	As at 31 March 2018 £m
Fair value movement (including exchange movements)	**217.7**	526.6
Divestment costs	**(4.7)**	-
Net gains on investments	**213.0**	526.6

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 £109.8 million (2018: £94.2 million) comprises dividend income of £13.6 million (2018: £11.3 million), interest of £71.6 million (2018: £57.5 million) and distributions of £24.6 million (2018: £25.4 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. Accrued income is now classified within 'Investments at fair value through profit or loss.' In prior periods, immaterial accrued income was classified within 'Trade and other receivables.' As at 31 March 2019, the fair value of unquoted investments was £1,663.9 million (2018: £1,527.3 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.

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 £132.2 million (2018: £130.1 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £152.5 million (2018: £151.9 million).

7 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) (2018: 5.0%) to 2.0% (the Netherlands) (2018: 2.0%) including the UK at 2.5% (UK RPI) (2018: 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 £33.9 million (2018: £39.1 million). Decreasing the inflation rate assumption used in the valuation of each asset by 1% for the next two years would decrease the value of the portfolio by £33.6 million (2018: £38.6 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 £48.9 million (2018: £56.3 million). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £48.0 million (2018: £54.3 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 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, the 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 2019, the fair value of unlisted funds was £17.2 million (2018: £18.6 million). The fund NAV reflects a 31 March 2019 valuation date (2018: 31 March 2018 valuation date). A 10% adjustment in the NAV of the fund would result in a £1.7 million (2018: £1.9 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 2019, the fair value of the other assets and liabilities within these intermediate holding companies was £15.9 million (2018: £6.4 million).

Over-the-counter derivatives

The Company uses over-the-counter foreign currency derivatives to hedge foreign currency movements. The derivatives are held at fair value which represents the price that would be received to sell or transfer the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, and uses present value calculations. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

Valuation process for Level 3 valuations

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

8 Trade and other receivables

	Year to 31 March 2019 £m	Year to 31 March 2018 £m
Other receivables including prepayments and accrued income	**2.6**	12.8
Capitalised finance costs	**1.0**	1.3
	3.6	14.1

The carrying value of the Other receivables including prepayments and accrued income equates to fair value and all balances are expected to be settled within one year (2018: same). Other receivables includes a loan of £2.1 million to Colombo Topco Limited, a related party (2018: nil).

9 Financial risk management

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

Each investment made by the Group is subject to a full risk assessment through a consistent investment approval process. The Board's Management Engagement Committee and the Investment Manager's investment process are part of the overall risk management framework of the Group.

The funding objective of the Group is that each category of investment ought to be broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets, and that funding needs are to be met ahead of planned investment.

Capital structure
The Group has a continuing commitment to capital efficiency. The capital structure of the Group consists of cash held on deposit in AAA rated money market funds, borrowing facilities and shareholders' equity. The Company's Articles require its outstanding borrowings, including any financial guarantees to support subsequent obligations, to be limited to 50% of the gross assets of the Group. The type and maturity of the Group's borrowings are analysed in Note 11 and the Group's equity is analysed into its various components in the Consolidated statement of changes in equity. Capital is managed so as to maximise the return to shareholders, while maintaining a strong capital base that ensures that the Group can operate effectively in the marketplace and sustain future development of the business. The Board is responsible for regularly monitoring capital requirements to ensure that the Company is maintaining sufficient capital to meet its future investment needs.

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

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

Credit risk
The Group is subject to credit risk on the debt component of its unquoted investments, cash, deposits, derivative contracts and receivables. The maximum exposure to credit risk as a result of counterparty default equates to the current carrying value of these financial assets. Throughout the year and the prior year, the Group's cash and deposits were held with a variety of counterparties, principally in AAA rated money market funds, as well as in short-term bank deposits with a minimum of a BBB+ credit rating. The counterparties selected for the derivative financial instruments were all banks with a minimum of a BBB+ credit rating with at least one major rating agency. The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. The performance of underlying investments is monitored by the Board to assess future recoverability.

For those assets and income entitlements that are not past due, it is believed that the risk of default is small and capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the investment. If the portfolio company has failed and there is no expectation to recover any residual value from the investment, the Group's policy is to record an impairment for the full amount of the loan. When the net present value of the future cash flows predicted to arise from the asset, discounted using the effective interest rate method, implies non-recovery of all or part of the Group's investment a fair value movement is recorded equal to the valuation shortfall.

No assets held by the Group were considered to be impaired. The Company had no loans or receivables or debt investments considered past due (2018: nil).

The Company actively manages counterparty risk. Counterparty limits are set and closely monitored by the Board and a regular review of counterparties is undertaken by the Investment Manager and reported to the Board. As at 31 March 2019, the Group did not consider itself to have a significant exposure to any one counterparty and held deposits and derivative contracts with a number of different counterparties to reduce counterparty risk.

