

Annual report  
and accounts 2014





# Contents

---

## Overview

Our business	2
Our portfolio	3
Performance highlights	4
Financial highlights	5
Chairman's statement	6

---

## Strategic report

Strategy and business model	10
Strategic delivery	12
Key Performance Indicators	13
Investment Adviser's review	14
Financial review	26
Risk	30
Corporate responsibility	32

---

## Review of investments

Elenia	34
Anglian Water Group	36
Eversholt Rail Group	38
Oystercatcher	40
Cross London Trains ("XLT")	42
PPP portfolio	44
3i India Infrastructure Fund	46

---

## Governance

Introduction	50
Board of Directors	51
Directors' report	52
Corporate governance statement	55
Report of the Audit Committee	60
Report of the Remuneration Committee	61

---

## Financials and other information

Independent auditor's report to the members of 3i Infrastructure plc	63
Consolidated statement of comprehensive income	65
Consolidated statement of changes in equity	66
Consolidated balance sheet	67
Consolidated cash flow statement	68
Significant accounting policies	69
Notes to the accounts	74
Investment policy	86
Portfolio valuation methodology	87
Information for shareholders	88

# Our business

## Our strategy

We are long-term investors in infrastructure businesses and assets. Our strategy is to maintain a balanced portfolio of investments in order to deliver stable returns to our shareholders, through a mix of income yield and capital appreciation.

We invest in companies and assets with strong market positions that deliver stable underlying performance. These asset-intensive businesses provide essential services over the long term, often on a regulated basis or with significant contracted revenues.

## Our objective

Our objective is to provide shareholders with a total return of 10% per annum. Within this overall objective, we target an annual distribution yield of 5.5% of opening net asset value.

## Our market focus

Our market focus is on core economic infrastructure in developed economies, principally in Europe, in the utilities and transportation sectors, investing in operational businesses which generate long-term yield and can provide capital growth. We also have investments in social infrastructure and are building our exposure to primary Public Private Partnership ("PPP") and renewable energy projects.

The 3i India Infrastructure Fund, in which we hold an interest, reached the end of its investment period in November 2012 and its portfolio is being managed for value, as we expect it to be realised over the next few years.

# Our portfolio

At 31 March 2014

17

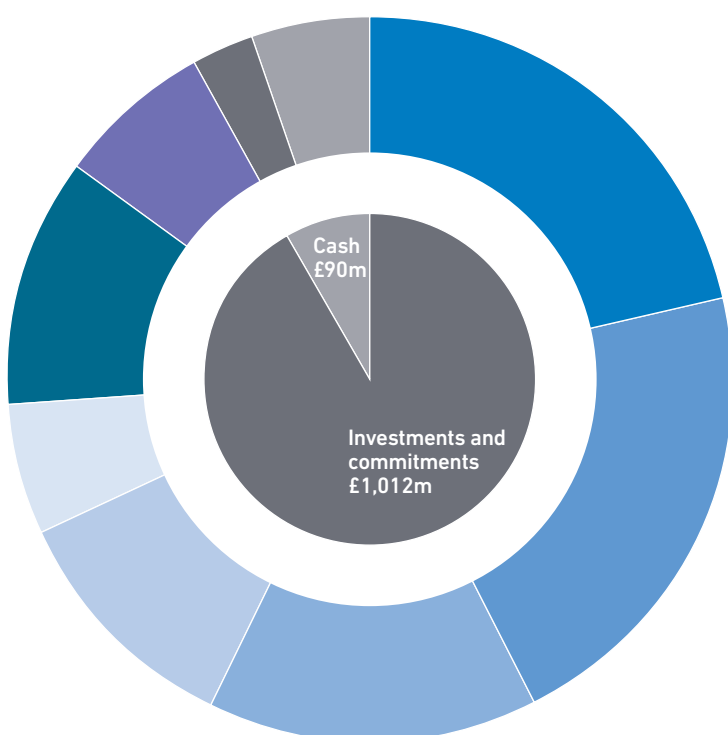
Investments

£1,012m

Portfolio<sup>1</sup>

£90m

Net cash balances<sup>3</sup>



## Invested and committed capital

	£m
<b>Core portfolio</b>	<b>814</b>
■ Elenia	236
■ Anglian Water Group ("AWG")	234
■ Eversholt Rail Group	160
■ Oystercatcher	120
■ Cross London Trains ("XLT")	64
<b>PPP portfolio</b>	<b>124</b>
<b>3i India Infrastructure Fund</b>	<b>74</b>
<b>Total investments</b>	<b>1,012</b>

## Cash

■ Cash committed to final dividend	30
■ Cash available for new investment <sup>2</sup>	60
<b>Total net cash balances<sup>3</sup></b>	<b>90</b>

- 1 Includes the portfolio of investments, valued at £996.0 million, and undrawn commitments of £15.7 million made to the National Military Museum and Mersey Gateway Bridge primary PPP projects.
- 2 In addition, the Company has a £200 million revolving credit facility available for new investment, which was undrawn at 31 March 2014 and at the time of reporting.
- 3 Includes cash of £90.7 million and "other financial assets" of £13.1 million held by the Company and cash balances of £1.6 million held within intermediate unconsolidated holding companies and is net of undrawn commitments to primary PPP investments of £15.7 million.

The Company has 17 investments, including the seven assets held within the 3i India Infrastructure Fund and five investments in the PPP portfolio.



Further details on pages 33 to 48.

# Performance highlights

For the year to 31 March 2014

## 6.6%

Steady net asset value  
progression

£71 million total return for the year (6.6% of opening net asset value) driven by a strong performance from the European portfolio and the stabilisation of the 3i India Infrastructure Fund in the second half of the year

## £82m

Strong portfolio  
income generation

Portfolio income<sup>1</sup> of £82 million, an increase of £10 million over last year

## £84m

Renewed investment  
activity

£84 million invested and committed in the year, including £62 million in Cross London Trains and £19 million in two new primary PPP projects

## 6.7p

Continued delivery of  
dividend objective

Full year dividend of 6.7 pence per share, representing 5.5% of opening net asset value, in line with our objective

<sup>1</sup> Portfolio income comprises aggregate dividends, interest income and fees received during the year from portfolio assets and is consistent with the measure used in previous years. Further details are included in the Financial review on page 27.

# Financial highlights

	31 March 2014	31 March 2013 restated <sup>1</sup>
Total return	<b>£71.0m</b>	£89.1m
Total return on opening Net Asset Value ("NAV")	<b>6.6%</b>	8.6%
Total dividend per share	<b>6.70p</b>	6.49p
NAV per share	<b>126.4p</b>	125.2p
NAV per share after deducting proposed final dividend	<b>123.0p</b>	121.7p
Portfolio assets <sup>2</sup>	<b>£996.0m</b>	£918.7m
Cash balances <sup>3</sup>	<b>£92.3m</b>	£179.2m

1 Comparative information has been restated to reflect the implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

2 Portfolio asset value of £996.0 million (2013: £918.7 million) excludes £0.6 million of net assets held within intermediate unconsolidated holding companies (2013: £10.2 million). This is consistent with portfolio value stated in prior years. Further details are included in the Portfolio section on page 20.

3 Cash balances include cash of £90.7 million held by the Company (2013: £175.8 million) and cash balances of £1.6 million held within intermediate unconsolidated holding companies (2013: £3.4 million).

# Chairman's statement

“ We made good progress in the implementation of our strategy, which is to deliver our return objectives by maintaining and building a portfolio primarily focused on the core infrastructure market, while also increasing in a measured way our exposure to primary PPP and renewable energy projects. Furthermore, we have agreed a number of changes to the Investment Advisory Agreement which will benefit shareholders and, importantly, secure the services of 3i as Investment Adviser for the Company.”

Peter Sedgwick, Chairman  
8 May 2014



The Company generated a steady return this year. The European portfolio continued to generate good levels of income and capital growth throughout the year. This was partly offset by a decline in the value of its holding in the 3i India Infrastructure Fund (“India Fund”) in the first half of the year, however this was stabilised in the second half.

We were pleased to add to both our core infrastructure and PPP portfolios this year. In June 2013, we completed our investment in Cross London Trains (“XLT”), in a consortium with Siemens and Innisfree. This transaction was recognised in the industry with several awards. In addition, in November 2013 and March 2014 respectively, we completed our investments in the Dutch National Military Museum (“NMM”) and the Mersey Gateway Bridge primary PPP projects, leveraging the Investment Adviser’s enhanced investment platform following 3i Group plc’s (“3i Group” or “3i”) acquisition of Barclays’ European infrastructure fund management business. That team is now integrated into the Investment Adviser’s Infrastructure business and we are seeing the benefit of this in terms of accessing further investment opportunities.

