9 May 2012

Results for the year to 31 March 2012

Returns supported by strong income generation

	Investment basis[1]		Consolidated IFRS basis[2]	
	Mar 2012	Mar 2011	Mar 2012	Mar 2011
Total return	£56.0m	£85.5m	£55.0m	£86.8m
Total return on average shareholders' equity [3]	5.6%	9.2%	5.5%	9.3%
Total dividend per share	5.94p	5.72p	5.94p	5.72p
Net asset value ("NAV") per share [4]	121.0p	120.3p	121.4p	120.9p
NAV per share after deducting proposed final dividend of 2.97p [4]	118.0p	117.4p	118.4p	117.9p
Portfolio value	£890.8m	£821.7m	£1,182.2m	£1,093.3m
Warrant conversion	£64.4m	£5.8m	£64.4m	£5.8m
Cash balances	£173.4m	£174.6m	£183.6m	£176.3m

(1) The investment basis accounts for majority investments and subsidiaries formed specifically for investment purposes in the same way as minority investments and does not consolidate these entities as required by International Financial Reporting Standards ("IFRS").
(2) For the consolidated IFRS basis, the total return in this measure is the total comprehensive income attributable to equity holders of the parent and does not include non-controlling interests. The gross consolidated total comprehensive income for the year was £70.9 million (2011: £99.5 million).
(3) Average shareholders' equity is defined as the time-weighted average of (i) opening shareholders' funds, less the final dividend paid in the prior year; and (ii) the equity proceeds raised through the conversion of warrants.
(4) The NAV at 31 March 2011 was diluted to take into account the warrants that were outstanding at that date. The warrants expired on 13 March 2012, and no further dilutive securities are outstanding.

Highlights

- Total return of £56.0 million, or 5.6% on shareholders' equity, supported by strong returns from the European portfolio, partly offset by weaker returns from the 3i India Infrastructure Fund
- Portfolio income of £73.1 million fully covers dividends and costs
- £203.6 million invested in the year, of which £194.8 million in the acquisition of Lakeside Network Investments in Finland, an attractive core infrastructure business
- 4.5% growth in EBITDA of underlying equity investments over the prior year, demonstrating the resilience of the portfolio
- Strong 5-year track record
  - Annualised asset IRR since inception 16%
  - Annualised return to shareholders of 9.4%

Peter Sedgwick, Chairman of 3i Infrastructure plc, said: "The Company delivered steady NAV growth this year in challenging conditions. This stable performance builds on a strong track record for the Company which, in its five years of existence, has delivered annualised returns to shareholders of 9.4%, including the payment of a 5% dividend in each year."

Cressida Hogg, Managing Partner, Infrastructure, 3i Investments plc, added: "3i Infrastructure has built a strong portfolio of core infrastructure businesses. The Investment Adviser's origination and portfolio management skills have allowed the Company to invest at the appropriate price points and to manage the investments to drive a strong yield and steady capital growth over time. We will maintain our disciplined approach and look forward to building on our strong investment track record."

– ends –

For further information, please contact:

Peter Sedgwick, Chairman, 3i Infrastructure plc	Tel: 01534 711 444
Silvia Santoro, investor and press enquiries	Tel: 020 7975 3258

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 editors

3i Infrastructure plc is a Jersey-incorporated, closed-ended investment company that invests in infrastructure businesses and assets and is regulated by the Jersey Financial Services Commission. The Company is building a diversified portfolio of infrastructure investments, with a focus on Europe and India. As of 31 March 2012, 3i Infrastructure had a portfolio of 14 assets valued at £891 million, and net assets of £1,067 million. The Company listed on the London Stock Exchange in March 2007, raising £703 million in an initial public offering and a further £115 million in a subsequent placing and open offer in July 2008, and is a constituent of the FTSE 250 index.

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

Our portfolio

(value as at 31 March 2012)	**£m**
Anglian Water Group	209
Lakeside Networks Investments (“LNI”)	201
Eversholt Rail Group	154
Oystercatcher	118
3i India Infrastructure Fund	
Krishnapatnam Port	31
Adani Power	28
GVK Energy	22
KMC Roads	16
Soma Enterprise	12
Ind-Barath Utkal	6
PFI portfolio	
Elgin	42
Octagon	33
Alpha Schools	19
T2C	nil
Total portfolio value	**891**
Cash	
Cash committed to India	47
Cash committed to final dividend	26
Free cash	100
Total cash	**173**

Note: the information on this page is presented according to the investment basis of preparation.

Portfolio summary on an investment basis (£m)					
Portfolio assets	Directors' valuation 31 March 2011	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation
AWG	195.9	-	-	13.5	-
LNI	-	194.8	-	4.6	1.6
Eversholt	160.7	-	(14.7)	8.2	-
Oystercatcher	119.6	-	-	5.8	(7.2)
3i India Infrastructure Fund	134.7	8.2	-	(30.0)	1.3
Elgin	40.2	-	(0.1)	1.9	-
Octagon	31.1	-	-	2.2	-
Alpha Schools	17.7	-	-	0.8	-
Junior debt portfolio	90.2	-	(90.2)	-	-
I^2 loan notes	31.6	0.6[(1)]	(32.2)	-	-
T2C	-	-	-	-	-
	821.7	203.6	(137.2)	7.0	(4.3)

Continued - **Portfolio summary on an investment basis** (£m)				
Portfolio assets	**Directors' valuation 31 March 2012**	Loss on disposal in the year	Income in the year	**Asset total return in the year**
AWG	**209.4**	-	20.2	**33.7**
LNI	**201.0**	-	-	**6.2**
Eversholt	**154.2**	-	33.1	**41.3**
Oystercatcher	**118.2**	-	9.5	**8.1**
3i India Infrastructure Fund	**114.2**	-	-	**(28.7)**
Elgin	**42.0**	-	3.2	**5.1**
Octagon	**33.3**	-	2.9	**5.1**
Alpha Schools	**18.5**	-	1.3	**2.1**
Junior debt portfolio	**-**	(4.7)	1.8	**(2.9)**
I^2 loan notes	**-**	-	1.1	**1.1**
T2C	**-**	-	-	**-**
	890.8	(4.7)	73.1	**71.1**

(1) Capitalised loan note interest.

Summary of total return on an investment basis (£m)			
	Year to 31 March 2012	Year to 31 March 2011	**Consolidated IFRS basis Year to 31 March 2012**
Realised (losses)/profits over fair value on the disposal of investments	**(4.7)**	3.6	**(4.7)**
Unrealised profits on the revaluation of investments	**7.0**	36.5	**8.5**
Foreign exchange losses on investments	**(4.3)**	(7.2)	**-**
Capital (loss)/return	**(2.0)**	32.9	**3.8**
Portfolio income			
Dividends	**41.0**	39.4	**68.3**
Income from loans and receivables	**30.3**	18.1	**32.5**
Income from quoted debt investments	**1.8**	6.3	**1.8**
Fees payable on investment activities	**(1.3)**	(1.3)	**(1.3)**
Fees receivable on investment activities	**-**	6.8	**-**
Interest receivable	**1.5**	1.5	**1.5**
Investment return	**71.3**	103.7	**106.6**
Advisory, performance and management fees payable	**(15.3)**	(15.4)	**(16.2)**
Operating expenses	**(2.4)**	(2.4)	**(2.4)**
Finance costs	**(2.9)**	(2.2)	**(13.5)**
Movements in the fair value of derivative financial instruments	**5.3**	2.1	**0.7**
Other net income	**0.3**	-	**0.4**
Profit before tax	**56.3**	85.8	**75.6**
Income taxes	**(0.3)**	(0.3)	**(0.3)**
Profit after tax and profit for the year	**56.0**	85.5	**75.3**
Exchange difference on translation of foreign operations	**-**	-	**(4.4)**
Profit attributable to non-controlling interests for the year	**-**	-	**(15.9)**
Total comprehensive income (“Total Return”)	**56.0**	85.5	**55.0**

Summary balance sheet on an investment basis (£m)			
	As at 31 March 2012	As at 31 March 2011	**Consolidated IFRS basis as at 31 March 2012**
Assets			
Non-current assets			
Investment portfolio	**890.8**	821.7	**1,182.2**
Derivative financial instruments	**1.8**	-	**1.8**
Non-current assets	**892.6**	821.7	**1,184.0**
Current assets			
Other current assets, including derivative financial instruments	**5.3**	11.7	**8.0**
Cash and cash equivalents	**173.4**	174.6	**183.6**
Total current assets	**178.7**	186.3	**191.6**
Total assets	**1,071.3**	1,008.0	**1,375.6**
Non-current liabilities			
Borrowings	**-**	-	**(158.3)**
Derivative financial instruments	**(0.6)**	(2.2)	**(15.8)**
Total non-current liabilities	**(0.6)**	(2.2)	**(174.1)**
Current liabilities			
Trade and other payables	**(3.4)**	(6.2)	**(2.4)**
Derivative financial instruments	**(0.7)**	(3.5)	**(1.8)**
Total current liabilities	**(4.1)**	(9.7)	**(4.2)**
Total liabilities	**(4.7)**	(11.9)	**(178.3)**
Net assets	**1,066.6**	996.1	**1,197.3**
Equity			
Stated capital account	**181.6**	117.2	**181.6**
Retained reserves	**885.0**	878.9	**855.0**
Translation reserve	**-**	-	**33.5**
Total shareholders' equity	**1,066.6**	996.1	**1,070.1**
Minority interests	**-**	-	**127.2**
Total equity	**1,066.6**	996.1	**1,197.3**

Chairman's statement

3i Infrastructure plc ("3i Infrastructure" or "the Company") delivered a stable financial performance for the year to 31 March 2012, supported by strong returns from the European assets in the portfolio. These were partly offset by weaker returns from the 3i India Infrastructure Fund (the "Fund"), whose financial performance was affected by a number of market and macroeconomic factors. Most notably, the portfolio generated strong income, which fully covers the total dividend and the operating costs incurred during the year.

This performance builds on a strong track record for the Company which, in its five years of existence, has delivered annualised returns to shareholders of 9.4% and, importantly, has delivered its 5% dividend objective in each year.

Performance

The total comprehensive income attributable to the equity holders of the parent (the "total return"), on a consolidated IFRS basis, totalled £55 million in the year to 31 March 2012. On an investment basis, which the Board also uses to monitor investment performance, the total return totalled £56 million, or 5.6% on shareholders' equity. This return was supported by the strong income generated from our European portfolio assets, which totalled £73 million in the year, which was indicative of their resilient operational performance.

The strong performance of most portfolio assets, however, was offset by mark-to-market declines in the valuation of Adani Power, held through the 3i India Infrastructure Fund, as well as by foreign exchange losses from the rupee exposure through the Fund.

Dividend

Based on the strong levels of income generated during the year, the Board proposes a final dividend of 2.97 pence per share which, added to the interim dividend of 2.97 pence per share paid in January 2012, brings the total dividend for the year to 5.94 pence per share, meeting our 5% dividend objective.

Investment activity

The Company invested a total of £204 million during the year. Most of this amount (£195 million) was invested in a 39% holding in Lakeside Network Investments ("LNI"), with the balance drawn by the Fund to finance the second tranche of the investment in GVK Energy Limited.

The acquisition of LNI was a key achievement in the implementation of 3i Infrastructure's strategy of building its portfolio of core infrastructure assets. The investment in LNI, which owns Finland's second-largest electricity distribution network, as well as a smaller district heating business, enhances the sector and geographic diversification of our portfolio, and provides exposure to relatively low risk revenue streams and good inflation linkage. In addition, LNI is expected to contribute strongly to portfolio income from the next financial year.

The Company also sold investments, generating proceeds of £133 million during the year. These include £86 million from the sale of the three remaining holdings in the junior debt portfolio, and £47 million from the repayment of all of the outstanding I^2 vendor loan notes and a portion of the shareholder loan to Eversholt Rail Group.

The junior debt portfolio divestments were well timed and protected the net asset value over a period of volatile market conditions. This portfolio was built during the course of 2008 and 2009, at a time when the market for M&A transactions was largely closed. The Company was able to acquire these holdings at a significant discount to their par value, with the expectation that they would deliver equity-like returns to maturity and high levels of cash yield. These investments, now fully realised, generated an IRR of 11.6% throughout the holding period, demonstrating 3i Infrastructure's ability to deploy its financial resources flexibly to take advantage of market opportunities.

Warrants and cash balances
The warrants issued by 3i Infrastructure to the subscribers of its Initial Public Offering expired in March 2012. The Board was pleased that only a few of the warrants issued at IPO remained unexercised on expiry.

Importantly, the conversion of these warrants has allowed the Company to raise £70.4 million in new equity, of which £64.4 million was raised during the financial year under review, providing liquidity to invest in the current market. As a result of the investment and realisation activity described above, as well as the new equity raised through the conversion of the warrants, 3i Infrastructure currently has cash balances of £173 million to invest, much reduced from £310 million at the half year.

Corporate governance and Board
The Company aims to uphold the highest standards of corporate governance and complies with all applicable provisions of the UK Corporate Governance Code, updated and reissued in June 2010. Many of the provisions of the revised Code, such as shareholder approval of Directors' remuneration and the annual re-election of all Directors, were voluntarily adopted early by the Company, and at the last Annual General Meeting, held on 5 July 2011, the shareholders of 3i Infrastructure approved the re-election of all Directors to the Board, as well as changes to their remuneration which took effect in October 2011.

The Board continues to maintain a regular dialogue with shareholders and is aware of any concerns as they emerge. Philip Austin (Senior Independent Director) and I are always available to meet with shareholders, and will continue to ensure that concerns are listened to and that the Board continues to act in the interest of all shareholders.

Pipeline and outlook
Markets remain volatile and conditions for investment are challenging. However, the infrastructure asset class has continued to perform robustly relative to other asset classes and has remained attractive to debt providers. The Investment Adviser's track record of investment and returns puts the Company in a strong position to continue to invest profitably in the year to come.

The Investment Adviser is focusing on bringing the Thameslink transaction to a financial close, and is pursuing a number of opportunities. However, it retains its prudent investment approach and pricing discipline, so that the Company can build on the strong returns already achieved in its five years of existence.

Peter Sedgwick
Chairman
8 May 2012

Investment Adviser's review

About the Investment Adviser
3i Investments plc ("3i Investments"), a wholly-owned subsidiary of 3i Group plc ("3i Group"), acts as the investment adviser (the "Investment Adviser") to the Company through its infrastructure investment team (the "investment advisory team").

The investment advisory team provides advice to the Company on the origination and completion of new investments, on the management of the portfolio and on realisations, as well as on funding requirements.

The investment advisory team is managed as a separate business line within 3i Group and operates from hubs in London and India. All investment professionals have significant experience investing in infrastructure assets. The investment advisory team can also draw on 3i Group's network of investment professionals, based in 12 countries, to originate infrastructure investment opportunities.