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

9 Financial risk management continued

Liquidity risk

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

2019	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total £m
Liabilities					
Loans and borrowings[1]	**–**	**(1.4)**	**–**	**–**	**(1.4)**
Trade and other payables	**(38.8)**	**–**	**–**	**–**	**(38.8)**
Derivative contracts	**–**	**(18.6)**	**(4.7)**	**(1.1)**	**(24.4)**
Financial commitments[2]	**(218.1)**	**(16.3)**	**–**	**–**	**(234.4)**
Total undiscounted financial liabilities	**(256.9)**	**(36.3)**	**(4.7)**	**(1.1)**	**(299.0)**

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

2018	Payable on demand £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total £m
Liabilities					
Loans and borrowings[1]	–	(2.7)	(2.5)	(0.3)	(5.5)
Trade and other payables	(94.7)	–	(5.9)	–	(100.6)
Derivative contracts	–	(13.7)	(21.8)	(7.9)	(43.4)
Financial commitments[2]	(213.2)	(33.9)	(16.6)	–	(263.7)
Total undiscounted financial liabilities	(307.9)	(50.3)	(46.8)	(8.2)	(413.2)

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

The derivative contracts liability shown is the net cash flow expected to be paid on settlement. The financial commitments relate to the Group's commitments to invest in Joulz Diensten B.V. and the Condorcet, Hart van Zuid and A27/A1 projects and no discount has been applied. During the year, the Group invested in Attero, in subordinated debt in the A9 and La Santé projects and sold its investment in the RIVM project and, as a result, a prior year financial commitment of £220.7 million was extinguished.

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

Market risk

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio, but the valuation of the portfolio and the carrying value of other items in the Financial statements can also be affected by interest rate, currency and market price fluctuations. The Group's sensitivities to these fluctuations are set out below.

(i) Interest rate risk

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

An increase of 100 basis points in interest rates over 12 months (2018: 100 basis points) would lead to an approximate increase in net assets and to the net profit of the Group of £2.6 million (2018: £2.8 million). This exposure relates principally to changes in interest receivable on cash on deposit held at the year end. The average cash balance of the Group, which is more representative of the cash balance during the year, was £147.5 million (2018: £44.4 million) and the weighted average interest earned was (0.03)% (2018: (0.3)%). The risk exposure at this year end is considered to be representative of this year as a whole.

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

9 Financial risk management continued

(ii) Currency risk

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

						As at 31 March 2019
	Sterling[1] £m	**Euro £m**	**NOK £m**	**DKK £m**	**US dollar £m**	**Total £m**
Net assets	**943.4**	**573.0**	**198.1**	**156.6**	**30.7**	**1,901.8**
Sensitivity analysis						
Assuming a 10% appreciation in sterling against the euro, NOK, DKK and US dollar exchange rates:						
Impact of exchange movements on net profit and net assets	**60.0**	**(52.1)**	**(18.0)**	**(14.2)**	**(2.8)**	**(27.1)**

1 Sterling impact relates to the impact of fair value movement in derivatives held by the Company to hedge foreign currency fluctuations in the valuation of the investment portfolio. The notional amount of the derivatives is disclosed in Note 10.

						As at 31 March 2018
	Sterling[1] £m	Euro £m	NOK £m	DKK £m	US dollar £m	Total £m
Net assets	859.5	666.5	–	147.3	36.9	1,710.2
Sensitivity analysis						
Assuming a 10% appreciation in sterling against the euro, NOK, DKK and US dollar exchange rates:						
Impact of exchange movements on net profit and net assets	71.0	(60.6)	–	(13.4)	(3.4)	(6.4)

1 Sterling impact relates to the impact of fair value movement in derivatives held by the Company to hedge foreign currency fluctuations in the valuation of the investment portfolio. The notional amount of the derivatives is disclosed in Note 10.

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

(iii) Market risk

Further information about the management of external market risk and its impact on price or valuation, which arises principally from unquoted investments, is provided in the Risk report. A 10% increase in the fair value of those investments would have the following direct impact on net profit and net assets. The impact of a change in all cash flows has an equivalent impact on the fair value, as set out below.

	As at 31 March 2019 Investments at fair value £m	As at 31 March 2018 Investments at fair value £m
Increase in net profit and net assets	**169.7**	155.2

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

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

(iv) Fair values

The fair value of the investment portfolio is described in detail in the Portfolio valuation methodology section and in Note 7. The fair values of the remaining financial assets and liabilities approximate to their carrying values (2018: same).

The sensitivity analysis in respect of the interest rate, currency and market price risks is considered to be representative of the Group's exposure to financial risks throughout the period to which they relate (2018: same).