In February 2014, 3i Group announced changes in the leadership of the Investment Adviser, with the appointment of Ben Loomes and Phil White as Managing Partners and Co-heads of its Infrastructure business. The Board was consulted on these new arrangements and is highly confident that this strengthened team will be able to drive future performance. In addition, in May 2014 the Company and the Investment Adviser agreed, subject to shareholder approval, a range of amendments to the Investment Advisory Agreement, delivering benefits to the Company’s shareholders. These amendments include a reduction in the fee rate applied to new primary PPP and certain renewable project investments, the introduction of a “high water mark” requirement for the performance fee, as well as an extension of the agreement and its exclusivity provisions for a minimum term of a further four years. The amendments are subject to approvals from both the Company’s Jersey Regulator (the Jersey Financial Services Commission) and the Company’s shareholders, other than 3i Group. The renewal of the Investment Advisory Agreement underlines the strength of the relationship between the Company and the Investment Adviser.

## Performance

Looking at the financial performance, 3i Infrastructure generated a total return of £71 million for the year to 31 March 2014, or 6.6% on opening net asset value.

This return was driven by the strong performance of the Company’s European portfolio, which continued to generate good levels of income and unrealised capital appreciation. The European portfolio return was £117.4 million, a gross portfolio return of 13.5% which, excluding the impact of the performance of the India Fund, would enable the Company to achieve its 10% annual total return objective.

As was the case last year, the European portfolio’s good returns were offset in part by the poor performance of the investments in the India Fund, which was affected by political and market uncertainties, currency devaluation and weaker economic performance in the first half of the year. This resulted in the total return for the year being below the Company’s target return of 10% per annum.

## Dividend

As a result of the strong levels of income generated this year, the Board proposes a final dividend of 3.35 pence per share. This, added to the interim dividend of 3.35 pence per share paid in January 2014, represents 5.5% of opening net asset value, meeting the dividend objective for this year. The dividend is fully covered by the portfolio income generated during the year.

## Investment activity

As described in more detail in the Investment Adviser’s review on pages 18 and 19, market conditions for new investment remained competitive in the year. There is significant demand for infrastructure investments, driving up asset prices and putting pressure on projected returns. This has been the case particularly in the core infrastructure and secondary PPP markets in Europe.

Against this backdrop, the Company invested and committed a total of £84 million in the year in XLT, a core infrastructure investment, and in the NMM and Mersey Gateway Bridge primary PPP projects.

3i Infrastructure completed its £62 million investment in XLT in June 2013, in a consortium with Siemens and Innisfree. The investment, which was immediately accretive to returns, further diversified the Company’s core portfolio and is expected to contribute to both income generation and capital appreciation in the future.

We remain committed to building a portfolio focusing principally on core infrastructure investments, which we target to be at least 75% of total portfolio value. Over time, as the investments in the India Fund are realised, we expect the balance of the portfolio to be allocated to the primary PPP and renewable energy project investments where we see attractive risk-adjusted returns.

The investments in the two primary PPP projects, NMM and the Mersey Gateway Bridge, announced in November 2013 and March 2014 respectively, were originated through the Investment Adviser's enhanced team. That team is developing a promising pipeline of investment opportunities.

3i Infrastructure is a long-term investor in its portfolio. There were no asset sales this year, although the Company received proceeds of £11 million through loan repayments and the redemption of preference shares.

### Cash balances and liquidity

At 31 March 2014, 3i Infrastructure had net cash balances of £90 million, of which £30 million will be used for the payment of the proposed final dividend. This amount includes unrestricted cash held in intermediate subsidiary holding companies, but excludes £16 million of undrawn commitments to the NMM and Mersey Gateway Bridge projects. In addition, the Company has commitments of £23 million for any residual cash calls by the India Fund, although it is unlikely that this amount will be drawn in full.

The Company also has a £200 million revolving credit facility available for new investment. This facility was undrawn at 31 March 2014 and remains undrawn at the time of reporting.

### Investment Adviser and contractual arrangements

During the year there were several changes at the Investment Adviser. In November 2013, 3i Group announced that it had acquired Barclays' European infrastructure investment business, significantly enhancing the Investment Adviser's project origination capability and adding specialised skills in PPP and renewable energy project investing. This fits well with the Company's strategy of investing in these sectors.

On 12 February 2014, 3i Group announced changes to the leadership of its Infrastructure business. Following Cressida Hogg's departure, Ben Loomes and Phil White were appointed as Managing Partners and Co-heads of 3i's Infrastructure business and have overall responsibility for managing the business.

Ben Loomes was previously 3i Group's nominated Director on the Company's Board and has been closely involved with 3i Group's Infrastructure business since he was appointed as 3i's Group Strategy Director in 2012. He has been a member of 3i Group's Executive Committee and Investment Committee since 2012. His primary responsibilities include the strategic development of 3i's Infrastructure business.

Phil White joined 3i in 2007 and leads the asset management for the Infrastructure business. He holds board positions at Anglian Water Group, Elenia and the Oiltanking companies. He also has responsibility for the realisation of the India Fund's investments. He is a member of 3i Group's Executive Committee and Investment Committee.

In addition, Neil King was appointed Senior Partner of 3i's Infrastructure business and continues to be responsible for investment origination and execution and will also be responsible for fundraising activities. He also joined 3i Group's Executive Committee on his appointment.

The Board is very confident in the Investment Adviser's strengthened leadership team, which includes long-standing members of the team and provides continuity in strategy and execution for the Company. In addition, three Partners joined 3i's Infrastructure business with Barclays' European infrastructure investment business, adding further breadth and depth to the overall senior team. We are confident that this enhanced team will provide energy and fresh insight in their roles. On behalf of the Board, I would also like to thank Cressida for her contribution over the years and to wish her well in her new role.

On 8 May 2014, the Company entered into an agreement with 3i to amend the terms of the existing Investment Advisory Agreement, conditional on obtaining the approval of both the Company's shareholders and the Jersey Financial Services Commission. The principal changes include a reduction in the fee rate for future primary PPP and certain renewable project investments and, following feedback received from shareholders, the addition of a "high water mark" requirement to the performance fee calculation. With the existing exclusivity arrangements coming close to expiry, the Board also agreed an extension of the fixed term of the Investment Advisory Agreement by four years, with one year's rolling notice thereafter. The term of the exclusivity provisions with the Investment Adviser has been extended to match the term of the Investment Advisory Agreement, provided that the Company maintains sufficient liquidity to continue investing through its cash holdings or undrawn debt facilities. The Board is encouraged by these steps, which demonstrate the strong relationship between the Company and its Investment Adviser. The Board is also pleased to have achieved improved overall terms for shareholders. Further details of the terms of the amended Investment Advisory Agreement are on page 52.

# Chairman's statement

### Corporate governance and Board

There were a number of changes to the Board during the year. Florence Pierre and Paul Waller served on the Board until their respective resignations at the Company's AGM on 9 July 2013. Ben Loomes, 3i Group's nominee Director, resigned from the Board on 17 February 2014, following his appointment as Managing Partner and Co-head of 3i Group's Infrastructure business, and his resignation took effect on 16 April 2014, following receipt of consent from the Jersey Financial Services Commission. I would like to express my gratitude to Florence, Paul and Ben for their valuable contributions over the years.

Ian Lobley replaced Ben Loomes as 3i Group's nominee Director, effective from 6 May 2014. In his current role at 3i, Ian is a member of 3i's Investment Committee and has responsibility for investments in companies across a variety of sectors and geographies. We are delighted that Ian has agreed to join our Board. He brings a combination of transaction, portfolio management and board experience and will be a welcome addition to the Company as we continue to develop the business.

The Board aims to uphold the highest standards of corporate governance and, in the year under review, complied with all applicable provisions of the UK Corporate Governance Code. At the last Annual General Meeting, held on 9 July 2013, shareholders approved the re-election of all current Directors to the Board.

On 1 April 2014, the Company announced it had replaced its corporate administrator, State Street Secretaries (Jersey) Limited, with Capita Financial Administrators (Jersey) Limited, following a competitive tender.

### Changes to the presentation of results and reporting

In line with our policy of maintaining best practice in reporting and governance, we have incorporated changes to this year's Annual report and accounts as described in the UK Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013. We have presented a Strategic report containing details of the Company's strategy, business model, performance risks and Key Performance Indicators.

In addition, the Company has adopted several new accounting standards relating to consolidated financial reporting for the presentation of its results for this financial year. Accordingly, we have restated the results for the prior year, in line with the new standards. As a result, we will no longer report performance on an Investment basis, as the adoption of the new standards aligns the reporting of total return and net asset value with that Investment basis reporting.

However, as a result of the adoption of the new consolidation standards, the Board considers that some of the individual line items in the Financial statements are not aligned with the way in which it reviews the performance and valuation of the portfolio. Therefore, in order to ensure that the Annual report and accounts remain fair and understandable, we have expanded the commentary in the Portfolio and Financial review sections to provide information on the underlying sources of income from, and valuation of the portfolio, in line with the measures the Board uses to review the performance of the Company and which are consistent with prior years.

### Outlook

Last year, following our strategic update, we stated that the Company would focus future investment activity on the core infrastructure market such that core infrastructure investments represent at least 75% of the Company's portfolio value. At the same time, the Company proposes to invest the balance of its portfolio in primary PPP and renewable energy projects, as the investments in the India Fund are realised over the coming years. We have made good progress towards these objectives, with the investments in XLT and the NMM and Mersey Gateway Bridge projects. As the portfolio develops and the investments in the India Fund are realised, we are confident that we can continue to deliver attractive returns to our shareholders with reduced volatility.