3i Group was among the subscribers to 3i Infrastructure's Initial Public Offering and subsequent Placing and Open Offer and owns 34% of the equity in the Company.

The infrastructure asset class – key characteristics
Infrastructure businesses generally have a strong market position, often operating within regulatory frameworks, or with revenues underpinned by strong, long-term contracts. They can be described as "essential", either because they are fundamental to economic activity and economic growth, such as utilities or transport infrastructure, or because they support important social functions, such as education or healthcare facilities.

Key features include:

- capital-intensive;
- high EBITDA margins;
- some degree of inflation linkage;
- low cyclical volatility;
- predictable, income-oriented returns once operational; and
- potential for capital growth.

Infrastructure assets typically have only a low correlation with other asset classes, including listed equities, real estate and fixed income. The quality and predictability of cash flows tend to result in attractive distributions to shareholders.

Investment strategy
3i Infrastructure's objective is to provide shareholders with a total return of 12% per annum, to be achieved over the long term. Within this overall objective, the Company targets an annual distribution yield of 5% of opening net asset value.

In advising the Company on how to deliver these objectives, the Investment Adviser adopts a three-step process, as represented in the diagram below.

We have applied this strategy consistently since the Company was set up, **and have built a core infrastructure portfolio**, which now has a five-year track record of providing:

- **significant income** – this has supported and will continue to support the delivery of 3i Infrastructure's 5% yield objective;
- **strong capital profits** – from well managed realisations; and

- **an element of capital growth** – underpinning the overall 9.4% annual return to shareholders over the five years of the Company's existence.

Investment Adviser's approach

1. Rigorous approach to investment	2. Best-in-class portfolio management	3. Investing for long-term value creation
We maintain a firm focus on core infrastructure, buying assets at attractive price points that contribute to the delivery of the Company's objectives.	We apply consistent and rigorous asset management to drive good operational performance in investments, which underpins portfolio cash generation.	3i Infrastructure is a long-term investor. We encourage portfolio companies to invest to create value over time.

Building a core portfolio
The Investment Adviser's strategy is to build a portfolio that delivers a balance of yield and capital growth, in line with the Company's return objectives.

The infrastructure asset class is well suited to this strategy, as it offers the opportunity to diversify investments across the risk/return spectrum. As shown in the table below, we believe the infrastructure asset class can be subdivided into three main categories: social, core and hybrid infrastructure.

Returns from these assets typically range between 8% and 15% or more, depending on the risks associated with the investment. Yields generated from the investments also vary, depending, among other things, on the state of development of the assets (eg assets under construction versus operational assets).

3i Infrastructure aims to deliver the 12% net return over the long term by building a portfolio which is predominantly weighted towards mature core infrastructure, with some exposure to social infrastructure to underpin the yield, and some exposure to hybrid infrastructure to provide an element of higher capital growth.

Core infrastructure companies are dynamic businesses which own their asset base, not finite concessions like PFI investments. As such, the management of core infrastructure businesses is more complex and requires a broader set of skills, including:

- **a sound operational understanding** of the businesses and how to drive long-term value through investment in the asset base, the management of costs and the incentivisation of management teams;

- **in-depth knowledge of the market and regulatory dynamics**; and

- **the ability to deliver an efficient financing structure** which must evolve over time according to the needs of the business.

The Investment Adviser applies these skills to its origination and asset management activities and has built a strong track record of investment in core infrastructure businesses.

Social Infrastructure/PPP/PFI	**Core infrastructure**	**Hybrid infrastructure**
8-12% target return	10-16% target return	>15% target return
• High inflation correlation • Mainly government-backed revenue streams • Lower risk/return profile • Strong yield when fully operational	• Dynamic businesses owning their asset base, not concessions with a finite life • Low volatility across economic cycles – low volume/ market/GDP risk – strong market position • Asset management key to driving value – operational expertise/ management of long-term performance – financing skills – management incentives	• Higher risk characteristics – country risk – market/volume risk – GDP correlation • Operational expertise in building out the assets and running the business is more important

New investment case study: LNI

The business
Lakeside Network Investments ("LNI") holds 100% of two companies: LNI Verkko Oy ("LNI Verkko") and LNI Lämpö Oy ("LNI Lämpö"). The businesses were purchased from Vattenfall AB in January 2012, as part of the vendor's non-core disposal programme, for an enterprise value of €1.54 billion. 3i Infrastructure contributed £195 million in equity to fund its share of the consideration, reaching its investment concentration limit.

LNI Verkko is the second-largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 400,000 customers in South West Finland, and has a 12% market share. The business is regulated on a four-year cycle, delivering a set return on its Regulated Asset Base ("RAB"). LNI Verkko accounts for approximately 85% of the overall transaction value.

LNI Lämpö operates 17 local district heating networks, with strong market shares in their areas, and owns the seventh longest network in Finland. District heating, which involves the pumping of hot water for heating and general purposes directly into homes from central hubs, is not regulated in Finland.

The consortium
LNI is owned by a consortium comprising

- 3i Infrastructure plc (39% share) and 3i Group plc (6% share)
- GS Infrastructure Partners (45% share)
- Ilmarinen Mutual Pension Insurance Company (10% share)

A compelling investment case
1. Stable and transparent regulatory environment for LNI Verkko
- The new four-year regulatory period began in January 2012, providing clarity over the medium term
- Current regulatory incentives encourage investment, providing opportunities for value-accretive growth in LNI Verkko's RAB
- LNI Verkko is one of the most efficient Finnish electricity distribution networks, with a strong track record of delivering network development and technical innovation (eg smart metering). Investment and innovation are likely to remain key aspects of future regulatory incentives

2. Profitable, with inflation linkage and attractive yield
- Both businesses generate high EBITDA margins, which are likely to support a strong yield over the long term
- Returns for LNI Verkko are linked to inflation through the annual indexation of its RAB and the annual adjustment of operating cost allowances in line with local inflation indices
- LNI Lämpö has generally been able to increase its charges at least in line with inflation

3. Attractive market, with opportunities for growth
- Finland is one of the largest electricity consumers in Europe on a per capita basis, with demand expected to grow steadily
- LNI Verkko may be able to leverage its operational efficiencies and technological superiority to create consolidation opportunities in the electricity distribution market in Finland

4. Sector and geographic diversification
- This investment diversifies the Company's portfolio away from UK regulation and provides 3i Infrastructure with exposure to a core utility business in an economically strong, AAA-rated European country

Asset distribution

At 31 March 2012, 76% of the portfolio was invested in core infrastructure. This core portfolio has been built over time, as shown in Table 1.

The Company's core infrastructure investments, now including AWG, Oystercatcher, Eversholt and LNI, generate gross returns that are consistent with 3i Infrastructure's return objectives, a substantial proportion of which are delivered in the form of portfolio income.

The completion of the investment in LNI in 2012 was a key event. LNI, a mature business with operations in a country with attractive macroeconomic fundamentals, complements the other portfolio companies in terms of geography and sector exposure.

Managing the portfolio

The Company's intention is generally to hold investments over the long term and to generate income from these over time. Matching the long-term hold period of the underlying investments with evergreen funding was the principal reason for structuring the Company as a listed vehicle with permanent capital.

In contrast, the 3i India Infrastructure Fund was structured as a 10-year investment vehicle with a strategy of holding investments through their construction/development phase and exiting when they establish a track record of operational performance.

In light of the complexity and long-term nature of infrastructure investing, and in particular core infrastructure investing, portfolio management is a key area of focus for the Investment Adviser and is an important tool in achieving 3i Infrastructure's return objectives.

We develop a comprehensive understanding of the businesses in which the Company invests, of the markets in which they operate, their competitive dynamics and the relevant regulatory environment. We engage with the management teams of the portfolio companies, at board level as well as more informally, with the objective of delivering:

- **strategies that support growth in the long term**;
- continued **improvements in operational performance**;
- **disciplined cash management**;
- **efficient capital structures**, that can evolve according to market contingencies and business needs; and
- **alignment of interests between management and shareholders**, ensuring management focus on the long-term development of the business, rather than short-term goals.

We monitor business performance to ensure that any issues are identified and acted upon quickly. We receive monthly management information from portfolio companies, and establish channels of communication with management teams, outside the formal governance framework, including regular working groups with a focus on, for instance, business plans, capital structure and regulation.

Table 1
Asset distribution, value at 31 March (£m)

	Social Infrastructure	Core	Hybrid
2012	94	683	114
2011	121	566	135
2010	114	436	98
2009	66	380	90
2008	175	277	38
Seed portfolio at inception	94	140	-

Tables 2 and 3 illustrate how the Investment Adviser's investment management strategy has delivered strong returns from the portfolio. In particular, the tables show that:

- **the return is underpinned by substantial cash generation** in the form of income or realised profits;
- most investments **return a significant proportion of their cost** through income **in a relatively short period of time**; and
- where investments have been sold, notably in the PFI and junior debt portfolios, **they have generated good uplifts over cost**.

Table 2
Portfolio asset returns throughout holding period (five years since inception, £m)

Asset	Total cost	Value at 31 March 2012 including accrued interest	Proceeds on disposals/ capital returns	Cash income
AWG	173	209	12	83
LNI	195	201	-	-
Eversholt	151	154	15	46
Oystercatcher	85	118	-	42
Junior debt portfolio	120	-	135	24
3i India Infrastructure Fund	102	114	-	-
PFI portfolio	233	94	229	38
T2C and Novera	18	-	10	-

As shown in Table 3, in total, from investment of £1,075 million, the portfolio has already returned cash income of £233 million since inception, and realised proceeds of £400 million, helping to deliver the Company's dividend objectives since inception.

Table 3
Portfolio cash generation (five years since inception, £m)

	£m
Net IPO and placing and open offer proceeds	804.5
Investment	(1,075.2)
Proceeds from disposals	399.9
Cash income received	232.8
Dividends paid	(195.9)
Other net cash flow	(63.1)
Conversion of warrants	70.4
Cash at 31 March 2012	173.4
Portfolio at 31 March 2012	890.8

While 3i Infrastructure is set up to hold investments over the long term, it will sell assets on an opportunistic basis, where compelling offers generate shareholder value, as was the case for Alma Mater and I^2 in 2008 and 2009 respectively. The exit from I^2, completed this year, generated an IRR of 23.8%.

The Company will also sell investments where market conditions suggest that a sale might be appropriate, as was the case with the junior debt portfolio.

The assessment of the market opportunity for investment, as well as realisations, is another of the key skills that the Investment Adviser brings to the Company. Our ability to react quickly to market opportunities, timing investments and exits, is exemplified by the Company's investments in the junior debt portfolio, which delivered an IRR of 11.6% through their holding period, as described in more detail in the Junior Debt portfolio case study.

Divestment case study: junior debt portfolio

The market opportunity and investment rationale
During the course of 2008 and 2009, 3i Infrastructure invested in a portfolio of five junior debt holdings in core infrastructure businesses with leading positions in the markets in which they operate.

The strategy was to acquire these holdings at prices below par, delivering attractive equity-like returns to maturity and strong levels of cash yield.

The investments were timed over a period when asset valuations were under stress due to broader market pressures on similar debt instruments. The operational performance of the issuers at the time of investment was, however, robust. The divestments were timed when the pressure on the market value of traded loan instruments was easing and the portfolio was sold progressively through the course of 2010 and 2011, as the holdings traded towards par.

The assets
Viridian operates both regulated and unregulated businesses within the Irish energy market, managing power transmission, distribution and supply infrastructure, as well as a power generation business and a business offering services to the power industry.

NGW Arqiva is the leading owner and operator of national broadcast infrastructure supporting television, radio and wireless communication in the UK.

Télédiffusion de France is the leading provider of broadcast transmission infrastructure and services and telecommunications infrastructure in France, and also has operations in Germany, Finland and Hungary.

Thames Water is the UK's largest water and wastewater services company, operating across London and the Thames Valley.

Associated British Ports is the largest port group in the UK, and operates facilities in England, Scotland and Wales.

Income generation and IRRs

Holding	Investment cost £m	Income throughout holding period £m	IRR %
Viridian	42.0	6.6	12.0
NGW Arqiva	32.4	6.4	8.5
Télédiffusion de France	24.2	6.6	14.9
Thames Water	18.9	3.9	11.6
Associated British Ports	2.4	0.1	20.3
Total	**119.9**	**23.6**	**11.6**

Overall, the investments, which are now fully realised, generated an aggregate IRR of 11.6% and proved that the Company can take advantage of its financial flexibility and the experience and track record of the Investment Adviser to execute quickly on new opportunities that emerge in challenging markets.

Investing for the long term
Driving income generation from the portfolio is crucial to the delivery of the Company's return objectives. Returns from core infrastructure businesses, however, also have a significant capital growth component, which is maximised through capital investment for long-term development. **Infrastructure investing, and in particular core infrastructure investing, is not just about extracting short-term yield, but about creating and maintaining value over the long term**.

As long-term investors, we encourage companies to implement strategies that deliver value accretion over time.

As described earlier, the Investment Adviser engages constructively with the management teams of portfolio companies at board level, as well as more informally. As an engaged partner, the **Investment Adviser supports and empowers management teams to devise and implement development strategies that support growth over a long-term period of ownership**. This requires an in-depth knowledge of market and sector dynamics, as well as an understanding of the long-term value drivers for each of the assets.

Table 4 shows how **this strategy has resulted in robust levels of revenue and EBITDA growth year-on-year** in the underlying portfolio companies. This, in turn, supports the steady value growth of the companies in 3i Infrastructure's portfolio.

High EBITDA and revenue growth levels in 2009 and 2010 were driven by strong performance at Oystercatcher, during an expansion phase following investment, and at AWG. Given the portfolio composition at that time, these strong performances had a disproportionately high impact on the weighted average. In subsequent years, as the portfolio developed, the weighted average EBITDA growth for those years was therefore representative of a broader set of underlying investments.

Table 4
Portfolio companies' revenue and EBITDA growth by category
(last four financial years, % year-on-year growth)

	Revenue	EBITDA
2012	7.4%	4.5%
2011	4.3%	1.4%
2010	6.0%	11.2%
2009	10.3%	13.6%

Market and opportunities

Conditions for investment

Europe
A number of relatively sizeable infrastructure transactions were completed during the year, despite significant market and macroeconomic headwinds. These included the sale of electricity networks in the UK and in Germany, the public-to-private acquisition of Northumbrian Water in the UK, the acquisition of major stakes in the Gassled pipeline in Norway, as well as the €1.5 billion acquisition of LNI in Finland by the Company and its consortium partners. This activity was underpinned by the continued availability, for strong infrastructure businesses, of bank and capital markets debt at relatively attractive terms, even while liquidity remained constrained in other sectors and asset classes.