10 Derivative financial instruments

	As at 31 March 2019 £m	As at 31 March 2018 £m
Non-current assets		
Forward foreign exchange contracts	**4.6**	1.5
Current assets		
Forward foreign exchange contracts	**3.0**	4.3
Non-current liabilities		
Forward foreign exchange contracts	**(5.8)**	(29.7)
Current liabilities		
Forward foreign exchange contracts	**(18.6)**	(13.7)

Forward foreign exchange contracts
The Company uses forward foreign exchange contracts to minimise the effect of fluctuations in the investment portfolio from movements in exchange rates and also to fix the value of certain expected future cash flows arising from distributions made by investee companies.

The fair value of these contracts is recorded in the balance sheet. No contracts are designated as hedging instruments and consequently all changes in fair value are taken through profit or loss.

As at 31 March 2019, the notional amount of the forward foreign exchange contracts held by the Company was £917.9 million (2018: £871.4 million).

11 Loans and borrowings

On 30 April 2018, the Company entered into a new three-year, secured £300 million RCF with a syndicate of banks. The RCF is secured by a fixed and floating charge over directly held assets of the Company. Interest is payable at LIBOR plus a fixed margin on the drawn down amount. As at 31 March 2019, the Company had drawn down cash of nil (2018: nil).

The RCF has certain loan covenants, including a debt service coverage ratio and loan to value ratio. The Company has the right to increase the size of the RCF by up to a further £200 million, provided that existing lenders have a right of first refusal. In March 2019, the Company agreed the first one-year extension to the maturity date, to 27 April 2022.

As at 31 March 2019, the Company had utilised the RCF to issue Letters of Credit for the investments into Condorcet, Hart van Zuid and A27/A1 which totalled €19.0 million (£16.3 million) (2018: €57.7 million, £50.6 million). These are disclosed as contingent liabilities in Note 17.

12 Trade and other payables

	As at 31 March 2019 £m	As at 31 March 2018 £m
Management and performance fees	**31.0**	93.7
Accruals and other creditors	**7.8**	6.9
	38.8	100.6

The carrying value of all liabilities is representative of fair value (2018: same). Other creditors includes £6.5 million owed to Oystercatcher Luxco 1 S.à r.l., an unconsolidated subsidiary and related party (2018: £5.9 million).

13 Issued capital

	As at 31 March 2019		As at 31 March 2018	
	Number	**£m**	Number	£m
Authorised, issued and fully paid				
Opening balance	**810,434,010**	**1,272.8**	1,026,549,746	1,272.8
Share consolidation	**–**	**–**	(216,115,736)	–
Closing balance	**810,434,010**	**1,272.8**	810,434,010	1,272.8

Aggregate issue costs of £19.3 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. Therefore, as at 31 March 2019, the residual value on the stated capital account was £560.4 million.

In the prior year, 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.

14 Per share information

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

	Year to 31 March 2019	Year to 31 March 2018
Earnings per share (pence)		
Basic and diluted	**31.9**	47.2
Earnings (£m)		
Profit after tax for the year	**258.5**	479.6
Number of shares (million)		
Weighted average number of shares in issue	**810.4**	1,016.5
Number of shares at the end of the year	**810.4**	810.4

	As at 31 March 2019	As at 31 March 2018
Net assets per share (pence)		
Basic and diluted	**234.7**	211.0
Net assets (£m)		
Net assets	**1,901.8**	1,710.2

15 Dividends

	Year to 31 March 2019		Year to 31 March 2018	
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	**4.325**	**35.1**	3.925	40.3
Prior year final dividend paid on ordinary shares	**3.925**	**31.8**	3.775	38.7
	8.250	**66.9**	49.100	504.0

The Company proposes paying a final dividend of 4.325 pence per share (2018: 3.925 pence) which will be payable to those shareholders that are on the register on 14 June 2019. On the basis of the shares in issue at year end, this would equate to a total final dividend of £35.1 million (2018: £31.8 million).

The final dividend is subject to approval by shareholders at the AGM in July 2019 and has therefore not been accrued in these Financial statements.

16 Commitments

	As at 31 March 2019	As at 31 March 2018
Unquoted investments	**234.4**	263.7

As at 31 March 2019, the Group was committed to investing a further US$37.5 million (£28.8 million) (2018: US$37.5 million, £26.7 million) of loan commitment in the India Fund and subordinated debt of £16.3 million (2018: £61.1 million) in PPP projects including Hart van Zuid, Condorcet and A27/A1. In addition, the Group committed to invest €219.7 million (£189.3 million) for the acquisition of Joulz Diensten B.V. This investment completed on 30 April 2019. During the year, the Group invested in Attero and the A9 and La Santé projects, sold its investment in the RIVM project and completed a follow-on investment in Valorem. As a result, opening commitments of £220.7 million were extinguished.