# Strategic report



# Strategy and business model

## Strategy

We are long-term investors in infrastructure businesses and projects. Our strategy is to maintain a balanced portfolio of investments which deliver stable returns to our shareholders, through a mix of income yield and capital appreciation. This offers shareholders differentiated access to the infrastructure asset class.

We aim to achieve our objectives by managing our strong European portfolio to continue to deliver stable returns and by adding selectively new investments to that portfolio. We invest in companies and assets with strong market positions that deliver stable underlying performance: asset-intensive businesses, providing essential services over the long term, often on a regulated basis or with significant contracted revenues.

New investment activity will be focused on the core economic infrastructure market, while building our exposure to primary PPP and renewable energy projects that offer attractive risk-adjusted returns. Although we are long-term investors, we will on occasion sell investments where pricing is attractive and a sale is consistent with the achievement of the Board's target portfolio balance.

We look to deliver our objectives and to maximise returns through our Investment Adviser's specialist investment and asset management skills, as well as through the financial management of the Company's balance sheet, minimising volatility where it is cost-effective to do so.

## Our market focus

Core infrastructure	Primary PPP/low-risk energy projects	India infrastructure
<p><b>Dynamic businesses that own their asset base in perpetuity,</b> not concessions with a finite life. These have low volatility across economic cycles and tend to offer returns of between 8–15%.</p>	<p><b>Concession-based</b> primary PPP projects, mainly in education, healthcare and public sector accommodation, as well as primary renewable energy projects. These investments typically target returns of between 9–12%.</p>	<p><b>Higher risk characteristics,</b> through exposure to increased market or geopolitical risk.</p>
<p><b>Objective:</b> at least 75% of portfolio value</p>	<p><b>Objective:</b> build further exposure to primary projects over time</p>	<p><b>Objective:</b> realisation of investments over time</p>

## Business model

The Board is responsible for setting the Company's strategy. The Investment Adviser is responsible for implementing the strategy under the oversight of the Board, which is also responsible for all investment and divestment decisions, as well as for the valuation of the portfolio.

### Strategy

Board of Directors
Maintain a balanced portfolio of infrastructure investments in developed economies, focusing on the core infrastructure market, as well as building exposure to primary PPP and renewable energy projects which offer attractive risk-adjusted returns
Manage intensively the portfolio to deliver a robust income yield and stable capital appreciation
Add selectively to the portfolio, targeting opportunities in our markets and realise assets opportunistically when a sale is consistent with the achievement of the Board's target portfolio balance
Manage the Company's financial position efficiently, minimising return dilution
Manage the relationship with the Investment Adviser, securing access to its specialist investment and asset management skills over the long term

### Implementation

Investment Adviser
Maintain a clear focus on the Company's target markets, deploying the investment and asset management skills necessary to deliver the Company's strategy and objectives
Apply consistent and rigorous asset management to drive good operational performance in investments, underpinning portfolio cash generation and capital growth
Adopt a rigorous approach to new investment, pricing opportunities in a way that is compatible with the Company's risk-adjusted return objectives and portfolio balance and assessing realisation opportunities as they arise
Leverage the Investment Adviser's processes and resources to ensure that financial risks are adequately monitored and that liquidity is managed appropriately
Maintain a regular dialogue with the Board, ensuring that the Investment Adviser's capabilities and services are firmly aligned with successfully delivering the Board's objectives

**Our objective is to provide shareholders with a total return of 10% per annum. Within this overall objective, we target an annual distribution yield of 5.5% of opening net asset value.**

# Strategic delivery

Strategy	Key risk factors in 2014	Delivery in 2014
Maintain a balanced portfolio of infrastructure investments in developed economies, focusing on the core infrastructure market, as well as building exposure to primary PPP and renewable energy projects which offer attractive risk-adjusted returns	<p>The portfolio composition is aligned with the Company's long-term objectives, with a clear focus on core infrastructure businesses.</p> <p>The Board has stated that the investments in the India Fund will be realised over time and that there will be no further investments in emerging markets. There continue to be risks affecting the potential realisation of the investments in the India Fund over the next few years.</p>	<p>The Investment Adviser maintained and managed a pipeline of core infrastructure and primary PPP investments, in line with the Board's strategy. Similarly, the new investments completed in the year were balanced across the core infrastructure and primary PPP project markets.</p> <p>The Investment Adviser continues to develop its resources and skill base to deliver successfully the Company's portfolio objectives.</p>
Manage the portfolio intensively to deliver a robust income yield and stable capital appreciation	<p>A number of regulatory developments had to be managed during the year, including the regulatory review for AWG, new performance incentives for Elenia and new health and safety regulation for Oystercatcher.</p> <p>Elenia and Eversholt had to manage complex refinancing processes and successfully refinanced all or part of their acquisition debt during the year.</p>	<p>The Investment Adviser continued to dedicate significant resource to portfolio management and to engage with investee companies at Board and senior management levels, driving strong income generation in the portfolio.</p> <p>The Investment Adviser also worked closely with the management teams of portfolio companies to manage regulatory developments.</p> <p>In positive debt market conditions, the acquisition debt in Elenia and Eversholt was refinanced, generating value through de-risking their capital structures and lowering funding costs.</p>
Add selectively to the portfolio, targeting investment opportunities in our markets and realise assets opportunistically when a sale is consistent with the achievement of the Board's target portfolio balance	<p>The market for new core infrastructure investment remained competitive in the year, driving up asset prices and impacting forecast projected returns.</p>	<p>We added the new investment in XLT, a core infrastructure asset, which was immediately accretive to returns.</p> <p>Through the Investment Adviser's enhanced PPP investment platform, we also completed two new investments in primary PPP projects.</p> <p>The Investment Adviser will continue to focus on investments where it has a competitive advantage, particularly in the assessment and pricing of risk.</p>
Manage the Company's financial position efficiently, minimising return dilution	<p>The Company's revolving credit facility was due to expire in November 2013.</p> <p>Returns from the India Fund were negatively affected by currency volatility.</p> <p>Movements in the Singapore dollar against the euro also affected the valuation of Oystercatcher.</p>	<p>The Company renewed its revolving credit facility to May 2016, reducing liquidity risk.</p> <p>The Board reviews the hedging policy for the Indian rupee periodically, but determined that there was, at the time, no cost-effective means of hedging that currency. The Company approved the implementation of some long-term hedging of its Singapore dollar exposure.</p> <p>In addition, the Board continued to manage costs, including through the renegotiation of the terms of the Investment Advisory Agreement.</p>
Manage the relationship with the Investment Adviser, securing access to its specialist investment and asset management skills over the long term	<p>There were a number of changes to the structure and leadership of the investment advisory team, which could have been disruptive to the implementation of the Company's strategy.</p> <p>The investment exclusivity arrangement with the Investment Adviser was close to expiry.</p>	<p>Changes at the Investment Adviser, including the integration of the PPP team and the transition in leadership, were managed well and communicated effectively to the market.</p> <p>We renewed the Investment Advisory Agreement, extending its term and the exclusivity provisions for a minimum of four years. As part of this, we agreed a reduction in the fee rate for future primary PPP and certain renewable energy project investments, achieving better value for shareholders.</p> <p>The Chairman has a regular dialogue with 3i Group's Chairman and Chief Executive to discuss the performance of the investment advisory team and resourcing requirements.</p>

# Key Performance Indicators

## Total return

% of opening Net Asset Value



### Target

To provide shareholders with a total return of 10% per annum

### Outcome

Total return of 6.6% for the year to 31 March 2014

## Annual distribution

% of opening Net Asset Value



### Target

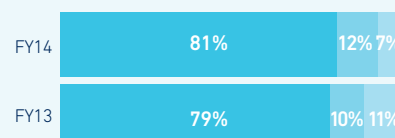
To provide shareholders with an annual distribution yield of 5.5%

### Outcome

Dividend of 5.5% for the year to 31 March 2014

## Portfolio balance

% of portfolio



### Target

At least 75% of the portfolio invested in core infrastructure

### Outcome

81% of the portfolio invested in core infrastructure at 31 March 2014

## Rationale and definition

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

## Performance in 2014

- Total return of £71.0 million, or 6.6% of opening net asset value
- Strong performance of the European portfolio, which generated returns of £117.4 million (including gains on the euro hedging programme), a gross portfolio return of 13.5%
- Strong European performance offset in part by losses of £24.9 million for the India Fund, driven by currency depreciation and weaker economic performance
- Costs managed in line with expectations

 Further detail on page 26

## Rationale and definition

- This measure reflects the dividends distributed to shareholders each year
- The Company's business model is to generate returns from income generated from the portfolio and capital returns (through value growth and realised capital profits). Income and capital profits generated for shareholders are used to meet the costs of the Company and distributions to shareholders
- The dividend yield, measured as a percentage, is calculated against the opening net asset value, net of the final dividend for the previous year and adjusted to take into account any equity issued in the year

## Performance in 2014

- Total dividend paid/declared for the year of £59.0 million or 6.7 pence per share
- Income generated from the portfolio and cash deposits totalled £82.7 million for this financial year
- The proposed dividend payment is covered by income generated net of all the Company's costs, including finance costs and performance fees

 Further detail on page 27

## Rationale and definition

- The Company's strategy is to deliver its return targets by investing in a portfolio strongly weighted towards core infrastructure
- This provides shareholders with a differentiated investment proposition against other UK-listed infrastructure investment vehicles
- The portfolio is measured as the underlying portfolio asset value, including undrawn commitments made to portfolio assets

## Performance in 2014

- £61.8 million invested in XLT, a core infrastructure investment, compared to total investment of £83.5 million in the year (including undrawn commitments)
- £814.3 million, or 81% of portfolio, invested in core infrastructure

 Further detail on page 21

# Investment Adviser's review



“ We have continued to manage carefully and grow the value of the Company's portfolio. During the year, we enhanced our investment platform through the acquisition of an experienced and specialist PPP investment team in London and Paris. This has already resulted in new investments for the Company in the NMM and Mersey Gateway Bridge primary PPP projects. We are seeing attractive investment opportunities in the core infrastructure market, which remains the Company's key area of focus.”