Other significant processes are ongoing, such as the Thameslink procurement programme, for which 3i Infrastructure, in the XLT consortium with Siemens and Innisfree, was selected as preferred bidder last summer. We are currently working with the Department for Transport to bring this transaction to a financial close.

The year was, however, characterised by an increase in macroeconomic and market volatility, fuelled by concerns over European sovereign debt, the stability and viability of the euro as a currency, the solvency of European banks and the availability of credit to the broader economy.

Due to this increased volatility, we have focused our investment origination activities on a narrower set of opportunities. In particular, in light of the increased risks involved in investing in the euro periphery, our focus has been on opportunities in the UK and Northern Europe, as exemplified by the Company's investment in LNI and the proposed investment in the Thameslink project.

India
Macroeconomic conditions in India are challenging, with high inflation and a growing fiscal deficit impacting the outlook for growth. These challenges have affected market performance: the BSE Sensex, India's principal stock market index, declined by 10.4% in the year to 31 March 2012. Transaction activity, as a result, has been slower. Nevertheless, the local banking market remains supportive of infrastructure development and our team in India is progressing a number of opportunities.

Opportunities

There has been little change to the themes driving our pipeline. **Non-core disposals** from corporates and financial institutions continue to provide the bulk of the opportunities, including the Company's investment in LNI in Finland.

Over time, we expect governments throughout Europe to **develop frameworks and incentives to encourage private investment in infrastructure**, as they continue to focus on reducing their budget deficits. The UK government, for instance, published an updated National Infrastructure Plan in November 2011, containing major commitments to improve the UK's transport and broadband networks as well as steps to attract significant new private sector investment. The Treasury is also leading initiatives to encourage UK pension fund investment in infrastructure, as well as increased foreign investment.

Resource-constrained governments might also choose to **privatise or open up essential infrastructure through PPP-style transactions**, as was the case for the Thameslink procurement programme. In the UK, it is likely that government-owned assets, in particular in the transportation sector, will be sold to private investors when operational. In addition, the UK government announced in March that it is assessing the possibility of privatising trunk roads. Similar debates and initiatives are taking place across Europe.

Opportunities in Europe could also come, in due time, **from the acquisition of assets from other financial investors**. Some infrastructure funds are nearing the end of their investing periods and will need to realise investments to return capital to investors, or to prove valuations. There may also be opportunities from the **refinancing of companies**, as overall levels of leverage reduce.

India remains a significant market for private infrastructure investors. Strong GDP growth and an increasingly urbanised population continue to drive demand for new build infrastructure. While overall transaction volumes have declined, the Indian government remains committed to private sector participation.

Outlook

In addition to broader M&A and debt market considerations, the outlook for inflation and interest rates will be an important determinant of the conditions for investment in the future. While inflation is relatively high in most developed countries, we believe that in the short term this will have a limited impact on interest rates, as governments and monetary authorities try to stimulate growth.

Competition for infrastructure assets is increasing. Significant funds have been raised over the last few years. However, disintermediation is becoming a key feature of the market, as some investors, including notably sovereign wealth funds and large pension funds, are investing directly in infrastructure assets rather than through funds. Corporate buyers have also been active in the market over the last few years, as many restructure and refocus their businesses. This has resulted in greater pricing pressure for infrastructure assets, in particular at the lower end of the risk-return spectrum.

The Investment Adviser has a solid track record of completing complex transactions and working alongside strong operating partners and other investors. It also has a broad network of relationships with banks and the capital markets. This means that 3i Infrastructure is well placed to access the best deal flow and to manage the portfolio to deliver on its return objectives when fully invested, even in volatile markets.

Portfolio

Table 5 below summarises the valuation and movements in the portfolio, as well as the return per asset, for the year to 31 March 2012 on an investment basis. Table 6 illustrates the breakdown of the portfolio by geography, sector and maturity at 31 March 2012. Table 7 illustrates the distribution of the portfolio in the risk/return framework.

Table 5
Portfolio summary on an investment basis (£m)

Portfolio assets	Directors' valuation 31 March 2011	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation
AWG	195.9	-	-	13.5	-
LNI	-	194.8	-	4.6	1.6
Eversholt	160.7	-	(14.7)	8.2	-
Oystercatcher	119.6	-	-	5.8	(7.2)
3i India Infrastructure Fund	134.7	8.2	-	(30.0)	1.3
Elgin	40.2	-	(0.1)	1.9	-
Octagon	31.1	-	-	2.2	-
Alpha Schools	17.7	-	-	0.8	-
Junior debt portfolio	90.2	-	(90.2)	-	-
I^2 loan notes	31.6	0.6(1)	(32.2)	-	-
T2C	-	-	-	-	-
	821.7	203.6	(137.2)	7.0	(4.3)

Table 5 continued **- Portfolio summary on an investment basis** (£m)

Portfolio assets	**Directors' valuation 31 March 2012**	Loss on disposal in the year	Income in the year	**Asset total return in the year**
AWG	**209.4**	-	20.2	**33.7**
LNI	**201.0**	-	-	**6.2**
Eversholt	**154.2**	-	33.1	**41.3**
Oystercatcher	**118.2**	-	9.5	**8.1**
3i India Infrastructure Fund	**114.2**	-	-	**(28.7)**
Elgin	**42.0**	-	3.2	**5.1**
Octagon	**33.3**	-	2.9	**5.1**
Alpha Schools	**18.5**	-	1.3	**2.1**
Junior debt portfolio	**-**	(4.7)	1.8	**(2.9)**
I^2 loan notes	**-**	-	1.1	**1.1**
T2C	**-**	-	-	**-**
	890.8	(4.7)	73.1	**71.1**

(1) Capitalised loan note interest.

Table 6					
Portfolio by geography		**Portfolio by sector**		**Portfolio by maturity**	
UK and Ireland	51%	Social infrastructure	11%	Early stage	6%
Continental Europe	36%	Transportation	37%	Operational growth	7%
Asia	13%	Utilities	52%	Mature	87%

Table 7
Risk/return spectrum and asset distribution

	Social Infrastructure/ PPP/PFI	**Core infrastructure**	**Hybrid infrastructure**
	8-12% target return	10-16% target return	>15% target return
	• Three assets – Elgin: a portfolio of 16 school and community healthcare projects – Octagon: concession company to build, operate and maintain the Norfolk and Norwich University Hospital – Alpha Schools: a portfolio of 11 schools in the Highlands of Scotland • No new additions in the year • I^2 vendor loan notes repaid during the year	• Four assets – Anglian Water Group: owns Anglian Water, the fourth largest water supply and wastewater company in England and Wales – Eversholt Rail Group: one of the three leading rail rolling stock companies in the UK – Oystercatcher: holding company through which 3i Infrastructure invested in stakes in three oil storage facilities • New investment in LNI (£195 million) completed in the year - owns the second- largest electricity distribution business in Finland and a district heating business	• 3i Infrastructure has a US$250 million commitment to the 3i India Infrastructure Fund, 70% drawn at 31 March 2012 • This is a US$1.2 billion fund focusing on the port, airport, road and power sectors • Six assets – three in the power sector – two in the roads sector – one in the ports sector • The Fund drew £8 million in the year from 3i Infrastructure for a further investment in GVK Energy
Portfolio asset distribution	**£93.8m** **11%**	**£682.8m** **76%**	**£114.2m** **13%**

Movements in portfolio value

As set out in Table 8, the value of 3i Infrastructure's portfolio increased from £821.7 million to £890.8 million over the course of the financial year.

The change was driven by investment of £203.6 million, divestment of £137.2 million, an unrealised value growth of £7.0 million and reported foreign exchange losses (before hedging) of £4.3 million.

Investment
Investment activity increased in the year to 31 March 2012, with total investment of £203.6 million (2011: £187.5 million). This amount is almost entirely attributable to the £194.8 million (€235.6 million) acquisition of LNI, with the balance substantially attributable to a £8.2 million further investment in GVK Energy through the 3i India Infrastructure Fund (the "Fund").

Lakeside Network Investments
On 16 December 2011, 3i Infrastructure, as part of the LNI consortium, agreed to acquire 100% of the equity in LNI Verkko and LNI Lämpö from Vattenfall AB, in a transaction valuing these businesses at approximately €1.54 billion. 3i Infrastructure contributed £194.8 million in equity to this transaction.

The acquisition enhances the current portfolio in terms of geographic and sector exposure. As core infrastructure investments, the businesses provide exposure to relatively low risk revenue streams and good inflation linkage.

The LNI consortium comprises 3i Infrastructure plc and 3i Group plc (together owning a 45% share), GS Infrastructure Partners (45% share) and Ilmarinen Mutual Pension Insurance Company (10% share). 3i Infrastructure and 3i Group invested through 3i Networks Finland LP, a partnership in which they have taken 87% and 13% stakes respectively.

GVK Energy Limited
The 3i India Infrastructure Fund drew £8.2 million from the Company to finance the second tranche of its investment in GVK Energy Limited. The Fund initially committed US$172.6 million in a substantial minority in GVK Energy in December 2010. 3i Infrastructure's share of this investment was US$36.1 million, of which US$23.3 million was drawn by the Fund on announcement, while the balance (US$12.8 million, £8.2 million) was drawn in February 2012.

Table 8
Reconciliation of the movements in portfolio value on an investment basis (£m)

Opening portfolio value at 1 April 2011	821.7
Investment	203.6
Cost divested	(137.2)
Unrealised value movement	7.0
Report foreign exchange losses on investments	(4.3)
Closing portfolio value at 31 March 2012	890.8

Divestment

The Company generated realisation proceeds of £132.5 million (cost divested of £137.2 million) in the year to 31 March 2012 (2011: £43.2 million).

Junior debt portfolio
A significant proportion of these proceeds (£85.5 million) was generated from the exits from the three remaining holdings in the junior debt portfolio: NGW Arqiva, Thames Water and

Télédiffusion de France. These exits were profitable against the investment cost and provided some protection for the Company's NAV in light of the subsequent volatility in junior debt markets.

In April 2011 the Thames Water junior debt tranche was repaid before its full term by the borrower, generating proceeds of £21.3 million. This represented an uplift over the value at 31 March 2011 of £0.2 million. The NGW Arqiva junior debt tranche was sold in April 2011 for £34.2 million, generating a profit over the value at 31 March 2011 of £1.9 million. Finally, in October 2011, the Company contracted to sell the entirety of its holding in Télédiffusion de France junior debt, for £30.0 million, an amount equivalent to the carrying value at the end of September, but representing a loss compared to the March 2011 value of £6.8 million.

Other capital proceeds
The balance of realisation proceeds of £47.0 million was substantially attributable to the partial repayment of the Eversholt Rail Group ("Eversholt") shareholder loan and the early repayment of the full balance of the I^2 vendor loan notes.

Eversholt repaid a portion of its shareholder loan (£14.7 million to the Company) in two stages, in August 2011 and March 2012. The structure of the investment in Eversholt includes both equity and shareholder loans. Eversholt is performing well and generating strong operating cash flows, and as a result was able to repay a small portion of the shareholder loan in addition to making its regular interest payments and distributing a dividend in the financial year under review.

The I^2 vendor loan notes were also repaid in full to 3i Infrastructure in two stages by Barclays Integrated Infrastructure Fund LP. The first tranche of the repayment, of £26.4 million, was received in August 2011, and the balance of £5.8 million was repaid in November 2011. These outstanding vendor loan notes related to the sale of I^2 in January 2009, which is now complete and generated a total IRR of 23.8%.

Unrealised value movement

As shown in Table 8, overall the portfolio generated a total unrealised value gain of £7.0 million (2011: £36.5 million). Despite the strong returns achieved from the European portfolio, the unrealised value gain was lower than last year, principally due to the mark-to-market losses on the valuation of Adani Power Limited, held in the 3i India Infrastructure Fund.

PFI portfolio
The PFI portfolio achieved unrealised value growth of £4.9 million in the year to 31 March 2012. This growth was driven by the robust operational performance of the assets, offset by the income generated in the year. The PFI portfolio also benefited from higher than expected inflation during the year.

Core portfolio
The core portfolio generated the largest uplift with unrealised value growth of £32.1 million, driven by the strong operational performance of the underlying portfolio companies, and, similarly to the PFI portfolio, partly offset in most cases by strong income receipts.

The valuation of AWG (£209.4 million at the end of March 2012, compared to £195.9 million a year earlier) benefited from higher than expected inflation in the UK, but was impacted negatively by poor trading conditions at a subsidiary, Morrison Facilities Services. The discount rate used to value the Company's holding in AWG was reduced from September 2011, as described in the Discounted cash flow and discount rates section.

Eversholt was valued at £154.2 million (after the loan repayment of £14.7 million), compared to £160.7 million one year ago, reflecting its continued strong operational performance since acquisition.

The valuation of Oystercatcher (£118.2 million, compared to £119.6 million a year earlier) benefited from the strong operational performance of its three storage terminals, but this was offset by an increase in the discount rate used to value the asset, as described in the Discounted cash flow and discount rates section.

LNI was valued at £201.0 million, compared to a total consideration for the acquisition of £194.8 million, reflecting principally the roll-forward of the DCF valuation model since acquisition.

3i India Infrastructure Fund
The valuation of the 3i India Infrastructure Fund declined from £134.7 million at the start of the year to £114.2 million. This movement, which includes new investment of £8.2 million, was principally driven by a £24.9 million reduction in the valuation of Adani Power (including foreign exchange losses) following a 39% fall in its share price. This share price decline was mainly a consequence of an increase in global coal prices and coal shortages in India, as well as of volatility in merchant power prices. The valuation of the other assets fell marginally by £3.8 million, as unrealised value increases, underpinned by steady advances in the build out of their facilities, were offset by foreign exchange losses.

Foreign exchange impact

Foreign exchange rates were volatile throughout the year. As set out in Table 9, the reported foreign exchange loss on the portfolio of £4.3 million (also set out in Table 8) increased to a net loss of £16.3 million (2011: £4.3 million loss) after the impact of other foreign exchange related movements. The most significant of these was the loss arising from the US$/rupee exchange rate movements which formed part of the unrealised value movement of the US dollar-denominated 3i India Infrastructure Fund.

Sterling appreciated by 14% against the Indian rupee in the year, resulting in net foreign exchange losses of £16.0 million for the Company, as its exposure to the Indian rupee through the 3i India Infrastructure Fund remains unhedged. The Board monitors both the rupee exposure and the cost/benefit of hedging that exposure on a regular basis. The foreign exchange losses incurred within the US dollar-denominated 3i India Infrastructure Fund had a significant impact on the valuation of the Fund and on overall returns in the year.

During the period, sterling also appreciated by 6% against the euro, but the resulting losses were offset by foreign exchange hedging entered into to provide mitigation from movements in the sterling/euro exchange rate, resulting in a small negative net impact of £0.3 million.