17 Contingent liabilities

As at 31 March 2019, the Company had issued €19.0 million (£16.3 million) (2018: €57.7 million, £50.6 million) in the form of Letters of Credit, drawn against the RCF, for future investments into the Hart van Zuid, Condorcet and A27/A1 PPP projects.

18 Related parties

Transactions between 3i Infrastructure and 3i Group
3i Group plc ('3i Group') holds 33.3% (2018: 33.6%) 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 £22.3 million (2018: £169.3 million) from the Company.

In 2007 the Company committed US$250 million to the India Fund to invest in the Indian infrastructure market. 3i Group also committed US$250 million to the India Fund. No commitments (March 2018: nil) were drawn down by the India Fund from the Company during the year. In total, commitments of US$183.7 million or £140.9 million re-translated (2018: US$183.7 million or £130.9 million) had been drawn down at 31 March 2019 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 2019, the outstanding commitment was US$37.5 million, or £28.8 million re-translated (2018: US$37.5 million or £26.7 million).

In the prior year, 3i Networks Finland Limited, a subsidiary of 3i Group, received a priority profit share from 3i Networks Finland LP, an unconsolidated subsidiary of the Company. 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. During the year, no fee (2018: £2.3 million) was payable in this regard to 3i Group, of which the Company's share was nil (2018: £2.0 million). There was therefore nothing to offset in this regard against the total management fee payable by the Company. As at 31 March 2019, no fee remained outstanding (2018: nil).

In the prior year, 3i Osprey GP Limited, a subsidiary of 3i Group, received a priority profit share from 3i Osprey LP, an unconsolidated subsidiary of the Company. 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. During the year, no fee (2018: £4.6 million) was payable in this regard to 3i Group, of which the Company's share was nil (2018: £3.2 million). There was therefore nothing to offset in this regard against the total management fee payable by the Company. As at 31 March 2019, no fee remained outstanding (2018: nil).

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

Under the IAA, an annual advisory fee was payable to 3i Investments plc based on the gross investment value of the Group at the end of each financial period. While the IAA was replaced by the IMA with effect from 15 October 2018, the basis of calculating the fees, for both the ongoing fee and the performance fee, has continued to apply as under the IAA in respect of the financial year to 31 March 2019. 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 in relation to certain investments in greenfield projects. The fee accrues throughout a financial period and quarterly instalments are payable on account of the fee for that period. The fee is paid to 3i plc and 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 2019, £30.1 million (2018: £33.2 million) was payable and no fee remained due to 3i plc at 31 March 2019 (2018: £3.9 million). This amount includes no fees (2018: £5.2 million) which were paid directly from unconsolidated subsidiary entities to 3i plc.

18 Related parties continued

The IAA also provided for an annual performance fee to be payable to 3i Investments plc. This became payable when the Group's total return for the period exceeded 8% ('the performance hurdle'). If the performance hurdle was exceeded, the performance fee was equal to 20% of the Group's total return in excess of the performance hurdle for the relevant financial period. In addition, the performance fee included a high water mark requirement so that, before payment of a performance fee, besides the 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 2019 and therefore a performance fee of £31.0 million (2018: £89.8 million) was recognised. The outstanding balance payable at 31 March 2019 was £31.0 million (2018: £89.8 million).

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

Under the IMA, the Investment Manager's appointment may be terminated by either the Company or the Investment Manager giving the other not less than 12 months' notice in writing, but subject to a minimum term of four years from 15 October 2018, unless 3i Investments plc has previously ceased to be a member of 3i Group, or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Manager may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Prior to the replacement of the IAA by the IMA, the Company also paid 3i plc an annual fee for the provision of support services, under a UK Support Services Agreement. This agreement was terminated on 15 October 2018 and these support services (which are ancillary and related to the investment management service) are now also provided under the IMA. In consideration of the provision of support services under the IMA, the Company pays the Investment Manager an annual fee of £1.0 million. The cost for the support services incurred for the year to 31 March 2019 was £0.9 million (2018: £0.8 million). The outstanding balance payable as at 31 March 2019 was nil (2018: £0.2 million).

Regulatory information relating to fees

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

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

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

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

Investment policy

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

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

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

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

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

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

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

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

Statement of Directors' responsibilities

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

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

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

The Directors of the Company and their functions are listed below. The Directors have acknowledged their responsibilities in relation to the Financial statements for the year to 31 March 2019.

Richard Laing
Chair
8 May 2019

Board of Directors and their functions

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

Doug Bannister
Non-executive Director.

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

Robert Jennings CBE
Non-executive Director.

Ian Lobley
Non-executive Director.

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

Portfolio valuation methodology

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

Basis of valuation

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

General

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

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

Quoted investments

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

Unquoted investments

Unquoted investments are valued using one of the following methodologies:

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

DCF

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

Proportionate share of net assets

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

Sales basis

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

Cost less fair value adjustment

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