**Ben Loomes and Phil White**

Managing Partners and Co-heads, Infrastructure, 3i Investments plc  
8 May 2014

## About the Investment Adviser

3i Investments plc (“3i Investments”), a wholly-owned subsidiary of 3i Group, acts as the investment adviser (the “Investment Adviser”) to the Company through its infrastructure investment team (the “investment advisory team”). The investment advisory team provides advice to the Company on the origination and execution of new investments, on the management of the portfolio and on realisations, as well as on funding requirements.

The investment advisory team is managed as a separate business line within 3i Group and operates from offices in London, Paris and Mumbai. The team of investment professionals has significant experience investing in infrastructure assets. The investment advisory team can also draw on 3i Group's broader network of investment professionals and relationships to originate infrastructure investment opportunities.

3i Group was among the subscribers to 3i Infrastructure's Initial Public Offering in 2007 and subsequent Placing and Open Offer in 2008 and owns approximately 34% of the equity in the Company.

In November 2013, 3i Group announced the completion of its acquisition from Barclays Bank plc of Barclays Infrastructure Funds Management Limited, its European infrastructure fund management business. The business manages two active unlisted funds that invest in UK and European PPP and low-risk energy projects and at that time had assets under management of approximately £780 million. The business, with its 22-strong team based at its offices in London and Paris, has been integrated into 3i Group's existing Infrastructure investment business.

On 12 February 2014, 3i Group announced changes to the leadership of its Infrastructure business. Following Cressida Hogg's departure, Ben Loomes and Phil White were appointed as Managing Partners and Co-heads of the Infrastructure business with overall responsibility for managing the business.

3i Group believes that this strengthened leadership team brings fresh impetus and underlines its commitment to the next stage of development of its Infrastructure platform.

Ben Loomes was previously a non-Executive Director of 3i Infrastructure plc and has been closely involved with 3i Group's Infrastructure business since he was appointed as 3i's Group Strategy Director in 2012. He has been a member of 3i Group's Executive Committee and Investment Committee since 2012. His primary responsibilities include the management and strategic development of 3i's Infrastructure business.

Phil White joined 3i in 2007 and leads the asset management for the Infrastructure business, holding Board positions at Anglian Water Group, Elenia and the Oiltanking companies. He has been a member of 3i Group's Executive Committee and Investment Committee since 2014.

In addition, Neil King was appointed Senior Partner and will continue to be responsible for investment origination and execution and fundraising activities. He also joined 3i Group's Executive Committee in 2014.

Stephen Halliwell continues in his role as CFO of 3i Group's Infrastructure business.

# Profiles of senior members of the investment advisory team



**Ben Loomes**  
Managing Partner, Co-head, Infrastructure

Ben is 3i's Managing Partner, Co-head of Infrastructure and Group Strategy Director. He is a member of 3i's Executive Committee and Investment Committee and has experience across all of 3i's business lines. He joined 3i Group in 2012 and has been heavily involved in its strategic transformation of the organisation. As Co-head of 3i's Infrastructure business, Ben is responsible for the management and strategic development of the business. His responsibilities also include development and execution of the Group's strategic plan as well as being a member of the Group's Risk Committee and Conflicts Committee. Prior to joining 3i, Ben's experience included mergers and acquisitions, financing advisory and restructuring, including roles at Goldman Sachs, Greenhill and Morgan Stanley.



**Phil White**  
Managing Partner, Co-head, Infrastructure

Phil joined 3i in 2007 and is Managing Partner, Co-head of Infrastructure and a member of 3i's Executive Committee and Investment Committee. Prior to joining 3i, he was Division Director in Macquarie's Infrastructure Funds business where he managed investments in the transport sector. Phil has over 20 years of investment, advisory and finance experience from earlier roles at Barclays and WestLB. Phil leads asset management for the Infrastructure business and holds board positions at Anglian Water Group, Elenia, and the Oiltanking companies.



**Neil King**  
Senior Partner, Infrastructure

Neil joined 3i in 2005 and is a Senior Partner in its Infrastructure business. His main role since joining the business has been to oversee new investment opportunities across the team and he played a leading role in the acquisitions of Eversholt Rail, Elenia, Anglian Water Group, Cross London Trains, the Junior Debt portfolio and the PFI investments. He was also heavily involved in the IPO of 3i Infrastructure and the raising of the India Fund. Neil was previously at Innisfree, the leading independent PFI investment fund, and also spent 15 years in infrastructure banking, including five years running the London team at WestLB.



**Stephen Halliwell**  
CFO, Infrastructure

Stephen has been Chief Financial Officer for 3i Group's Infrastructure business since April 2007. He manages all of the operational, financial and reporting requirements for the Infrastructure business within 3i Group, as well as performing CFO duties for 3i Infrastructure plc. He is also a director of Cross London Trains Limited. Stephen joined 3i Group's Finance Team in 1998. Between 2001 to 2005 he was Operations Director for 3i Group's businesses in the Benelux countries. He qualified as a Chartered Accountant while at Binder Hamlyn (London) and Arthur Andersen between 1991 and 1998.



**Stéphane Grandguillaume**  
Partner, Infrastructure

Stéphane is a Partner in 3i's Infrastructure team in Paris and joined 3i in November 2013, following 3i's acquisition of Barclays Infrastructure Funds Management Limited, which he joined in 2006. Stéphane leads 3i's Infrastructure team in Paris and oversees the origination and execution of investment opportunities in PPP and renewable energy projects across Europe. Previously, Stéphane was head of Egis Investment Partners.



**Andy Matthews**  
Partner, Infrastructure

Andy is a Partner in 3i's Infrastructure team and joined 3i in November 2013, following 3i's acquisition of Barclays Infrastructure Funds Management Limited, which he joined in 2001. He played a pivotal role in developing and implementing that business' strategy for investment in UK and European projects across the majority of sectors in PFI/PPP from hospitals, schools and Government accommodation to the transportation sector, including roads and light railway projects. He also led its expansion into the energy sector, including solar and wind. Prior to joining Barclays, Andy structured and underwrote financial guarantees for the capital market financing of social infrastructure projects for US Monoline Financial Security Assurance Inc.



**Nigel Middleton**  
Partner, Infrastructure

Nigel is a Partner in 3i's Infrastructure team in London and joined 3i in November 2013, following 3i's acquisition of Barclays Infrastructure Funds Management Limited. He joined that business in 2002, having previously been head of PFI/PPP Advisory Services at PwC. Nigel led the involvement of that business in the formation and management of Infrastructure Investors (I<sup>2</sup>), a pioneering secondary market infrastructure fund, in which Barclays Infrastructure Funds Management had a joint venture interest alongside Société Générale and 3i. He was also instrumental in establishing, and continues to manage, BIIF, a long-term 'buy and hold' PPP fund which acquired I<sup>2</sup> in 2009.