Underlying asset performance

The fully operational assets in which the Company holds an equity stake delivered a solid performance during the year. Earnings before interest, tax, depreciation and amortisation (“EBITDA”) for these assets increased by 4.5% on a like-for-like basis relative to the prior year.

This figure is calculated on a weighted average basis and the assets included in this analysis are those that have been operational and held by the Company for one year or more: AWG, Eversholt, Oystercatcher, Elgin (underlying project companies), Octagon and Alpha Schools and, within the 3i India Infrastructure Fund, Adani Power, Soma Enterprise and Krishnapatnam Port.

Specifically, Eversholt saw an EBITDA growth of 11.4% over the prior comparable year, while Oystercatcher's EBITDA remained flat and AWG's declined by 1.3%. However, the EBITDA of AWG's core regulated water business, Anglian Water, was up 1.3% year-on-year. The decline in AWG's overall EBITDA was driven mainly by the weaker performance of Morrison Facilities Services, one of its non-core subsidiaries, due to challenging trading conditions in the social housing sector.

As shown in Table 4, this was the fourth consecutive year of EBITDA increases, demonstrating the robustness in the performance of the portfolio across a period of volatile market conditions.

In India, the growth rates in earnings are considerably higher than for the European portfolio, as investments are at an earlier stage of development.

T2C is still not yet fully operational and remains valued at nil.

Table 9
Impact of foreign exchange movements on returns (£m)

	Sterling/Rupee	Sterling/Euro	Net impact
Translation of assets £/US$	1.3		1.3
Translation of assets £/€		(5.6)	(5.6)
Reported foreign exchange losses on investments			**(4.3)**
Asset valuation US$/rupee[(1)]	(17.3)		(17.3)
Movement in the fair value of derivative financial instruments (£/€ hedging)		5.3	5.3
Other foreign exchange movements			**(12.0)**
Net foreign exchange losses	**(16.0)**	**(0.3)**	**(16.3)**

(1) Contained within Unrealised profits on revaluation of investments in Table 11.

Summary of valuation methodology

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

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

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

- earnings multiples
- recent transactions
- quoted market comparables
- regulated asset base multiples

Discounted cash flow and discount rates

Around 96% of the portfolio was valued on a DCF basis at 31 March 2012. The weighted average discount rate applied was 12.6% (2011: 13.2%), deriving from a range of 8.2% (an operational PFI asset) and 19.0% (a project within the 3i India Infrastructure Fund). The main reason for the year-on-year decrease in the weighted average discount rate was the addition of LNI to the portfolio, which was valued using a discount rate lower than the previous weighted average.

Table 10 shows the movement in the weighted average discount rate applied to the portfolio in each six-month period since inception.

The discount rate applied to each investment is reviewed at each valuation date. The rate selected reflects the risk inherent in the business, taking into account sustained movements in the "risk-free" rates of return in the relevant country and appropriate risk premia.

Risk-free rates (equating to 10/30-year government bond yields) have declined over the year. In light of current market conditions, and particularly in light of increasing uncertainty across markets reflected in our assessment of risk premia and of current market pricing, the decline in risk-free rates did not result in a reduction of the discount rates used to value the portfolio, other than for AWG for which it formed part of the overall rationale for the reduction in discount rates, as described below.

Changes to the discount rates used to value the assets are as follows.

AWG The discount rate used to value the Company's holding in AWG was reduced, reflecting: (i) the valuations achieved in recent transactions in the UK water sector; (ii) AWG's strong track record of operational performance and its good progress against its opex and capex targets set out in the regulatory settlement; (iii) the decline in risk-free rates; and (iv) the company's continued ability to refinance its debt in the market at attractive rates, as reflected in the continued reduction in AWG bond yields.

Oystercatcher The discount rate used to value Oystercatcher was increased to reflect a higher refinancing risk and greater sensitivity to interest rates and exchange rates, as the maturity of the acquisition debt facility and of associated interest and exchange rate hedging instruments approaches. This increase is not a reflection of the operating performance of the underlying companies, which remains robust.

Elgin The discount rate used to value the Elgin portfolio was reduced slightly to reflect the track record of good operational performance achieved by the assets, and aligning it to the discount rate used to value the rest of the PFI portfolio.

India The discount rates applied to value projects across the Fund's portfolio, based on their stage of development, have remained broadly unchanged. The discount rates used to value a few individual projects held within GVK Energy and KMC Roads were reduced, as construction milestones were reached. This had no material impact on the overall discount rate applied across the Fund.

3i India Infrastructure Fund

The Company's investment in the 3i India Infrastructure Fund was valued as its share of net assets held by the Fund. Within the Fund valuation, Adani Power, which has been a listed company since August 2009, was valued on a mark-to-market basis using closing bid prices. All other assets were valued on a DCF basis, with the exception of a portion of Soma Enterprise's valuation, which was calculated using earnings multiples, and a small element of the Krishnapatnam Port valuation, derived from value attributable to a put option, which provides downside valuation protection.

Table 10
Portfolio weighted average discount rate

September 2007	13.1%
March 2008	12.4%
September 2008	12.0%
March 2009	13.8%
September 2009	12.8%
March 2010	12.5%
September 2010	12.5%
March 2011	13.2%
September 2011	13.1%
March 2012	12.6%

Review of investments

Anglian Water Group

Description
Anglian Water Group Limited ("AWG") is the parent company of Anglian Water, the fourth-largest water supply and wastewater company in England and Wales as measured by regulatory capital value. The majority of the group's revenue is earned through tariffs regulated by Ofwat and linked to RPI. The group also includes Morrison Facilities Services, a support services business focused on the local authority and social housing sectors, and a small property business.

The investment is held through 3i Osprey LP, an intermediary limited partnership whose partners comprise other third parties (including 3i Group, which has a small interest) and which is separately managed by 3i Investments.

Performance in the year

Cost	£161.9m
Opening value	£195.9m
Closing value	£209.4m
Equity interest	10.3%
Income in the year	£20.2m
Asset total return in the year	£33.7m
Valuation basis	DCF

Investment rationale
AWG was taken private in 2006 by a group of investors, including Colonial First State, Canada Pension Plan, Industry Funds Management and 3i Group, which "seeded" part of its AWG holding in 3i Infrastructure when it was set up in 2007. The business has strong infrastructure characteristics:

- a **regulated near-monopoly position** in its geographical area for the provision of water supply and wastewater treatment;
- **stable and predictable earnings and cash flows** through RPI-linked tariffs; and
- **largely predictable operating costs**.

In addition, AWG had attractive fundamentals:

- **a strong management team**;
- a relatively **modern asset base**; and
- operations in a geographic region with **high population growth** and **low industrial exposure**, limiting cyclical correlation.

What has been achieved in the period of ownership
AWG has flourished under private ownership. It has refocused on its core business, selling Morrison Utilities Services and most of its property portfolio. The company has been able to adopt a more efficient capital structure compared to listed peers, and to distribute a higher proportion of cash flows to shareholders, resulting in a strong yield. The Regulated Capital Value ("RCV") has grown steadily, underpinned by a comprehensive capital expenditure programme, which has been maintained for the 2010–2015 regulatory period.

A new management incentive scheme was put in place post investment, aligning compensation with long-term value growth rather than short-term share price performance.

The management now balances long-term planning, for example to respond to the challenges of climate change, with focus on operational efficiency.

Developments in the year

AWG continues to perform robustly and to generate a strong level of yield for 3i Infrastructure. Anglian Water is implementing its regulatory settlement, with a strong focus on its wide-ranging efficiency programme.

In October 2011, Anglian Water took over the operation and maintenance of private sewers within its catchment area, adding c.60% to its sewer network. This was well managed, with minimal operational impact.

The key issue currently facing Anglian Water is the drought. Following two unusually dry winters, much of its region was declared officially “in drought” by Defra (Department for Environment, Food and Rural Affairs) and the Environment Agency last June. This extended period of dry weather has led to low water levels in key reservoirs and groundwater sources. The company has responded to this challenge by obtaining drought permits from the Environment Agency to allow increased abstraction from waterways, by implementing a capex plan to allow more water to be moved to dry areas, by continuing to focus on leakage, and by intensifying communication to its customers on water conservation, most notably through its “Love Every Drop” campaign. In March, Anglian Water, along with other water companies in the South East of England, announced it would put in place a hosepipe ban from April 2012.

During the year, Ofwat issued several consultation papers on future regulation, and the Government published “Water for Life”, setting out a vision for future water management which will lead to legislative change in due course. Anglian Water has been pro-active across the broad range of issues covered by these publications, and will continue to engage widely to ensure that it influences, and is well placed to respond to, the changes that will ensue.

Anglian Water has consistently improved its ranking in Ofwat’s Service Incentive Mechanism (“SIM”) survey of customer satisfaction, and expects to be in a good position among combined water and sewerage companies in the full year’s SIM result (which combines survey results with quantitative data and replaces Ofwat’s Overall Performance Assessment).

Morrison Facilities Services, a subsidiary of AWG active principally in the provision of repairs and maintenance services to the social housing sector, has seen poor trading conditions, due mainly to spending cuts implemented by local authorities throughout the UK. Management has implemented a restructuring of the business to improve efficiency and reduce cost, and profitability is improving.

Eversholt Rail Group

Description
Eversholt Rail Group ("Eversholt") is one of the three leading rail rolling stock companies in the UK, and owns approximately 28% of the current British passenger train fleet. Its 19 fleets, predominantly weighted towards electric trains, are leased to 11 Train Operating Companies ("TOCs"). Although its primary revenue stream consists of lease payments from TOCs, it also owns a freight fleet, which accounts for under 10% of its total value.

The rolling stock companies are not directly regulated, and have instead entered into codes of practice, monitored by the Office of Rail Regulation, under which they agree to work fairly and reasonably with their customers.

Performance in the year

Opening cost	£151.1m
Closing cost	£136.4m
Opening value	£160.7m
Closing value	£154.2m
Equity interest	33.3%
Income in the year	£33.1m
Proceeds received in the year	£14.7m
Asset total return in the year	£41.3m
Valuation basis	DCF

Investment rationale
3i Infrastructure, in consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners, acquired 100% of Eversholt in December 2010.

Eversholt is a well established infrastructure business and fits well with 3i Infrastructure's investment mandate:

- it has **strong market fundamentals**, with its fully utilised fleets likely to retain value in the long term, due to strong passenger demand and the high cost of new trains;
- it has **high quality cash flows** contracted for the medium term through lease agreements with the TOCs; and
- it has a **defensive fleet portfolio**, weighted towards electric trains, with a good operational history, leased to a diversified customer base.

What has been achieved in the period of ownership
The consortium has strengthened Eversholt's governance through the appointment of several highly experienced non-executive directors to the Irish and UK boards and the establishment of audit and remuneration committees with investor representation. Recruitment of several suitably experienced people to the Irish and UK businesses has bolstered Eversholt's technical, legal and financial resources to address the significant increase in workload during the next two to three years of rail franchise tendering.

Eversholt's capital structure was de-risked through the issuance of three long-dated public bonds for a total of £1.1 billion, attracting strong demand from public market investors and priced on attractive terms, significantly reducing the ongoing debt servicing costs and refinancing risks.

The consortium has engaged closely with the management team to assess a range of capital investment opportunities, both to add further trains to the overall fleet and to invest in upgrading existing assets to provide better passenger experience and improved reliability, at good value for money for operators.

Developments in the year
During the year, Eversholt completed acceptance of the new Siemens 380 fleet for deployment to First Scotrail, a £187 million investment in new trains for routes to Ayrshire, Inverclyde and Renfrewshire.

The first refranchising since the completion of the investment took place during the year, when Abellio was awarded a contract to run the Greater Anglia franchise for three years, following which a 15-year franchise is expected to be awarded. Eversholt successfully negotiated the re-leasing of all of its vehicles for this franchise, in line with the investment case plan.

Eversholt performed strongly in the year, helped by the expansion of the fleet, with its EBITDA increasing by 11.4% compared to the prior year. This strong performance has resulted in dividends and interest of £33.1 million in the year (representing a yield of over 20% on opening portfolio value), and allowed Eversholt to repay £14.7 million of its shareholder loan as described in more detail in the Divestment section. These proceeds account for the difference between opening and closing cost in the Performance in the year table above.

Oystercatcher

Description
Oystercatcher Luxco 2 S.àr.l. ("Oystercatcher") is the holding company through which 3i Infrastructure invested in 45% stakes in three subsidiaries of Oiltanking GmbH ("Oiltanking"), located in the Netherlands, Malta and Singapore. These businesses provide over 3.6 million cubic metres of oil, petroleum and other oil-related storage facilities and associated services to a broad range of clients, including private and state oil companies, refiners, petrochemical companies and traders.

Oiltanking is one of the world's leading independent storage partners for oils, chemicals and gases, operating 72 terminals in 22 countries with a total storage capacity of 19.6 million cubic metres.

Performance in the year

Cost	£84.5m
Opening value	£119.6m
Closing value	£118.2m
Equity interest	45.0%
Income in the year	£9.5m
Asset total return in the year(1)	£8.1m
Valuation basis	DCF

(1) Includes foreign exchange losses of £7.2 million.

Investment rationale
The investment was completed in August 2007. The key elements of the investment case were:

- **strong projected demand for oil and oil-related products**;
- **storage capacity is scarce**, and a key component of the oil and oil product supply chain, resulting in low customer turnover;
- the three terminals are **defensively located in key trading hubs** in Amsterdam, Malta and Singapore, and have a **strong market position**;
- contracts are let on a use-or-pay basis with fixed terms of up to 10 years, often with tariffs linked to local inflation rates, resulting in **reliable cash flows**; and
- the transaction allowed 3i Infrastructure to partner with a **dominant player in the oil storage market**, with a **strong operational reputation**.

What has been achieved in the period of ownership
The 2007 investment case has largely been confirmed, with the investment performing well. All storage capacity has been fully let throughout the period of investment, and throughput levels have been high. All three terminals have been largely unaffected by the global economic slowdown, even though the "flattening" of the forward curve in recent years has squeezed oil trading margins and increased traders' focus on storage costs during contract renewal negotiations. However, global trade in petroleum products continues to increase, leading to further growth in demand for oil storage.

The Investment Adviser has been actively involved in the assessment of a range of capital expenditure project proposals that have delivered long-term value accretion.

In Singapore, a 160,000 cubic metre expansion project was approved in 2008 to accommodate increasing demand from adjacent refineries and petrochemical industries. This was completed in June 2009, with the capacity let on a use-or-pay basis under a long-term contract to an existing customer.

In Amsterdam, a 42,000 cubic metre expansion project was approved in 2009 to provide dedicated storage for biodiesel products for a new production facility adjacent to the site. The project completed in June 2011. This capacity was pre-let on a use-or-pay basis. Several smaller investments were approved to upgrade throughput and customer service.

In Malta, investment in a new 13,000 cubic metre tank was approved in 2011, let on a use-or-pay to an existing customer from February 2012.

Since investment, total capacity at the three terminals increased by 23%, while annual throughput increased by 22%.

Developments in the year
All three terminals performed in line with, or ahead of expectations during the year.

Market conditions for traders have not been as favourable as in the past, with trading margins squeezed by a shallower forward curve, as well as by lower volatility in oil prices. Despite this, all storage capacity has continued to be fully let throughout the year, with strong contract renewal rates, and throughput levels have been high.

The 42,000 cubic metre bio-diesel storage expansion project in Amsterdam and the new 13,000 cubic metre storage tank in Malta were completed on schedule and within budget.

The discount rate used to value the Company's holding in Oystercatcher was increased during the year, to reflect an increase in the refinancing risk and greater sensitivity to interest rate and exchange rate movements, as the acquisition facility and associated hedging instruments approach maturity in 2014. The increase in the discount rate is not a reflection of the operating performance of the underlying companies, which remains strong, with good long-term prospects.

PFI portfolio

Description
3i Infrastructure's PFI portfolio comprises holdings in three entities:

Elgin Infrastructure Limited ("Elgin"), a portfolio of PFI project investments, comprising five schools projects and 11 community healthcare schemes, all of which are fully operational, under concessions of up to 32 years. The portfolio companies receive inflation-linked payments to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Facilities services are subcontracted to Robertson Facilities Management (in 15 projects) and Carillion Facilities Management (in one project).

Octagon Healthcare Limited ("Octagon"), a concession company under a 35-year PFI contract to build, operate and maintain the Norfolk and Norwich University Hospital. Construction of the hospital was completed in August 2001. Octagon receives RPI-linked payments from the NHS Trust to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Octagon subcontracts the provision of facilities services to Serco.

Alpha Schools (Highland) Limited ("Alpha Schools"), a concession company under a 30-year PFI contract to build, operate and maintain 11 new schools on 10 sites in the Highland region of Scotland. All schools are operational. Alpha receives RPIX-linked payments from the Highland Council to cover services and buildings maintenance, which are subject to performance deductions for service failures and unavailability. Alpha Schools subcontracts the provision of facilities services to Morrison Facilities Services.

Performance in the year

Opening cost	£99.4m
Closing cost	£67.7m
Opening value	£120.6m
Closing value	£93.8m
Equity interest	
Elgin	49.9%
Octagon	36.8%
Alpha Schools	50.0%
Proceeds received in the year	£32.3m
Income in the year	£8.5m
Asset total return in the year	£13.4m
Valuation basis	DCF

Investment rationale
Exposure to social infrastructure through PFI projects is helpful in providing the Company's portfolio with **lower risk, index-linked cash flows**. All assets in the Company's PFI portfolio are fully operational, and deliver a robust yield.

What has been achieved in the period of ownership
All assets in the PFI portfolio have performed well through their period of ownership, in line with or ahead of expectations, providing a good return to the Company since inception. This has been due to engaged portfolio management on the part of the Investment Adviser and other shareholders, as well as to more general factors, including higher than expected inflation.

The Investment Adviser generated significant value through the sale of Alma Mater and I^2, which were sold at significant uplifts over cost in 2008 and 2009 respectively. The exit from I^2, which was completed this year, generated and IRR of 23.8%.

Developments in the year
All assets in the PFI portfolio performed well operationally during the year, delivering good levels of income, and with valuations benefiting from relatively high levels of inflation and strong cost management.

All 16 projects in the Elgin portfolio are performing in line with the investment case. All service providers are performing well, with no significant operational issues arising at any of the projects during the year.

Octagon continues to perform well financially and operationally and has maintained its strong working relationship with the NHS Trust and with Serco. Serco continues to provide a good level of service to the Trust. In February, an unannounced inspection of the hospital by the Care Quality Commission concluded that the hospital meets all the essential quality and safety standards inspected. In December, the hospital and Serco won an award for cleaning from the Health Business Awards 2011, which recognise excellence in the provision of NHS and healthcare facilities.

All schools in the Alpha Schools portfolio are operating well and are providing high standard facilities to primary and secondary school pupils in the Highland Council region. Financial performance has been in line with expectations. Performance deductions were levied in the year, relating mostly to a number of construction snagging items which remained outstanding. These deductions were passed through to the contractors. Alpha Schools has worked closely with the Council, the facilities services provider and the building contractor to ensure that these snagging items are resolved promptly.

3i India Infrastructure Fund

Description
The 3i India Infrastructure Fund (the "Fund") is a US$1.2 billion fund closed in 2008 to invest in a diversified portfolio of equity (or equivalent) investments in India, focusing on the port, airport, road and power sectors. 3i Infrastructure committed US$250 million to the Fund. As at 31 March 2012, the Fund was 70% invested in a portfolio of six assets:

Krishnapatnam Port Company Limited ("Krishnapatnam Port") has a concession to develop, operate and maintain the port of Krishnapatnam in the state of Andhra Pradesh.

Adani Power Limited ("Adani Power") focuses on the development and operation of power plants and the sale of power generated. With operational capacity of 4,620MW and a further 4,620MW under construction, it is currently the largest independent private power producer in India in terms of operating capacity. Adani Power achieved a successful IPO in August 2009.

GVK Energy is developing a portfolio of power generation projects (4,047MW), diversified by fuel type, stage of development and geography. In addition, GVK Energy is developing two mining projects to supply coal to its own thermal power plants.

KMC Infratech ("KMC Roads") is developing a c.1,000 kilometres portfolio of 10 "build-operate-transfer" road projects, one of the largest such portfolios in India.

Soma Enterprise Limited ("Soma") is one of the fastest growing infrastructure developers in India. Its order book, valued at over US$2.6 billion, focuses mainly on build-operate-transfer ("BOT") road projects, but comprises projects in the hydro power, irrigation, railways, power transmission and urban infrastructure sectors.

Ind-Barath Utkal is building a 700MW coal-fired power plant based in the state of Orissa.

Performance in the year

Opening cost	£93.8m
Closing cost	£102.0m
Opening value	£134.7m
Closing value	£114.2m
Partnership interest	20.9%
Investment in the year	£8.2m
Asset total return in the year(1)	£(28.7)m
Valuation basis	DCF

(1) Includes a net foreign exchange loss of £16.0 million (sterling/US$ gain of £1.3 million and US$/rupee loss of £17.3 million).

Investment rationale
The investment case can be summarised as follows:

- the fundamentals for infrastructure investment in India are attractive, with the current **infrastructure deficit** in the country providing much opportunity for private investment;
- the Indian **government actively seeks and encourages private investment** in infrastructure development and is working to mitigate some of the issues which have affected the sector in recent months;
- the investment in the Fund offers 3i Infrastructure **exposure to a diversified pool** of assets and larger investments than the Company could access on its own account, at no additional cost to the Company; and

- the Fund is well positioned, with an **established presence in its market** and the investment team's broad network of contacts.

What has been achieved in the period of ownership
The Fund is nearing the end of its investment period, and has now built a diversified portfolio including assets in the power, ports and roads sectors, in line with its mandate.

The construction of all projects continues to progress. Several of the projects, including Adani Power and Krishnapatnam Port, have increased significantly in size since the Fund's investment. Despite this, the financial performance and valuation of the Fund's assets has been affected by a number of market and other external factors.

Overall, the Board is satisfied that the Fund's assets are progressing, and that appropriate management action is being taken to manage performance within the constraints of the macroeconomic and market challenges.

Developments in the year
The performance of the assets in the power sector has been negatively affected by a number of factors, including most notably: (i) a country-wide coal shortage, which has affected supply to power generators, as well as coal prices, and; (ii) the sustainability of merchant power prices, as well as the availability of long-term power purchase agreements ("PPAs") with State Electricity Boards ("SEBs"), attributable in large part to the strained financial position of SEBs.

In February 2011, the Indian government responded to the issues arising from coal shortages by directing Coal India (the main supplier of coal in the country) to sign fuel supply agreements with power plants that have a majority of their offtake tied up in long-term PPAs, with a minimum commitment of 80% of the annual fuel requirements of the plant. This would cover Adani Power and GVK Energy's coal-fired plants, given that a majority or entirety of their offtake is already tied up in long-term PPAs. Ind-Barath Utkal is currently working to tie up a larger proportion of capacity under long-term PPAs.

The Fund's port asset, Krishnapatnam Port, has continued to be affected by an iron ore export ban, which remains in place. However, non-iron ore cargo volumes handled by the port have continued to grow over the year as it changes its cargo mix.

The Fund's road assets are making steady progress. During the year, 517km of road projects began tolling in aggregate at Soma and KMC Roads, taking the total of tolling roads to over 1,000km. Both companies are making advances in the construction of other projects, and won contract awards for an aggregate of 455km of new roads.

During the year, macroeconomic and political risk factors increased, as the Indian government manages high inflation, high interest rates and a growing fiscal deficit. Combined with increasing political uncertainty, and some tightening of policy towards foreign investors, these factors are currently impacting the outlook for growth and the value of the rupee.

Financial review

Key performance indicators

Total return

Objective
To provide shareholders with a total return of 12% per annum, to be achieved over the long term.
Measurement
Total return over the period as a percentage of opening shareholders' equity(1).
Status
5.6% total return for the year to 31 March 2012.

Dividend

Objective
To target an annual distribution yield of 5% of the opening NAV(1).
Measurement
Dividend for the financial year, expressed as a percentage of opening shareholders' equity(1).
Status
Total dividend of 5.94p equates to a 5.1% distribution on opening shareholders' equity.

(1) Opening NAV and opening shareholders' equity are net of the final dividend paid in the prior year and adjusted to take into account further equity issued in the year.

Table 11
Summary of total return on an investment basis (£m)

	Year to 31 March 2012	Year to 31 March 2011	**Consolidated IFRS basis Year to 31 March 2012**
Realised (losses)/profits over fair value on the disposal of investments	**(4.7)**	3.6	**(4.7)**
Unrealised profits on the revaluation of investments	**7.0**	36.5	**8.5**
Foreign exchange losses on investments	**(4.3)**	(7.2)	**-**
Capital (loss)/return	**(2.0)**	32.9	**3.8**
Portfolio income			
Dividends	**41.0**	39.4	**68.3**
Income from loans and receivables	**30.3**	18.1	**32.5**
Income from quoted debt investments	**1.8**	6.3	**1.8**
Fees payable on investment activities	**(1.3)**	(1.3)	**(1.3)**
Fees receivable on investment activities	**-**	6.8	**-**
Interest receivable	**1.5**	1.5	**1.5**
Investment return	**71.3**	103.7	**106.6**
Advisory, performance and management fees payable	**(15.3)**	(15.4)	**(16.2)**
Operating expenses	**(2.4)**	(2.4)	**(2.4)**
Finance costs	**(2.9)**	(2.2)	**(13.5)**
Movements in the fair value of derivative financial instruments	**5.3**	2.1	**0.7**
Other net income	**0.3**	-	**0.4**
Profit before tax	**56.3**	85.8	**75.6**
Income taxes	**(0.3)**	(0.3)	**(0.3)**
Profit after tax and profit for the year	**56.0**	85.5	**75.3**
Exchange difference on translation of foreign operations	**-**	-	**(4.4)**
Profit attributable to non-controlling interests for the year	**-**	-	**(15.9)**
Total comprehensive income ("Total Return")	**56.0**	85.5	**55.0**

Returns

The commentary in this section analyses the key drivers of the Company's returns according to the investment basis of preparation, as shown in Table 11. The basis of preparation for the investment basis is described in the Basis of preparation section, along with an analysis of the key differences in accounting treatment to information prepared in accordance with IFRS.

3i Infrastructure generated a total return for the year to 31 March 2012 of £56.0 million, representing a 5.6% return on average shareholders' equity (2011: £85.5 million, 9.2%). The return was driven principally by strong income generation (including interest receivable) of £74.6 million and by the strong performance of the core assets in the portfolio, but was impacted negatively by mark-to-market losses on Adani Power, held within the 3i India Infrastructure Fund, and by foreign exchange losses.

Capital returns

Unrealised capital returns represent the change in valuation of the portfolio during the reported period, measured against the valuation of an asset at the beginning of the year, or its purchase cost (if acquired during the year). Movements in valuation are influenced by changes in the underlying performance of individual assets and the resulting estimates of future cash flows, the discount rates applied to those cash flows and the level of income distributed from assets. They also incorporate the impact to valuation resulting from exchange rate movements.

Where assets are sold in the period, the realised capital return represents proceeds received, measured against the carrying value of the asset at the beginning of the year, to derive the profit or loss on disposal.

Realised capital returns

There was a realised capital loss of £4.7 million (2011: £3.6 million capital gain), arising from the divestment of the Company's remaining holdings in the junior debt portfolio. A capital gain of £2.1 million was generated in the first half of the year from the sale of the NGW Arqiva and Thames Water junior debt holdings. In October 2011, as debt valuations came under pressure, the final asset in the junior debt portfolio, Télédiffusion de France, was sold for proceeds of £30.0 million. This was lower than the £36.8 million carrying value at 31 March 2011 and therefore generated a reported £6.8 million capital loss in this financial year.

As reported in the Half-yearly report and in the Divestment case study, the junior debt portfolio was a successful strategic investment for the Company and as a whole generated an IRR of 11.6% across the four-year holding period.

Unrealised capital returns, including foreign exchange movements

As shown in Table 12, the combined unrealised value movement across the portfolio, including foreign exchange impact, totalled £8.0 million. The value of the unquoted element of the portfolio increased by £43.4 million during the year (2011: £27.2 million), but the overall return was impacted by the decline in the mark-to-market valuation of the quoted asset, Adani Power. Shares in Adani Power were highly volatile throughout the year and, at 31 March 2012, closed at 68.3 rupees per share (2011: 112.8 rupees per share), generating a loss of £19.1 million for the year.

Table 12 **Reconciliation of the movements in NAV on an investment basis** (£m)	
Opening NAV at 1 April 2011 [(1)]	971.7
Income	74.6
Realised losses	(4.7)
Unrealised profits on unquoted assets	43.4
Unrealised losses on quoted asset	(19.1)
Net foreign exchange movement	(16.3)
Total costs including advisory fee	(21.9)
Warrant conversion	64.4
NAV before distributions	1,092.1
Distributions to shareholders [(2)]	(51.7)
Closing NAV at 31 March 2012	**1,040.4**

(1) Net of prior year final dividend.
(2) Includes rounding.

The PFI and core portfolio investments generated the highest capital returns, increasing in value by £37.0 million, reflecting their continued track record of good performance and a high level of income distribution.

Excluding Adani Power's unrealised loss, the remaining five assets in the 3i India Infrastructure Fund increased in value by £6.4 million, supported by their steady operational progress in a challenging macroeconomic environment.