# Investment Adviser's review

## The infrastructure asset class – key characteristics

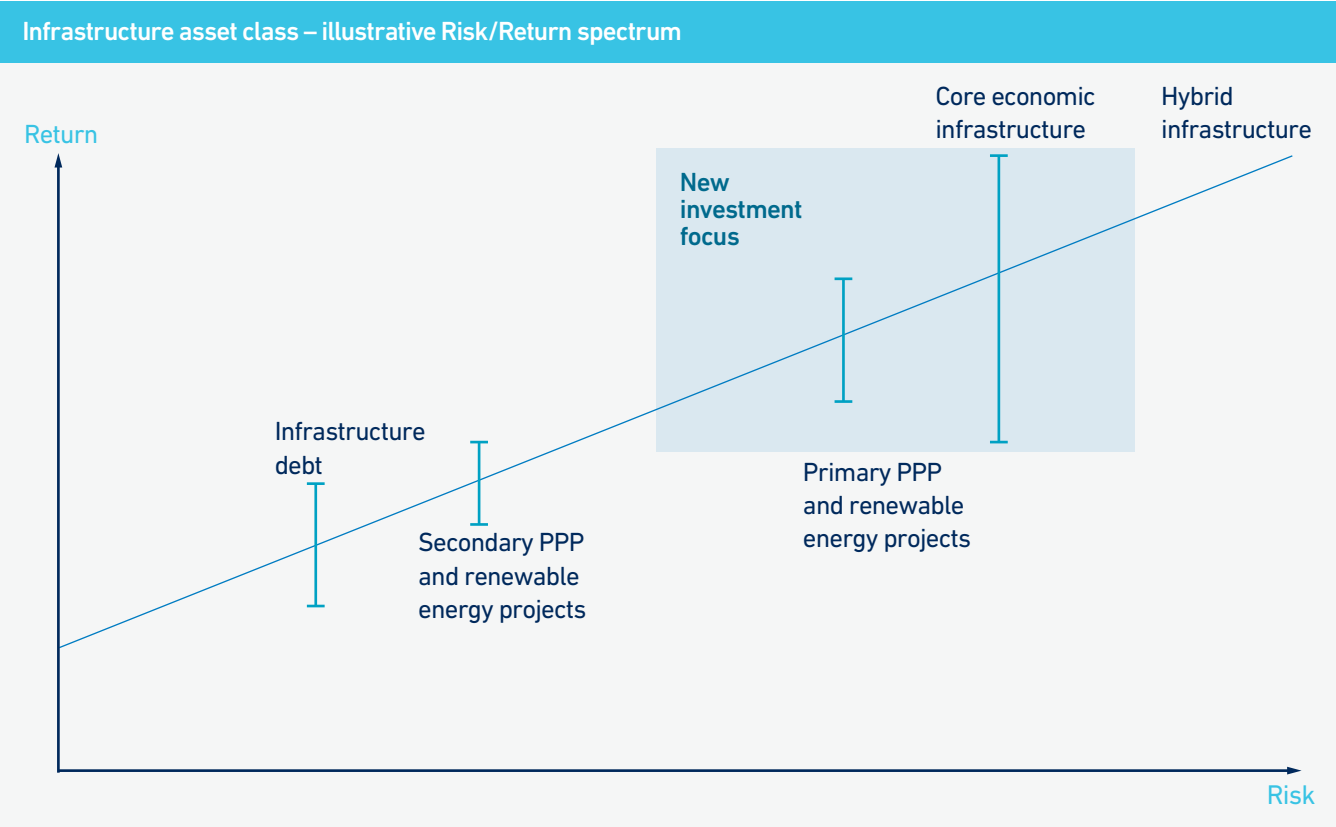
Infrastructure businesses generally have a strong market position, often operating within regulatory frameworks, or with revenues underpinned by long-term contracts. They provide “essential” services, either because they are fundamental to economic activity and economic growth, such as utilities or transport infrastructure, or because they support important social functions, such as education or healthcare facilities.

Key features include:

- strong market position underpinning revenues (eg long-term contracts, local monopolies);
- low volatility through economic cycles;
- capital-intensive;
- some degree of inflation linkage;
- predictable, income-oriented returns when 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 their cash flows tend to provide for stable distributions to shareholders.

We sub-divide the infrastructure market as shown in the diagram below.



Note: The bars indicate the Investment Adviser's estimated range of returns for each category of infrastructure investment.

## Investment approach

### Summary investment strategy

As set out on page 2, the Company aims to deliver a total return of 10% per annum, of which 5.5% is through annual shareholder distributions. It will do this through building a portfolio of investments in developed economies predominantly focused on core infrastructure, representing at least 75% of portfolio value, while building exposure to primary PPP and renewable energy projects which offer attractive risk-adjusted returns.

As announced last year, the Company's investment in the India Fund (currently in its realisation phase) will not be followed up by further investments in India or in other emerging markets, and the Company does not intend to assume any further exposure to infrastructure investments in developing markets.

### Core infrastructure

Core infrastructure companies are dynamic businesses that own their asset base, not concessions with a finite life. Our market focus is on the utilities and transport sectors, as well as on businesses that develop portfolios of renewable energy projects.

The Investment Adviser aims to generate returns from core economic infrastructure investments over the long term through an engaged portfolio management approach. We engage with companies' management teams at the board and senior management levels to develop strategies that support investment in the asset base to promote growth over the long term, continued improvements in operational performance, disciplined cash management to drive yield for shareholders and efficient capital structures to optimise funding costs and financial risk.

This approach requires a broad set of skills, including a sound understanding of the operations and markets of each business, as well as the funding market knowledge to maintain an efficient financing structure.

Core infrastructure in the developed markets, particularly in northern Europe, will remain the Investment Adviser's key area of focus, as it provides a blend of income and capital returns that is based on achieving the Company's return objectives. The Investment Adviser has a strong track record in core infrastructure investing, having delivered a 16% IRR from its core infrastructure portfolio in Europe since the Company's inception.

### PPP and renewable energy projects

PPP investing involves making investments in projects to build, operate and maintain an asset and making it available for a procuring authority for a concession period of typically 20 to 30 years, in return for secure, often index-linked, availability-based payments. Primary PPP investments are made at the beginning of a project, when the assets are still being built, while secondary PPP investments are in assets that are already built and operational.

Investments in renewable energy projects are typically in wind and solar projects. The new PPP team brings a proven track record of investing in renewable energy projects in the UK and Europe, including on-shore windfarms, solar plants and Offshore Transmission Owners ("OFTOs"). Combined with the Investment Adviser's existing knowledge and relationships, we believe that the Company can access renewable energy investments which will deliver attractive risk-adjusted returns, both in individual projects and in platform businesses which combine existing portfolios, plus the management resources to develop new assets. We are focused on countries where we believe that subsidy regimes are robust and will be sustained over the full life of operating projects.

The Company will focus its future PPP and energy project investments in primary projects. These tend to provide returns of between 9-12%, which are higher than the returns available from secondary or operational PPP and energy projects, reflecting the market premium available for accepting the higher construction and execution risks involved. We have substantial expertise in the team to assess and manage these risks.

The Investment Adviser has a strong track record of generating returns from its PPP and low-risk energy investments. It has delivered a 26% IRR from the Company's PPP portfolio since its inception.

### Implementation of the investment strategy during the year

During the year, the Investment Adviser implemented the Company's strategy by:

**Managing the portfolio to drive long-term value creation from the investments** – continuing to engage with the management teams of all portfolio companies at board and senior management levels and more informally. Particular areas of focus this year have included:

- AWG's negotiations with Ofwat on the regulatory review, which will determine AWG's capital expenditure programme and allowed return over the 2015–2020 regulatory period (see pages 23 and 37 for more information);
- the successful refinancing of Elenia's and Eversholt's acquisition debt (see pages 22, 35 and 39); and
- Oystercatcher's major programme of facilities upgrades in Amsterdam (see pages 23 and 41).

**Originating core infrastructure and primary PPP project investments** in the Company's target European markets, focusing on:

- completing the investment in XLT (see page 22);
- assessing and pursuing a number of core infrastructure investment opportunities in sectors including regulated utilities, renewable power, midstream energy and transportation, which will likely lead to bids during this next financial year (see page 18);
- leveraging the enhanced PPP team's capabilities and relationships to pursue a number of primary PPP investments, including the NMM and Mersey Gateway Bridge investments (see pages 18 and 22).

**Continuing to manage the assets in the India Fund**, with the objective of maximising their value ahead of proposed sales over the next few years.

## Investment Adviser's review

### Market, opportunities and risks

#### Conditions for investment

Investor allocations to the infrastructure asset class continue to increase, as returns from other asset classes remain under pressure in the current low interest rate environment. Competition for investments is intense, as the infrastructure asset class continues to attract interest from existing specialist financial investors, but also increasingly from investors such as large pension funds, sovereign wealth funds and insurance companies, a number of which are developing capabilities to make direct investments.

Lenders are also attracted to the infrastructure asset class. Debt financing remains readily available for infrastructure investments and leverage levels are increasing.

The Board and the Investment Adviser remain focused on investing in developed economies, principally within Europe, where they see the best opportunity to deliver the Company's return objectives while minimising market and geopolitical risks. The outlook for many European economies, and in particular those in northern Europe, has improved over the last 12 months. This has been reflected in a strong rally in equity markets and in prices across most asset classes.

This, combined with the significant availability of both equity and debt financing for investment, continues to drive the prices of infrastructure assets higher, while projected long-term returns have been trending lower.

#### The market opportunity in core infrastructure

A number of opportunities in the core infrastructure market in the past year have come from asset disposal programmes being implemented by large European utilities and energy companies. A number of these programmes are still underway and will continue to generate opportunities in the year to come.

In addition, as funds raised in the previous decade near maturity, a number of specialist financial investors are beginning to realise assets to return capital to their underlying investors or to prove valuations.

We have been active in pursuing opportunities in core infrastructure throughout the year and are well positioned to bid for a number of assets, which we anticipate will come to market later this year.

Against strong competition for infrastructure assets, we have remained disciplined and careful investors, focusing on opportunities where we can leverage our operational expertise, network, track record and market knowledge to price risk appropriately. We expect that conditions for investment in core infrastructure will remain competitive over the next year.