The valuation movements are described in more detail in the Movements in portfolio value section.

Movements in foreign exchange generated overall net losses of £16.3 million on non-sterling assets (2011: £4.3 million loss), attributable almost entirely to the losses incurred on the rupee exposure through the 3i India Infrastructure Fund. The foreign exchange losses incurred on the euro exposure were almost entirely offset by the euro hedging programme. This is set out in more detail in Table 9.

Investment return

Portfolio income

Table 13 below shows how, over the past two years, the increase in core assets has continued to strengthen the income generation from the portfolio.

In the year to 31 March 2012, the portfolio generated income of £73.1 million (2011: £70.6 million), of which £41.0 million through dividends (2011: £39.4 million) and £32.1 million through interest on shareholder loans and quoted debt investments (2011: £24.4 million). This represents a 4% increase from last year, however this figure does not benefit yet from the addition of LNI to the portfolio, for which no income was accrued. LNI will contribute to income generation from the next financial year, following the completion of a corporate reorganisation and merger process.

AWG paid a dividend of £15.5 million and interest of £4.7 million in the year (2011: £22.3 million, £4.7 million). The 2011 dividend benefited from an increase following two years of restraint due to low RPI and uncertainty preceding the outcome of the review for the 2010–2015 regulatory period. AWG is performing in line with its regulatory settlement.

Eversholt is performing well operationally and financially, and is generating good cash flows. This has allowed it to pay dividends of £13.0 million and interest of £20.1 million in the year, as well as to repay £14.7 million of its shareholder loan, as described in more detail in the

Divestment section. Due to the structure of the investment in Eversholt, the income from this asset is received principally as interest on shareholder loans, which is accrued evenly throughout the year.

Oystercatcher paid a dividend of £9.5 million for the year (2011: £13.7 million). While the operating performance of the three Oiltanking terminals is good and dividends received by Oystercatcher from the underlying operating companies during the year increased, a proportion of those dividends was retained by Oystercatcher in view of the anticipated additional costs of refinancing its debt, expected to take place before maturity in 2014.

Table 13
Portfolio income levels by category (£m)

	Social Infrastructure	Core	Hybrid
2012	8	65	-
2011	10	61	-
2010	8	22	-
2009	5	36	-
2008	12	15	1

The income receivable from the assets in the PFI portfolio reduced marginally compared to last year, following the repayment of the residual I^2 vendor loan notes. Together, they generated dividends of £3.0 million and interest of £5.5 million (2011: £3.4 million, £6.9 million).

Fees payable for transaction costs in relation to deals which did not reach, or have yet to reach final completion, totalled £1.3 million (2011: £1.3 million).

Interest receivable
Interest income from cash and cash equivalents totalled £1.5 million (2011: £1.5 million). The amount was flat year-on-year, as the average cash balances held throughout the year were broadly equivalent. The LNI investment achieved financial completion in January 2012, reducing the interest earned in the latter part of the financial year.

Advisory fees, performance fees and other operating and finance costs
During the year, the Company incurred advisory fees totalling £15.3 million (2011: advisory and performance fees of £15.4 million). No performance fees were accrued for the year, as the total return did not exceed the required 8% hurdle.

The advisory fee, payable to 3i plc, is calculated as 1.5% of the Gross Investment Value, which is based on the opening portfolio value and the cost of any new investments made during the year. The advisory fee rate reduces to 1.25% for any proportion of an asset held for more than five years. This has had a small impact on the level of fee charged this year, as the original portfolio of seed assets was acquired in March 2007. The impact of this rate reduction will be greater in the next financial year. For a more detailed explanation of how fees are calculated, please refer to Note 8.

Operating expenses comprise Directors' fees, service provider costs and other professional fees and totalled £2.4 million for the year (2011: £2.4 million).

Finance costs of £2.9 million (2011: £2.2 million) comprise the arrangement and commitment fees for the Company's £200 million revolving credit facility, with the year-on-year increase attributable to the agreement of the new facility in November 2010.

Movements in the fair value of derivatives of £5.3 million (2011: £2.1 million) represent the fair value movements of the euro hedging programme, and included a £1.7 million gain on the settlement of derivatives at their maturity.

Dividend cover
As outlined previously, 3i Infrastructure generated income from the portfolio and interest from cash balances of £74.6 million during the year to 31 March 2012. This more than covers the total dividend payable for the year of £51.7 million, as well as all net costs and fees incurred by the Company in the year, of £21.9 million.

Table 14
Cash flows in the year to 31 March 2012 (£m)

Cash at 31 March 2011	174.6
Dividends paid	(50.0)
Income from portfolio and cash balances	54.9
Investment	(203.0)
Realised proceeds	85.5
Other portfolio proceeds	47.0
Proceeds from warrant conversion	64.4
Cash at 31 March 2012	**173.4**

Balance sheet and cash flows

At 31 March 2012, the Company's net assets totalled £1,066.6 million, or £1,040.4 million after the deduction of the proposed final dividend (2011: £971.7 million). This comprises the asset portfolio, valued at £890.8 million (2011: £821.7 million), cash and cash equivalents of £173.4 million (2011: £174.6 million) and other net assets of £2.4 million (2011: net liabilities of £0.2 million), primarily relating to accrued income from portfolio investments and prepayments, offset by accrued operating and financing costs, as well as the fair value of derivative hedging contracts.

A summary balance sheet is included in Table15 and Table 14 shows the movement between the opening and closing cash balances for the year.

Cash on deposit was managed actively by the Investment Adviser, including regular reviews of counterparties and their limits, and is principally held in AAA rated money market funds, as well as in short-term bank deposits. There were no external borrowings on a recourse basis to the Company.

Revolving credit facility
At 31 March 2012, and at the time of reporting, the £200 million revolving credit facility held by the Company had not been drawn.

Net asset value per share
The total NAV per share at 31 March 2012 was 121.0p (2011: diluted NAV of 120.3p). This reduces to 118.0p after the payment of the proposed 2.97p final dividend.

The NAV as at 31 March 2011 was reported as a diluted NAV to take into account the warrants that were outstanding at that date. During the year, 64.4 million warrants were converted, increasing the number of shares from 816.9 million to 881.3 million. The warrants expired on 13 March 2012. Substantially all of the 70.6 million warrants issued at IPO were converted, with only 281,491 left unsubscribed at expiry.

There are no further dilutive securities in issue.

Table 15
Summary balance sheet on an investment basis (£m)

	As at 31 March 2012	As at 31 March 2011	**Consolidated IFRS basis as at 31 March 2012**
Assets			
Non-current assets			
Investment portfolio	**890.8**	821.7	**1,182.2**
Derivative financial instruments	**1.8**	-	**1.8**
Non-current assets	**892.6**	821.7	**1,184.0**
Current assets			
Other current assets, including derivative financial instruments	**5.3**	11.7	**8.0**
Cash and cash equivalents	**173.4**	174.6	**183.6**
Total current assets	**178.7**	186.3	**191.6**
Total assets	**1,071.3**	1,008.0	**1,375.6**
Non-current liabilities			
Borrowings	**-**	-	**(158.3)**
Derivative financial instruments	**(0.6)**	(2.2)	**(15.8)**
Total non-current liabilities	**(0.6)**	(2.2)	**(174.1)**
Current liabilities			
Trade and other payables	**(3.4)**	(6.2)	**(2.4)**
Derivative financial instruments	**(0.7)**	(3.5)	**(1.8)**
Total current liabilities	**(4.1)**	(9.7)	**(4.2)**
Total liabilities	**(4.7)**	(11.9)	**(178.3)**
Net assets	**1,066.6**	996.1	**1,197.3**
Equity			
Stated capital account	**181.6**	117.2	**181.6**
Retained reserves	**885.0**	878.9	**855.0**
Translation reserve	**-**	-	**33.5**
Total shareholders' equity	**1,066.6**	996.1	**1,070.1**
Minority interests	**-**	-	**127.2**
Total equity	**1,066.6**	996.1	**1,197.3**

Risk

The Board is ultimately responsible for the risk management of the Company and has a risk management framework (outlined in the table below) which provides a structured and consistent process for identifying, assessing and responding to risks in relation to its strategy and business objectives. Due to the structure of the Company, it is reliant on the risk management framework of the Investment Adviser and other key service providers, as well as on the risk management operations of each portfolio company. The Company manages these risks through updates from the Investment Adviser and other service providers and, where possible, through representation on portfolio companies' boards.

Risk type	Risk description	Risk mitigation
External	Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Company's operations	
Macroeconomic risk	- The performance of underlying investments is influenced by macroeconomic conditions/variables in Europe and India, where the Company currently has exposure - M&A and IPO activity and the availability of debt finance affect the ability to make investments and the performance of underlying investments	- Diversification of the portfolio across a range of infrastructure sectors with different economic cycles and across different geographies - Modelling of sensitivity of each investment to macroeconomic variables - Regular reviews of hedging, which is undertaken where appropriate
Geopolitical risk	- The Company's investment strategy involves investing in some less mature or emerging markets - Legal and regulatory frameworks and capital markets in these countries may be less developed than in Europe	- Periodic legal and regulatory updates on the Company's markets and in depth market and sector research - Extensive research and due diligence on any proposed investment into new geographical market
Government policy and regulation risk	- The Company is regulated under the provisions of the Collective Investment Funds (Jersey) Law 1988 - The Investment Adviser is regulated by the Financial Services Authority and is an authorised person under the Financial Services and Markets Act 2000 - Breach of these regulations could affect the Company's operations and financial position	- Changes to applicable legal and regulatory frameworks are closely monitored - Rigorous processes to minimise risk of breach are in place - Regular monitoring of compliance with the relevant regulations is undertaken by the Company and the Investment Adviser

Risk type	Risk description	Risk mitigation
Investment	Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across the portfolio	
Investment decisions risk	- The ability to source and execute good quality investments in changing markets is dependent primarily on the Investment Adviser's expertise and relationships	- Each investment is subject to a complete review process by the Investment Adviser, including an Investment Committee chaired by an authorised member of 3i Group's Leadership Team - A thorough review is then undertaken by the Board prior to the final investment decision
Investment performance risk	- The performance of the portfolio is dependent on: i) The quality of the initial investment ii) The ability to execute on business strategy iii) Favourable outcomes relative to assumptions in the investment model	- Portfolio asset reviews, which include the assessment of environmental, social and governance risks, are undertaken regularly and reviewed bi-annually by the Board - Representation by the Investment Adviser on the board of underlying investments where equity stakes are held
Investment concentration risk	- Overexposure to a particular sector or geography could expose the Company to any adverse developments in that sector or geography - Any increase in the average size of investments over time could increase exposure to a small number of large investments	- Portfolio concentration measures are periodically reviewed by the Board - The Investment Adviser undertakes a concentration review for each new investment
Strategic	Risks arising from the analysis, design and implementation of the Company's business model and key decisions on investment growth rates and financing	
Business strategy risk	- Deviations from assumptions factored in the Company's strategy and business model could affect its performance and financial position	- KPIs and forecasts are monitored on an ongoing basis and the Board undertakes regular strategic reviews, including the review of KPIs - Plans and underlying assumptions for the Company and portfolio assets are updated continuously
Competition risk	- Increasing levels of competition as the asset class becomes more widely recognised	- Building on the strong track record of the Investment Adviser and the 3i Infrastructure brand

	Risk description	Risk mitigation
Financial risks	Risks in relation to changes in market prices and rates; access to capital markets and the appropriate capital structure	
Credit risk	- The Company's financial assets are principally unsecured investments in unquoted companies - Increases in portfolio concentration could impact credit risk - Variations in interest rates, or variations in the availability of credit for refinancing, could increase credit risk - Debt availability is fundamental to completing new deals and financing capital expenditure in several portfolio assets	- Regular asset reviews provide early indications of increased credit risk - The Company's financial assets are held in AAA-rated money market funds or short-term deposits with banks with a minimum A rating - Reviews of counterparties are undertaken regularly and counterparty limits are monitored and revised on a regular basis
Financing and interest rate risk	- Changes in interest rates affect: i) The costs of servicing the Company's debt ii) The ability to generate attractive returns from investments iii) The ability to invest in competition with buyers with a lower cost of debt iv) The debt financing capability of portfolio companies v) The rate of return on the Company's liquid assets	- The level of debt, refinancing risk and hedging requirement in the portfolio companies are monitored regularly - The financing strategy limits the Company's borrowings to 50% of gross assets. Currently the Company has no recourse borrowings - The use of a combination of fixed and floating rate debt in portfolio companies reduces interest rate risk - Hedging is undertaken where appropriate to manage the risk exposure
Currency risk	- A portion of underlying investments is denominated in euro, US dollar and (indirectly) Indian rupee and Singapore dollar - Fluctuations in foreign exchange may adversely impact returns	- The euro and Singapore dollar exposure is broadly hedged to stabilise returns - The hedging strategy is monitored regularly by the Board. Hedging involves the use of foreign exchange swaps or forward contracts
Liquidity risk	- The Company's investments require a long-term commitment of capital and are relatively illiquid - The investment rate could exceed current liquidity levels, requiring short-term funding measures to be put in place - The ability to meet financial liabilities as they fall due	- The Board regularly analyses cash resources against the investment pipeline and the repayment of existing financial liabilities or other payables - The committed £200 million revolving credit facility ensures the availability of resources in the event of a liquidity shortfall

	Risk description	Risk mitigation
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these	
	- Operational risks can arise from inadequate processes, people, systems, or external providers - External factors, including changes in the senior investment team at the Investment Adviser, also pose a risk to operations	- A framework of core values, standards and controls is operated by the Company - The Board monitors the performance of the Investment Adviser through the Management Engagement Committee - The Board monitors the operations of key service providers, and receives reports of any significant internal control breaches - The Company receives regular updates on legal, tax and regulatory matters from its advisers

Basis of preparation

Throughout the Investment Adviser's review, the Returns and Review of investments sections, the Investment Adviser has presented the Company's net asset value and financial results to show the return on a pro forma investment basis. This information is in addition to the consolidated financial statements, as required under International Financial Reporting Standards ("IFRS"). The pro forma investment basis presentation provides an alternative representation of the Company's net asset value, shows the Company's cash utilisation for investment and differentiates between non-recourse borrowings held within asset specific acquisition companies and borrowings which may be made at the Company level. The investment basis accounts for majority investments and subsidiaries formed specifically for investment purposes in the same way as minority investments, by determining a fair value for the investment, and therefore does not consolidate these entities line-by-line as is required under IFRS.

Several adjustments to the consolidated financial statements required under IFRS were made, in order to show returns on an investment basis. The main adjustments are set out below.

3i Infrastructure holds 68.5% of 3i Osprey LP and 87.3% of 3i Networks Finland LP, the vehicles through which it holds its investments in AWG and LNI respectively. The remaining portions of these entities are held by 3i Group and other third parties. 3i Infrastructure is required under IFRS to consolidate the results and balance sheet of these limited partnerships into its financial statements on a line-by-line basis. In the investment basis presentation, 3i Infrastructure has recognised only its share of the income and balance sheet of 3i Osprey LP and 3i Networks Finland LP. This adjustment has the effect of eliminating the minority interest entitlement shown on the statement of comprehensive income and the balance sheet on an IFRS basis.

One subsidiary of the Company, 3i Primary Infrastructure 2005–06 LP, which holds the investment in Alpha Schools, has investing partners which are entitled to a 8.75% share of profits, once certain cash hurdle criteria are met. Amounts due to this limited partnership are treated as a minority interest on a consolidated basis but are accrued as an expense in the investment basis.

3i Infrastructure holds two wholly-owned subsidiaries, Oystercatcher Luxco 1 S.àr.l. and Oystercatcher Luxco 2 S.àr.l., ("Oystercatcher Luxco 1" and "Oystercatcher") to fund the minority investment into three subsidiaries of Oiltanking GmbH. External borrowings were made by Oystercatcher to partly fund the investments. These borrowings are non-recourse to 3i Infrastructure. Under IFRS, the results and balance sheet of the Oystercatcher Luxco 1 and Oystercatcher subsidiaries are required to be consolidated into 3i Infrastructure's financial statements on a line-by-line basis. In the investment basis presentation Oystercatcher is not consolidated but is accounted for as a portfolio asset held for investment purposes and is fair valued accordingly.

The Company invests in 3i India Infrastructure Holdings Limited through 3i India Infrastructure Fund A LP, a limited partnership in which the Company is the sole investor. This limited partnership has not been consolidated under the investment basis and is treated as an investment, and is fair valued accordingly.

Consolidated statement of comprehensive income

For the year to 31 March

	Notes	**Year to 31 March 2012 £m**	Year to 31 March 2011 £m
Realised (losses)/gains over fair value on the disposal of investments		**(4.7)**	3.6
Unrealised gains on the revaluation of investments		**8.5**	31.8
Unrealised foreign exchange losses on investments		**-**	(0.3)
		3.8	35.1
Portfolio income			
Dividends receivable		**68.3**	62.3
Income from loans and receivables		**32.5**	20.4
Income from quoted debt investments		**1.8**	6.3
Fees payable on investment activities		**(1.3)**	(1.3)
Fees receivable on investment activities		**-**	6.8
Interest receivable		**1.5**	1.5
Investment return		**106.6**	131.1
Advisory, performance and management fees payable	2	**(16.2)**	(16.5)
Operating expenses		**(2.4)**	(2.4)
Finance costs		**(13.5)**	(13.2)
Unrealised (losses)/gains in the fair value of derivative financial instruments		**(0.6)**	6.0
Net realised gains over fair value on the settlement of derivative financial instruments		**1.3**	1.3
Other net income		**0.4**	0.3
Profit before tax		**75.6**	106.6
Income taxes	3	**(0.3)**	(0.3)
Profit after tax and profit for the year		**75.3**	106.3
Other comprehensive income			
Exchange losses on translation of foreign operations		**(4.4)**	(6.8)
Total comprehensive income for the year		**70.9**	99.5
Profit after tax and profit for the year attributable to:			
Equity holders of the parent		**59.6**	93.6
Non-controlling interests		**15.7**	12.7
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**55.0**	86.8
Non-controlling interests		**15.9**	12.7
Earnings per share			
Basic earnings per share attributable to equity holders of the parent (pence)	6	**7.0**	11.5
Diluted earnings per share attributable to equity holders of the parent (pence)	6	**7.0**	11.4

Consolidated statement of changes in equity

For the year to 31 March

For the year to 31 March 2012	**Stated capital account £m**	**Retained reserves £m**	**Translation reserve £m**	**Total shareholders' equity £m**	**Non-controlling interests £m**	**Total equity £m**
Opening balance	**117.2**	**845.4**	**38.1**	**1,000.7**	**91.3**	**1,092.0**
Total comprehensive income for the year	**-**	**59.6**	**(4.6)**	**55.0**	**15.9**	**70.9**
Non-controlling interest share of investment purchased during the year	**-**	**-**	**-**	**-**	**28.4**	**28.4**
Net capital returned to non-controlling interests	**-**	**-**	**-**	**-**	**(8.4)**	**(8.4)**
Conversion of warrants into ordinary shares	**64.4**	**-**	**-**	**64.4**	**-**	**64.4**
Dividends paid to shareholders of the Company during the year	**-**	**(50.0)**	**-**	**(50.0)**	**-**	**(50.0)**
Closing balance	**181.6**	**855.0**	**33.5**	**1,070.1**	**127.2**	**1,197.3**

For the year to 31 March 2011	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
Opening balance	111.4	801.8	44.9	958.1	90.2	1,048.3
Total comprehensive income for the year	-	93.6	(6.8)	86.8	12.7	99.5
Net capital returned to non-controlling interests	-	-	-	-	(11.6)	(11.6)
Conversion of warrants into ordinary shares	5.8	-	-	5.8	-	5.8
Dividends paid to shareholders of the Company during the year	-	(50.0)	-	(50.0)	-	(50.0)
Closing balance	117.2	845.4	38.1	1,000.7	91.3	1,092.0

Consolidated balance sheet
As at 31 March

	Notes	**2012 £m**	2011 £m
Assets			
Non-current assets			
Investments			
Unquoted investments	4	**949.1**	723.6
Debt investments held at fair value through profit and loss	4	**-**	90.2
Loans and receivables	4	**233.1**	279.5
Investment portfolio		**1,182.2**	1,093.3
Derivative financial instruments		**1.8**	-
Total non-current assets		**1,184.0**	1,093.3
Current assets			
Trade and other receivables		**7.1**	15.8
Derivative financial instruments		**0.9**	0.7
Cash and cash equivalents		**183.6**	176.3
Total current assets		**191.6**	192.8
Total assets		**1,375.6**	1,286.1
Liabilities			
Non-current liabilities			
Loans and borrowings		**(158.3)**	(167.9)
Derivative financial instruments		**(15.8)**	(15.7)
Total non-current liabilities		**(174.1)**	(183.6)
Current liabilities			
Trade and other payables		**(2.4)**	(6.7)
Derivative financial instruments		**(1.8)**	(3.8)
Total current liabilities		**(4.2)**	(10.5)
Total liabilities		**(178.3)**	(194.1)
Net assets		**1,197.3**	1,092.0
Equity			
Stated capital account		**181.6**	117.2
Retained reserves		**855.0**	845.4
Translation reserve		**33.5**	38.1
Total equity attributable to equity holders of the parent		**1,070.1**	1,000.7
Non-controlling interests		**127.2**	91.3
Total equity		**1,197.3**	1,092.0

Directors
8 May 2012

Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Cash flow from operating activities		
Purchase of investments	**(231.3)**	(186.3)
Proceeds from realisations of investments	**132.5**	46.8
Income received from loans and receivables	**38.9**	11.7
Income from quoted debt investments	**2.1**	6.3
Dividends received	**68.2**	62.6
Fees paid on investment activities	**(0.9)**	(1.1)
Fees received on investment activities	**-**	6.8
Operating expenses paid	**(2.8)**	(2.0)
Interest received	**1.5**	1.6
Advisory, performance and management fees paid	**(19.2)**	(15.6)
Carried interest paid	**(1.2)**	-
Income taxes paid	**(0.4)**	(0.3)
Other income received	**0.8**	0.4
Net cash flow from operations	**(11.8)**	(69.1)
Cash flow from financing activities		
Proceeds from the issue of share capital from conversion of warrants	**64.4**	5.8
Interest paid	**(9.7)**	(10.0)
Fees paid on financing activities and settlement of derivative contracts	**(4.5)**	(3.2)
Dividends paid	**(50.0)**	(50.0)
Capital contributed by non-controlling interests	**28.4**	-
Net capital paid to non-controlling interests	**(8.4)**	(11.6)
Net cash flow from financing activities	**20.2**	(69.0)
Change in cash and cash equivalents	**8.4**	(138.1)
Cash and cash equivalents at the beginning of the year	**176.3**	314.0
Effect of exchange rate movement	**(1.1)**	0.4
Cash and cash equivalents at the end of the year	**183.6**	176.3

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

Jersey Company law requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended.

In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

These financial statements comply with International Financial Reporting Standards and reasonable and prudent judgments and estimates have been used in their preparation.

In accordance with the FSA'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 Directors' report includes 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.

Peter Sedgwick, Non-executive Chairman
Philip Austin, Non-executive Director, Senior Independent Director
Sir John Collins, Non-executive Director
Florence Pierre, Non-executive Director
Charlotte Valeur, Non-executive Director
Paul Waller, Non-executive Director
Steven Wilderspin, Non-executive Director, chairman of the Audit Committee

Notes to the accounts

1. Segmental analysis

The Directors of the Company review the financial performance of the Group on the “investment basis”. However, the Directors also review information on a regular basis that is analysed by geography and is consistent with the consolidated accounting basis. In accordance with IFRS 8, the segmental information provided below uses this geographic analysis of results as it is the most closely aligned with IFRS reporting requirements. The Group only operates in one service line, being that of an investment holding company. Therefore, no segmental analysis by service line has been produced. The Group is an investment holding company and does not consider itself to have any customers.

The Group received 70% (2011: 70%) of its portfolio income in the year from investments held in the UK and 30% (2011: 30%) of portfolio income from investments held in Europe. During the year, the Group received income from its investment in Oystercatcher of £29.8 million (2011: £26.4 million), AWG of £29.6 million (2011: £39.5 million) and Eversholt of £33.0 million (2011: £6.5 million), which represents 28% (2011: 20%), 28% (2011: 30%) and 31% (2011: 5%) respectively of the investment return. There was no other income entitlement during the year (or in the comparative year) that represented more than 10% of investment return. 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 2012.

For the year to 31 March 2012	UK and Ireland(1) £m	Continental Europe(2) £m	Asia £m	Total £m
Investment return				
Realised gains/(losses) over fair value on the disposal of investments	**2.1**	**(6.8)**	**-**	**(4.7)**
Unrealised gains/(losses) on the revaluation of investments	**32.7**	**5.8**	**(30.0)**	**8.5**
Portfolio income	**70.6**	**30.7**	**-**	**101.3**
Interest receivable	**1.5**	**-**	**-**	**1.5**
Investment return	**106.9**	**29.7**	**(30.0)**	**106.6**
Interest payable	**-**	**(9.7)**	**-**	**(9.7)**
Other net expenses	**(15.7)**	**(5.6)**	**-**	**(21.3)**
Profit before tax	**91.2**	**14.4**	**(30.0)**	**75.6**
As at 31 March 2012				
Balance sheet				
Fair value of investment portfolio	**553.6**	**514.4**	**114.2**	**1,182.2**
Cash and cash equivalents	**171.6**	**12.0**	**-**	**183.6**
Other assets	**7.6**	**2.1**	**0.1**	**9.8**
Assets	**732.8**	**528.5**	**114.3**	**1,375.6**
Loans and borrowings	**-**	**(158.3)**	**-**	**(158.3)**
Derivative financial instruments	**(1.3)**	**(16.3)**	**-**	**(17.6)**
Other liabilities	**(2.3)**	**(0.1)**	**-**	**(2.4)**
Liabilities	**(3.6)**	**(174.7)**	**-**	**(178.3)**
Net assets	**729.2**	**353.8**	**114.3**	**1,197.3**

(1) Including Channel Islands.

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

For the year to 31 March 2011	UK and Ireland [1] £m	Continental Europe[2] £m	Asia £m	Total £m
Investment return				
Realised gains over fair value on the disposal of investments	3.6	-	-	3.6
Unrealised gains/(losses) on the revaluation of investments	24.6	(0.3)	7.5	31.8
Unrealised foreign exchange losses on investments	-	(0.3)	-	(0.3)
Portfolio income	66.3	28.2	-	94.5
Interest receivable	1.5	-	-	1.5
Investment return	96.0	27.6	7.5	131.1
Interest payable	-	(10.0)	-	(10.0)
Other net expenses	(18.7)	4.2	-	(14.5)
Profit before tax	77.3	21.8	7.5	106.6
As at 31 March 2011				
Balance sheet				
Fair value of investment portfolio	620.6	338.0	134.7	1,093.3
Cash and cash equivalents	170.2	5.2	0.9	176.3
Other assets	12.7	3.8	-	16.5
Assets	803.5	347.0	135.6	1,286.1
Loans and borrowings	-	(167.9)	-	(167.9)
Derivative financial instruments	(5.3)	(14.2)	-	(19.5)
Other liabilities	(6.3)	(0.2)	(0.2)	(6.7)
Liabilities	(11.6)	(182.3)	(0.2)	(194.1)
Net assets	791.9	164.7	135.4	1,092.0

(1) Including Channel Islands.
(2) Continental Europe includes all returns generated from and investment portfolio value relating to the Group's investment in Oystercatcher, including those derived from its underlying business in Singapore.

2 Advisory, performance and management fees payable

	Year to 31 March 2012 £m	Year to 31 March 2011 £m
Advisory fee	**(15.3)**	(12.5)
Performance fee	**-**	(2.9)
Management fee	**(0.9)**	(1.1)
	(16.2)	(16.5)

Note 8 provides further details on the calculation of the advisory fee, management fee and the performance fee.

3 Income taxes

	2012	2011
	£m	£m
Current year charge	**0.1**	0.2
Prior year under provision	**0.2**	0.1
	0.3	0.3

Profits arising from the operations of the Company are subject to tax at the standard rate in Jersey of 0% (2011: 0%).

Subsidiaries of the Company have provided for taxation at the appropriate rates that are applicable in the countries in which each subsidiary operates. As the returns of these subsidiaries are largely not subject to tax, in each of these relevant countries, the total tax provided is minimal.