#### The market opportunity in primary PPP

The Investment Adviser's PPP investment capability was enhanced in November 2013 through 3i Group's acquisition of the Barclays Infrastructure Funds Management business. We now have a team of investment professionals dedicated to the PPP market and this is producing interesting opportunities for 3i Infrastructure, as evidenced by the investments in the NMM and Mersey Gateway Bridge primary PPP projects (described on page 22).

As set out on page 10, whilst core infrastructure will remain the key area of focus for 3i Infrastructure and is expected to represent at least 75% of portfolio value, the Board intends to build further exposure to the PPP component of the portfolio over time, with a clear preference for primary over secondary PPP investments where the Company can generate attractive risk-adjusted returns.

We expect resource-constrained governments across Europe to privatise or open up the provision of a number of services through PPP-style transactions. This process is already well developed in countries such as France, Benelux and Scandinavia, as well as in the UK, where the PF2 initiative is expected to result in an increased flow of opportunities. We are assessing projects across each of these regions and have built a good pipeline, which we expect will materialise in new investments over the coming year.

## India

The India Fund reached the end of its investment period in November 2012. It is likely that the Company's remaining £23 million commitment to the India Fund will remain largely undrawn. Our team in India is now monitoring the portfolio and focusing on preparing the India Fund's investments for sale.

The performance of the India Fund has been affected by macroeconomic weakness and political uncertainty in the run up to the country's election in April 2014. Currency depreciation, which has been a significant drag on returns, has somewhat stabilised since the Company reported its half yearly results in November 2013, however the market remains volatile.

## Outlook

The market for core infrastructure investments remains competitive, as an increasing number of investors develop an interest and capabilities in the asset class. We have a long-standing presence in the market, good relationships across our key markets, as well as a strong long-term track record.

Core infrastructure remains the key area of focus for the Company. We are currently assessing a number of core infrastructure opportunities and are well placed to bid for assets that are likely to come to market over the next year.

We are seeing more opportunities in the primary PPP and renewable energy projects markets, and with our enhanced team and strong relationships with primary developers, we believe we will be able to add a number of attractive primary project investments to 3i Infrastructure's portfolio over the coming year.

In a competitive environment, we must remain focused on investing at price points that will enable the Company to deliver its return objectives and we will remain disciplined in this regard. We are confident that we will be able to originate attractive investments which, like the recent investments in XLT, NMM and Mersey Gateway Bridge, will contribute to the delivery of the Company's return objectives.

## Investment Adviser's review

## Portfolio

Table 1 summarises the valuation and movements in the portfolio, as well as the return for each investment, for the year. Charts 1, 2 and 3 below illustrate the distribution of the portfolio by geography, sector and maturity at 31 March 2014.

As a result of the adoption of new accounting standards, described in detail on pages 26 and 70, "Investments at fair value through profit and loss", as reported in the Consolidated balance sheet includes, in addition to the portfolio asset valuation, the cash and other net assets held within intermediate unconsolidated holding companies. These amounts are set out at the foot of the table below, to provide a reconciliation between the Directors' valuation of the portfolio assets and "Investments at fair value through profit and loss" reported in the Consolidated financial statements. The basis of the portfolio information set out below is consistent with previous years' analyses.

**Table 1 Portfolio summary** (31 March 2014, £m)

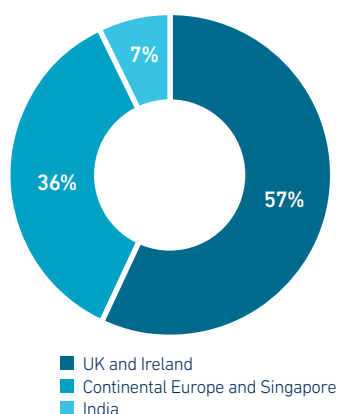
Portfolio assets	Directors' valuation 31 March 2013	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	Directors' valuation 31 March 2014	Realised profit	Underlying portfolio income in the year	Asset total return in the year
<b>Core infrastructure</b>									
Elenia	205.5	15.6 <sup>1</sup>	–	19.0	(4.4)	<b>235.7</b>	–	25.2	<b>39.8</b>
Anglian Water Group	230.6	–	–	3.9	–	<b>234.5</b>	–	18.0	<b>21.9</b>
Eversholt Rail Group	153.6	–	(10.9)	17.6	–	<b>160.3</b>	–	17.9	<b>35.5</b>
Oystercatcher	141.4	–	–	(19.0)	(2.6)	<b>119.8</b>	–	9.6	<b>(12.0)</b>
Cross London Trains	–	61.8	–	2.2	–	<b>64.0</b>	–	4.7	<b>6.9</b>
	<b>731.1</b>	<b>77.4</b>	<b>(10.9)</b>	<b>23.7</b>	<b>(7.0)</b>	<b>814.3</b>		<b>75.4</b>	<b>92.1</b>
<b>PPP</b>									
Elgin	42.9	–	(0.2)	4.1	–	<b>46.8</b>	–	2.8	<b>6.9</b>
Octagon	34.0	–	–	8.6	–	<b>42.6</b>	–	2.8	<b>11.4</b>
Dalmore Capital Fund	11.6	3.2 <sup>2</sup>	–	0.8	–	<b>15.6</b>	–	1.2	<b>2.0</b>
NMM	–	2.8	–	–	–	<b>2.8</b>	–	0.1	<b>0.1</b>
Mersey Gateway Bridge	–	–	–	–	–	<b>–</b>	–	–	<b>–</b>
	<b>88.5</b>	<b>6.0</b>	<b>(0.2)</b>	<b>13.5</b>	<b>–</b>	<b>107.8</b>	–	<b>6.9</b>	<b>20.4</b>
<b>India</b>									
3i India Infrastructure Fund	99.1	–	(0.1)	(8.0)	(17.1)	<b>73.9</b>	0.2	–	<b>(24.9)</b>
<b>Total portfolio</b>	<b>918.7</b>	<b>83.4</b>	<b>(11.2)</b>	<b>29.2</b>	<b>(24.1)</b>	<b>996.0</b>	<b>0.2</b>	<b>82.3</b>	<b>87.6</b>
Cash and other net assets held in unconsolidated subsidiaries	10.2	–	(12.3)	2.7 <sup>3</sup>	–	<b>0.6</b>			
Income statement adjustments relating to unconsolidated subsidiaries <sup>3</sup>							1.8	(9.7)	<b>(5.2)</b>
<b>Reported in the Consolidated financial statements</b>	<b>928.9</b>	<b>83.4</b>	<b>(23.5)</b>	<b>7.8</b>		<b>996.6</b>	<b>2.0</b>	<b>72.6</b>	<b>82.4</b>

1 Capitalised income.

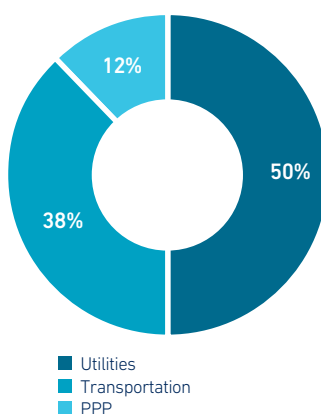
2 Net investment.

3 Income statement adjustments explained in Table 3 in the Financial review.

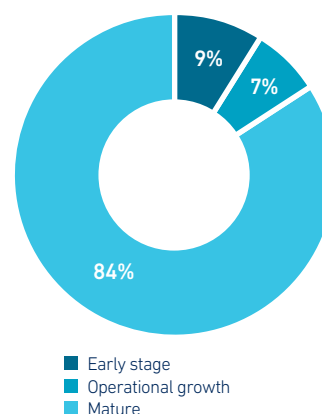
**Chart 1 Portfolio by geography**



**Chart 2 Portfolio by sector**



**Chart 3 Portfolio by maturity**



Note: These charts are based on portfolio value, including undrawn commitments to NMM and Mersey Gateway Bridge.

**Chart 4 Asset distribution by type of market** (as at 31 March 2014)



<sup>1</sup> Includes portfolio value of £107.8 million and undrawn commitments of £15.7 million to NMM and Mersey Gateway Bridge.

## Investment Adviser's review

## Movements in portfolio value

As set out in Chart 5, the portfolio assets were valued at £996.0 million at 31 March 2014, compared to £918.7 million at the beginning of the financial year. The growth in portfolio value was attributable almost entirely to new investment, with good value growth in the European portfolio partly offset by value and foreign exchange losses in the India Fund.

## Investment and realisation activity

## Investment

3i Infrastructure increased the level of investment in 2014, completing three new investments and a small further investment into the Dalmore Capital Fund. In total, net cash investment (not including capitalised income) was £67.8 million in the year (2013: £16.5 million). Investment, including undrawn commitments, totalled £83.5 million.

The largest of these, an investment of £61.8 million in a 33.3% holding in XLT, alongside Innisfree Limited and Siemens Project Ventures, was completed in June. XLT is a company established to procure and lease new rolling stock for use on the Thameslink passenger rail franchise. The investment in XLT further diversified the core portfolio. It is also contributing to overall portfolio income and generated income of £4.7 million for the Company in the first nine months of ownership. The performance of XLT since investment is described in the review on page 42.

During the year, the Company also completed two new primary PPP investments: NMM and Mersey Gateway Bridge.