Reconciliation of income taxes in the statement of comprehensive income
The tax charge for the period differs from the standard rate of corporation tax in Jersey, currently 0% (2011: 0%) and the differences are explained below:

	Year to 31 March 2012	Year to 31 March 2011
	£m	£m
Profit before tax	**75.6**	106.6
Profit before tax multiplied by rate of corporation tax in Jersey of 0% (2011: 0%)	**-**	-
Effects of:		
Foreign taxes for the current period	**0.1**	0.2
Foreign taxes underprovided for prior periods	**0.2**	0.1
Total income taxes in the statement of comprehensive income	**0.3**	0.3

4 Investment portfolio

			As at 31 March 2012	
	Unquoted investments	**Debt investments**	**Loans and receivables**	**Total**
	£m	**£m**	**£m**	**£m**
Opening fair value	**723.6**	**90.2**	**279.5**	**1,093.3**
Additions	**231.4**	**-**	**0.6**	**232.0**
Disposals and repayments	**-**	**(90.2)**	**(47.0)**	**(137.2)**
Unrealised gains on investments	**8.5**	**-**	**-**	**8.5**
Unrealised foreign exchange losses	**(14.4)**	**-**	**-**	**(14.4)**
Closing fair value	**949.1**	**-**	**233.1**	**1,182.2**

			As at 31 March 2011	
	Unquoted investments	Debt investments	Loans and receivables	Total
	£m	£m	£m	£m
Opening fair value	668.7	123.7	134.1	926.5
Additions	42.1	-	145.4	187.5
Disposals and repayments	-	(43.2)	-	(43.2)
Unrealised gains on investments	21.8	10.0	-	31.8
Unrealised foreign exchange losses	(9.0)	(0.3)	-	(9.3)
Closing fair value	723.6	90.2	279.5	1,093.3

The holding period of investments in the portfolio is expected to be greater than one year. For this reason, the Directors have classified the portfolio as non-current. It is not possible to identify with certainty where any investments may be sold within one year.

The fair value of loans and receivables approximates to the carrying value. All debt investments were held at fair value through profit or loss.

The Group invested in Elgin Infrastructure Limited in December 2009. It has been treated as a joint venture and under IAS 31 it has been held at fair value through profit and loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income.

Elgin Infrastructure Limited was incorporated as a Special Purpose Entity in October 2009, to hold the underlying portfolio of PFI projects. As at 31 March 2012 there were no outstanding commitments from the Group, or from the Company to Elgin Infrastructure Limited, or to the underlying assets of Elgin Infrastructure Limited (2011: £nil).

Fair value hierarchy

The Group classifies financial instruments measured at fair value in the investment portfolio according to the following hierarchy:

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)	Debt investments held at fair value
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments

Unquoted equity instruments 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 equity instruments can be found in the section called Portfolio valuation methodology.

The debt investments held at fair value through profit and loss had a carrying value of £nil million (2011: £90.2 million). In accordance with the fair value hierarchy the debt instruments held at fair value are classified as Level 2 with reference to observable market information.

The Group's investment portfolio for equity instruments and the debt investments held at fair value are classified in accordance with the fair value hierarchy as follows:

			As at 31 March 2012	
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Unquoted equity	-	-	**949.1**	**949.1**
Debt investments held at fair value	-	-	-	-
	-	**-**	**949.1**	**949.1**

	As at 31 March 2011			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Unquoted equity	-	-	723.6	723.6
Debt investments held at fair value	-	90.2	-	90.2
	-	90.2	723.6	813.8

	As at 31 March 2012		
Level 3 fair value reconciliation	**Unquoted investments £m**	**Debt investments £m**	**Total £m**
Opening fair value	**723.6**	**-**	**723.6**
Additions	**231.4**	**-**	**231.4**
Disposals	**-**	**-**	**-**
Unrealised gains on investments	**8.5**	**-**	**8.5**
Foreign exchange loss	**(14.4)**	**-**	**(14.4)**
Closing fair value	**949.1**	**-**	**949.1**

	As at 31 March 2011		
Level 3 fair value reconciliation	Unquoted investments £m	Debt investments £m	Total £m
Opening fair value	668.7	-	668.7
Additions	42.1	-	42.1
Disposals	-	-	-
Unrealised gains on investments	21.8	-	21.8
Foreign exchange loss	(9.0)	-	(9.0)
Closing fair value	723.6	-	723.6

There have been no reclassifications for assets that have been transferred in or out of Level 2 or Level 3 during the year (2011: £nil million).

This disclosure only relates to the investment portfolio, however the fair value hierarchy also applies to derivative financial instruments.

All unrealised movements on investments and foreign exchange movements are recognised in the statement of comprehensive income during the year. The foreign exchange loss of £14.4 million (2011: £9.0 million) in the Level 3 fair value reconciliation table above includes a foreign exchange loss of £14.4 million (2011: £8.7 million) relating to assets that are held by intermediary holding companies of the Group, for which sterling is not the functional currency. As a result, this exchange loss of £14.4 million (2011: £8.7 million) is recognised within Other Comprehensive Income as part of the overall loss of £4.4 million (2011: £6.8 million) arising on re-translation of foreign currency subsidiaries. All other movements are recognised within the total Investment Return of £106.6 million (2011: £131.1 million).

The majority of the assets held within Level 3 are valued on a discounted cash flow basis, hence, the valuations above are sensitive to the discount rate assumed in the valuation of each asset. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £72.5 million (2011: £50.5 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £82.5 million (2011: £57.7 million).

5 Issued capital

The Company is authorised to issue an unlimited number of shares with no fixed par value.

	As at 31 March 2012		As at 31 March 2011	
	Number	**£m**	Number	£m
Issued and fully paid				
Opening balance	**816,911,161**	**823.4**	811,082,581	817.6
Conversion of warrants	**64,438,409**	**64.4**	5,828,580	5.8
Closing balance	**881,349,570**	**887.8**	816,911,161	823.4

Under the Initial Public Offering in March 2007, 702.9 million ordinary shares were issued for £1.00, resulting in proceeds of £702.9 million being received. For every 10 shares issued as part of the IPO, one warrant was issued, resulting in 70 million warrants. A further 640,980 warrants were issued as part of the over-allotment arrangement. Each warrant entitled the holder to subscribe for one ordinary share at £1.00 at any time from 13 September 2007 to 13 March 2012. As at 31 March 2012 the period for conversion of warrants into ordinary shares had elapsed. At the beginning of the year there were 64,721,900 unexercised warrants, 64,438,409 warrants were exercised and issued in the year (2011: 5,828,580 warrants), 2,000 warrants were submitted for exercise but not issued, and the remaining 281,491 million warrants were cancelled at 13 March 2012 without being exercised.

On 9 July 2008, 108.1 million ordinary shares were issued as part of the Placing and Open Offer for a price of £1.06, resulting in proceeds of £114.6 million being received. No warrants were attached to these shares.

Following a Court Order in December 2007, the stated capital of the Group was reduced by £693.1 million and transferred to retained reserves. The aggregate proceeds from the issue of share capital of £887.8 million (as shown above) have been further reduced by total issue costs of £13.1 million, resulting in stated capital at 31 March 2012 of £181.6 million.

6 Per share information

	Year to 31 March 2012	Year to 31 March 2011
Earnings per share (pence)		
Basic	**7.0**	11.5
Diluted	**7.0**	11.4
Earnings (£ million)		
Profit after tax for the year attributable to equity holders of the parent	**59.6**	93.6
Number of shares (million)		
Weighted average number of shares in issue	**853.2**	812.7
Effect of dilutive potential ordinary shares – warrants	**-**	8.2
Diluted shares	**853.2**	820.9

	As at 31 March 2012	As at 31 March 2011
Net assets per share (pence)		
Basic	**121.4**	122.5
Diluted	**121.4**	120.9
Net assets (£ million)		
Net assets attributable to equity holders of the parent	**1,070.1**	1,000.7

7 Dividends

	As at 31 March 2012		As at 31 March 2011	
Declared and paid during the year	**Pence per share**	**£m**	Pence per share	£m
Interim dividend paid on ordinary shares	**2.97**	**25.6**	2.86	23.2
Prior year final dividend paid on ordinary shares	**2.86**	**24.4**	3.30	26.8
	5.83	**50.0**	6.16	50.0

The Group proposes paying a final dividend of 2.97p per share which will be payable to those shareholders that are on the register on 22 June 2012. On the basis of the shares issued at year end, this would equate to a total final dividend of £26.2 million.

8 Related parties

The Group has various related parties stemming from relationships with limited partnerships owned by the Group, its investee companies and its Investment Adviser.

Investments

The Group principally takes minority holdings in the equity of unquoted companies. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28 and IAS 31) but are related parties. The total amounts recognised in the statement of comprehensive income and the balance sheet for these investments are as follows:

Statement of comprehensive income	**Year to 31 March 2012 £m**	Year to 31 March 2011 £m
Unrealised (losses)/profits on the revaluation of investments	**(11.3)**	18.4
Portfolio income	**73.0**	40.7

Balance sheet	**As at 31 March 2012 £m**	As at 31 March 2011 £m
Unquoted investments	**712.8**	506.9
Loans and receivables	**163.7**	178.5
	876.5	685.4

Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 34.1% (2011: 32.9%) 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 exercised its holding of 32.5 million warrants in full and acquired an additional 32.5 million ordinary shares.

The Group has committed US$250 million to the 3i India Infrastructure Fund ("the Fund") to invest in the Indian infrastructure market. 3i Group has also committed US$250 million of investment capital to this Fund. Commitments of US$11.9 million or £7.4 million were drawn down by the Fund from the Group during the year. In total, commitments of US$175.6 million or £109.7 million re-translated (2011: US$163.7 million, £94.7 million) had been drawn down at 31 March 2012 by the Fund from the Group. At 31 March 2012, the Group's outstanding commitment to the Fund was US$74.4 million or £46.5 million.

During the year, the Group entered into an investment in Lakeside Network Investments ("LNI") through an intermediary holding vehicle 3i Networks Finland LP in which 3i Group has a 12.7% stake. 3i Group has contributed £28.4 million alongside the Group's investment of £194.8 million in LNI.

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, a subsidiary of the Company. During the year, £2.9 million (2011: £3.0 million) was payable to 3i Group of which £2.0 million was offset against the advisory fee (2011: £1.9 million). The net amount is shown as management fee of £0.9 million (2011: £1.1 million) in Note 2. As at 31 March 2012, £0.2 million remained outstanding (2011: £0.2 million).

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company. It also acts as the manager for the 3i India Infrastructure Fund. 3i plc, another subsidiary of 3i Group, together with 3i Investments plc, provides support services to the Company.

Under the Investment Advisory Agreement, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of 3i Infrastructure at the end of each financial period. Gross Investment Value is defined as the total aggregate value (including any subscription obligations) of the

Investments of the Group as at the start of a financial period plus any investment (excluding cash) made during the period valued at cost (including any subscription obligations). The applicable annual rate is 1.5%, dropping to an annual rate of 1.25% for Investments that have been held by the Group for longer than five years. The advisory fee accrues throughout a financial period and quarterly instalments are payable on account of the advisory fee for that period. The advisory fee is not payable in respect of cash or cash equivalent liquid temporary investments held by the Group throughout a financial period. For the year to 31 March 2012, £15.3 million was payable and £0.1 million remains due to 3i plc. For the year to 31 March 2011, £12.5 million was payable and £0.3 million remained due to 3i plc.

The Investment Advisory Agreement also provides for an annual performance fee to be payable to 3i plc. This becomes payable when the Adjusted Total Return per ordinary share (being mainly closing net asset value per share aggregated with any distributions made in the course of the financial period and any accrued performance fees relating to the financial period) for the period exceeds the Target Total Return per share, being the Net Asset Value per ordinary share equal to the opening Net Asset Value per ordinary share increased at a rate of 8% per annum ("the performance hurdle"). If the performance hurdle is exceeded, the performance fee will be equal to 20% of the Adjusted Total Return per share in excess of the performance hurdle for the relevant financial period, multiplied by the weighted average of the total number of shares in issue over the relevant financial period. The performance hurdle has not been exceeded for the year to 31 March 2012, hence no performance fee is payable (2011: performance fee payable of £2.9 million) and no amounts remain outstanding at 31 March 2012 (2011: £2.8 million).

Under the Investment Advisory Agreement, the Investment Adviser's appointment may be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing (expiring on or after 13 March 2015, unless 3i Investments plc has previously ceased to be a member of 3i Group), or with immediate effect by either party giving the other written notice in the event of insolvency or material or persistent breach by the other party. The Investment Adviser may also terminate the agreement on two months' notice given within two months of a change of control of the Company.

Pursuant to the UK Support Services Agreement, the Company also pays 3i plc an annual fee for the provision of support services. Such remuneration is payable quarterly in arrears. The cost incurred for the year to 31 March 2012 was £0.8 million (2011: £0.5 million). The outstanding balance payable as at 31 March 2012 was £0.2 million (2011: £0.1 million).

Transaction with a joint venture company
In January 2010, the Group invested £39.1 million to acquire a 49.9% stake in Elgin Infrastructure Limited. This has been treated as a joint venture in accordance with IAS 31 and has been held at fair value through profit and loss and accounted for in accordance with IAS 39. The value of this investment as at 31 March 2012 was £42.0 million (2011: £40.2 million).

During the year, £3.2 million of portfolio income was recognised by the Group from Elgin (2011: £3.3 million) with £0.5 million due to the Group as at 31 March 2012 (2011: £0.5 million).

Investment policy

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

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

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

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

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

No investment made by the Company will represent more than 20% of the Company's gross assets, including cash holdings, at the time of the making of the investment. It is expected that most individual investments will exceed £50 million. In some cases, the total amount required for an individual transaction may exceed the maximum amount that the Company is permitted to commit to a single investment. In such circumstances, the Company may consider entering into co-investment arrangements with 3i Group (or other investors who may also be significant shareholders), pursuant to which 3i Group and its subsidiaries (or such other investors) may co-invest on the same financial and economic terms as the Company. The suitability of any such co-investment arrangements will be assessed on a transaction-by-transaction basis and would be subject to both Board and, where applicable, 3i Group and its subsidiaries' approval. Depending on the size of the relevant investment and the identity of the relevant co-investor, such a co-investment arrangement may be subject to the related party transaction provisions contained in the Listing Rules and may therefore require shareholder consent.

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

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

Portfolio valuation methodology

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

Basis of valuation
Investments are reported at the Directors' estimate of fair value at the reporting date. Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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

Quoted investments
Quoted equity investments are valued at 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")
- Limited Partnership share of fund net assets
- Sales basis: expected sales proceeds
- Cost less any fair value adjustments required

DCF
DCF is the primary basis for valuation. In using the DCF basis, fair value is estimated by deriving the present value of the investment using reasonable assumptions and estimation of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The 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.

LP share of fund 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.

Sales basis
The expected sale proceeds methodology will be used 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 valuation. 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.

Notes to the preliminary announcement

Note 1
The statutory accounts for the year to 31 March 2012 have not yet been delivered to the Jersey Financial Services Commission. The statutory accounts for the year to 31 March 2011 have been delivered to the Jersey Financial Services Commission. The auditors' reports on the statutory accounts for these years are unqualified. This announcement does not constitute statutory accounts. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year to 31 March 2011.

Note 2
Subject to shareholder approval, the proposed final dividend will be payable on 13 July 2012 to holders of ordinary shares on the register on 22 June 2012. The Ex-dividend date for final dividend will be on 20 June 2012.

Note 3
Copies of the Report and accounts 2012 will be distributed to shareholders on or soon after 22 May 2012.

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.