In November 2013, it committed to invest €6.3 million in an 80% holding in the NMM PPP project in The Netherlands. The project was

procured under a typical PPP framework by the Dutch Ministry of Defence and comprises the design, build, finance and maintenance of a museum facility on the site of the former Soesterberg Airbase, located c. 60km south east of Amsterdam. The project is currently under construction, with completion scheduled for September 2014. Heijmans NV, the construction contractor, will retain the remaining 20% holding. Of the €6.3 million commitment, €3.25 million, or £2.8 million, was invested in the year, with the remainder expected to be invested at the completion of construction.

In March 2014, 3i Infrastructure announced that it had committed to invest £13.1 million (alongside Fomento de Construcción y Contratas, a Spanish construction company) into an entity which holds a 25% interest in the Mersey Gateway Bridge project. The Mersey Gateway Bridge project involves the design, build, finance and operation of a 1km tolled bridge across the river Mersey in Liverpool, as well as 9km of approach roads, against availability-based payments commencing from 2017. The bridge will aim to relieve traffic congestion on the existing Silver Jubilee Bridge, which is currently the only road crossing point between Liverpool and Warrington. Construction commenced in April 2014, with completion expected in the spring of 2017.

In addition, during the year, the Dalmore Capital Fund ("Dalmore") drew an additional £6.8 million from the Company to finance the purchase of holdings in various PFI projects. Dalmore also returned £3.6 million to 3i Infrastructure during the year, as a result of new commitments from additional LPs, resulting in a net investment in Dalmore of £3.2 million.

## Divestment

There were no asset realisations in the year, however the Company received proceeds of £10.9 million from Eversholt Rail Group and £0.2 million from Elgin following the partial repayment of their shareholder loans, and £0.3 million from the India Fund following the planned redemption of preference shares in Supreme Roads.

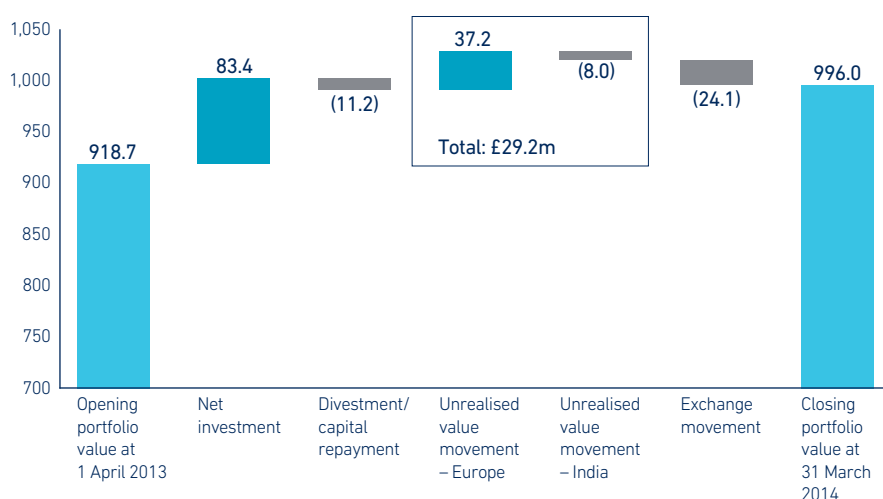
## Unrealised value movement

## Core portfolio

The core portfolio generated an unrealised value gain of £23.7 million in the year, underpinned by the continued good operational performance of the underlying investments.

Elenia was valued at £235.7 million at the end of March 2014, compared to £205.5 million a year earlier. The business continues to perform well, despite the operational and financial impact of exceptionally severe winter storms in November and December 2013. In December 2013, Elenia's original acquisition debt was fully refinanced through a Whole Business Securitisation, the first ever undertaken for a non-UK utility. The refinancing had a positive impact on the valuation of the Company's holding in Elenia, as it reduced ongoing interest servicing costs and provided a platform for access to the long-term capital markets. Reflecting this and other market factors, the Company reduced the discount rate used to value the investment. The value movement also reflects capitalised income of £15.6 million following the refinancing in December 2013.

Chart 5 Reconciliation of the movements in portfolio value (£m)



AWG was valued at £234.5 million at the end of March 2014, compared to £230.6 million a year earlier. The business continues to perform well both operationally and financially and is on track in the implementation of a broad range of efficiency initiatives in the current regulatory period. The key issue currently facing AWG is the ongoing regulatory review for the 2015–2020 regulatory period ("AMP 6"). AWG submitted its business plan for AMP 6 to Ofwat in December 2013, along with other industry participants. Ofwat has since published a proposed wholesale weighted average cost of capital ("WACC") which is below the WACC for the current regulatory period, along with a number of incentives for outperformance. Ofwat's Final Determination for AMP 6 is expected in December 2014. The Company's valuation of its holding in AWG as at 31 March 2014 reflects the expected reduction in the WACC.

The Company's holding in Eversholt was valued at £160.3 million at 31 March 2014, compared to £153.6 million a year earlier, after receipt of proceeds of £10.9 million from the partial repayment of a shareholder loan. The business continues to perform well and is making good progress in the submission of re-leasing proposals for a number of franchises. In November 2013, Eversholt refinanced its residual acquisition bank facilities on improved margins and terms, against a favourable market backdrop. The balance of Eversholt's capital structure remains underpinned by long-term fixed rate bonds, which minimise exposure to refinancing and interest rate risk in the short to medium term. The refinancing of the remaining bank facilities further de-risked Eversholt's capital structure and increased its financial flexibility, with positive value implications.

The value of 3i Infrastructure's investment in Oystercatcher declined from £141.4 million at the beginning of the financial year to £119.8 million at 31 March 2014. While the investment is performing well, with all storage capacity fully let and with good throughput levels, the valuation of the investment was impacted by the implementation of a major programme of facilities upgrades to accelerate compliance with new, higher standards being applied to the oil products storage sector in The Netherlands. As reported at the half year, Oystercatcher's valuation was also impacted by the depreciation of the Singapore dollar against the euro. This currency risk is now partly hedged by the Company.

The Company's holding in XLT was valued at £64.0 million at 31 March 2014, compared to an acquisition cost of £61.8 million. The investment is performing well and the train manufacturing programme is proceeding as planned.

#### PPP portfolio

The PPP portfolio continues to perform well and to deliver good levels of income and achieved unrealised value growth of £13.5 million in the year to 31 March 2014, driven in large part by an £8.6 million increase in the value of the investment in Octagon. During the year, Octagon reached agreement with its lenders on a revised lifecycle maintenance plan. This reduces forecast expenditure over the long term and improves Octagon's financing cover ratios, which in turn delivers an increase in value for 3i Infrastructure's holding.

#### 3i India Infrastructure Fund

The valuation of the Company's holding in the India Fund declined from £99.1 million at the beginning of the financial year to £73.9 million at 31 March 2014, reflecting significant weakness in the first half of the year, although the performance stabilised in the second half.

The value movement was driven by a number of factors, including:

- foreign exchange losses of £17.1 million, as the Indian rupee depreciated by 17.3% against sterling in the year;
- continuing issues in the power sector investments, including the availability and cost of fuel, and the inability to pass this cost on to customers through higher tariffs; and
- the impact on the road sector investments of the slow down in project execution, the delay of payments and constraints on working capital.

#### Foreign exchange impact

As shown in Table 2, the reported foreign exchange loss on investments of £24.1 million mainly related to the material depreciation of the Indian rupee against sterling in the first half of the financial year. 3i Infrastructure's exposure to the euro was substantially hedged in the year.

As previously reported, in the first half of the year the Indian rupee depreciated sharply against sterling, but has since stabilised. However, over the full year this resulted in net foreign exchange losses of £17.1 million for the Company's holding in the India Fund. The Board monitors both the Indian rupee exposure and the cost/benefit of hedging that exposure on a regular basis, receiving regular reports from the Investment Adviser during this recent period of high volatility.

The euro depreciated by 1.9% against sterling during the year, but the resulting foreign exchange losses were largely mitigated by the Company's foreign exchange hedging programme, resulting in net losses of £2.1 million.

**Table 2** Impact of foreign exchange movements on portfolio value (year to 31 March 2014, £m)

	£/rupee	£/€	Net impact
Translation of assets £/rupee	(17.1)		(17.1)
Translation of assets £/€		(7.0)	(7.0)
<b>Foreign exchange losses on investments</b>	<b>(17.1)</b>	<b>(7.0)</b>	<b>(24.1)</b>
Movement in the fair value of derivative financial instruments (£/€ hedging)		4.9	4.9
<b>Net foreign exchange losses</b>	<b>(17.1)</b>	<b>(2.1)</b>	<b>(19.2)</b>

# Investment Adviser's review

## Portfolio risks

The portfolio was affected by a number of specific regulatory and market risks during the year.

### Regulatory/political risks

As set out on page 23, the UK water sector is undergoing a regulatory review which will determine the allowed return for industry participants for the 2015–2020 regulatory period. The review is ongoing and Ofwat's Final Determination is not expected until December 2014. However, the regulator has already published a proposed wholesale WACC (below the current level and the industry's average submissions), together with a number of proposed performance incentives. The Investment Adviser is working with AWG on its business plan to address this challenge, and the Company's valuation at 31 March 2014 reflects the proposed decrease in the WACC.

Oystercatcher's Amsterdam terminal is implementing a major programme of facilities upgrades to accelerate compliance with new, higher standards being applied to the oil products storage sector in The Netherlands. This programme affected the performance of that terminal, through an increase in tank maintenance downtime and a reduction in throughput levels, impacting the Company's valuation of its holding in Oystercatcher.

The UK government's review of the passenger rail refranchising programme, and the resulting new refranchising timetable, has delayed the opportunities for Eversholt and the other rolling stock companies to invest in both existing and new fleets.

Elenia continues to be subject to risk arising from changes to Finnish Energy Authority regulation. Elenia benefited from regulatory intervention during the year, as the regulator introduced new incentives for the security of supply. This was a positive development for Elenia, which has been pursuing a strategy of increased investment in the resilience of the network since acquisition.

## Market risks

Inflation remained low in the year, impacting the assets with inflation-linked revenues. On the other hand, cost inflation has also been low across the portfolio.

Interest rates also remained low throughout the year, as monetary authorities continue to pursue expansionary policies. The Company took advantage of these conditions to refinance successfully the acquisition debt in Elenia and Eversholt at attractive terms, de-risking their financing structures and lowering ongoing interest costs.

### India

The India Fund's portfolio continued to be affected by a number of market, macroeconomic and political risks, which are set out in more detail in the asset review on pages 46 to 48.

## 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; and
- regulated asset base multiples.

Chart 6 shows the movement in the weighted average discount rate applied to the portfolio at the end of each year since the Company's inception, including the highest and lowest individual discount rates applied to portfolio assets at 31 March 2014.

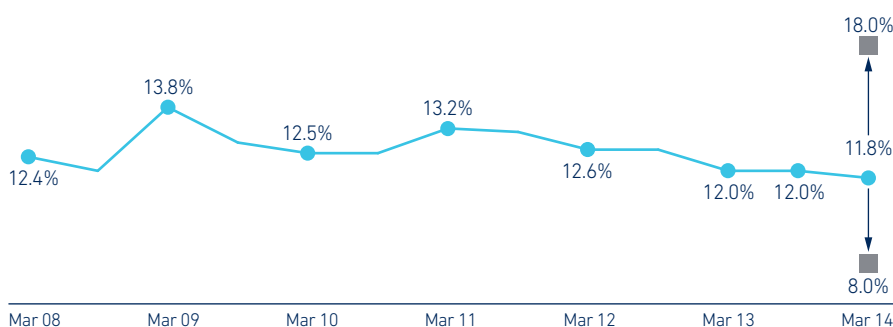
## 3i India Infrastructure Fund and Dalmore Capital Fund

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

Within the India 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 and Krishnapatnam Port was valued on the basis of consideration due under a put option. All other investments were valued on an underlying DCF basis, with the exception of a portion of Soma Enterprise's valuation, which was calculated using earnings multiples.

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

**Chart 6 Portfolio weighted average discount rate**



## Investment track record

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

- significant income supporting the consistent delivery of the Company's annual dividend objective;
- strong capital profits from realisations; and
- an element of capital growth.

These have underpinned a 15% IRR since the Company's inception. The core infrastructure and PPP portfolios, in particular, have generated strong returns, in line with, or in many cases ahead of expectations.

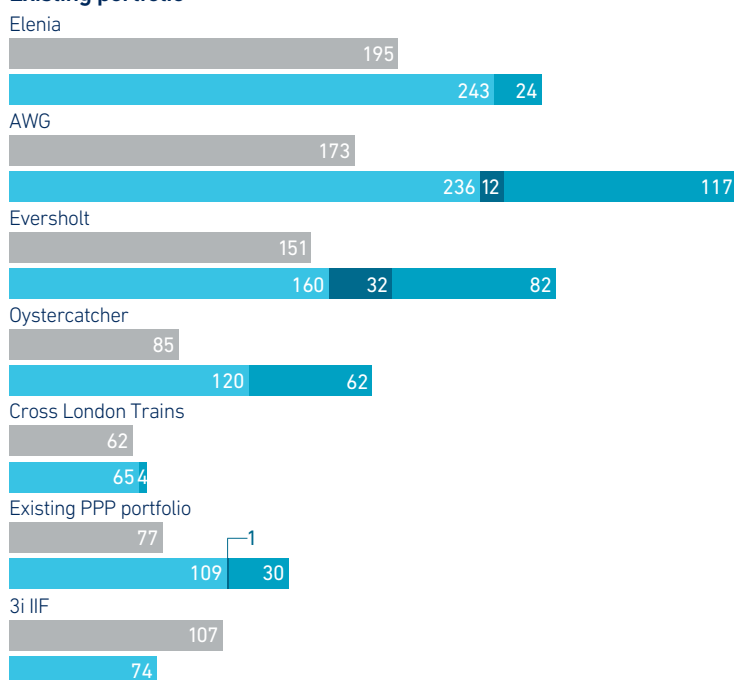
These returns were underpinned by substantial cash generation in the form of income or capital profits. Indeed, most investments have returned a significant proportion of their cost through income in a relatively short period of time.

The value created through this robust investment performance was crystallised in a number of instances through well managed realisations, shown as "Realised assets" in Chart 7 below. While the Company is structured to hold investments over the long term, it has sold assets on an opportunistic basis, where compelling offers have generated additional shareholder value, as was the case with Alma Mater in 2008, I<sup>2</sup> in 2009, the junior debt portfolio in 2011–12 and Alpha Schools in 2013, generating an aggregate IRR of 19.3%.

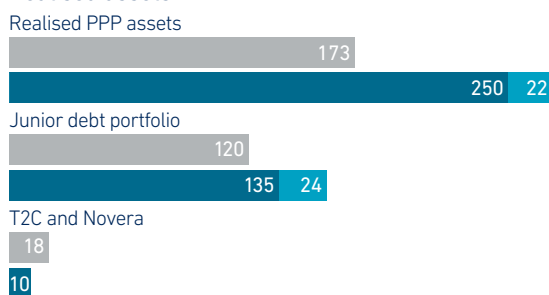
The valuation of the India Fund has, however, been volatile, and has continued to be affected in this year by currency and macroeconomic issues, as well as a number of issues related to specific investments.

**Chart 7 Portfolio asset returns throughout holding period**  
(seven years since inception, £m)

### Existing portfolio



### Realised assets



- Total cost
- Value including accrued income
- Proceeds on disposals/capital returns
- Cash income

# 15%

Annualised asset IRR from inception to 31 March 2014

# Financial review

## Change to basis of accounting and presentation of financial information

The Company has chosen to adopt early Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) for the year to 31 March 2014. These amendments are mandatory for accounting periods beginning on or after 1 January 2014. As a result of adopting the amendments, the Company is required to recognise any majority owned investments and subsidiaries as "Investments at fair value through profit and loss" rather than consolidate them on a line-by-line basis. In previous years, the Board presented a supplementary disclosure of the Company's total return and net asset value, and components therein, on an Investment basis, which is in line with the new standards adopted. The comparative financial statements have been restated and total return and net asset value for the prior year align with the investment basis of reporting.

A full description of the impact of the adoption of the new consolidation standards and the changes to accounting policies is provided in the Notes to the financial statements on pages 74 to 85. Through the adoption of the Investment Entities Amendments, transactions and balances within intermediate holding company subsidiaries are no longer required to be consolidated on a line-by-line basis into the consolidated results and are now reflected through changes to, or part of, the fair value of those subsidiaries. This has resulted in several individual line items within the Company's Financial statements not fully corresponding to the way the Board has reviewed the performance and valuation of the portfolio investments and financial results during this financial year.

Therefore, in order to ensure that the Annual report and accounts remain fair and understandable, this section includes information on the underlying source of capital returns and income from, and valuation of, the portfolio in line with the measures the Board uses to review the performance of the Company and provides reconciliations to the Financial statements where necessary. These reconciliations, including explanations, are shown in Tables 3 and 4.

The analysis in this Financial review refers to returns and balances provided in Tables 3 and 4, where this information enhances the understanding or presentation of the underlying performance of the portfolio.

## Key financial measures

	2014	2013 restated
Total return	<b>£71.0m</b>	£89.1m
Net asset value per share	<b>126.4p</b>	125.2p
Portfolio income	<b>£82.3m</b>	£72.8m
Portfolio asset value	<b>£996.0m</b>	£918.7m
Cash balances	<b>£92.3m</b>	£179.2m
Total liquidity <sup>1</sup>	<b>£292.3m</b>	£379.2m

<sup>1</sup> Includes cash balances and the undrawn £200 million revolving credit facility.

## Returns

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

- capital return: unrealised value movements due to changes to the carrying valuation of assets across the financial year (or since acquisition, if shorter) including the impact of foreign exchange translation; or realised capital profits generated from the sale or partial sale of portfolio assets above their carrying valuation;

- movement in fair value of derivatives for foreign currency hedging;
- total income: interest and dividends from underlying portfolio assets, interest on cash holdings and transaction fees receivable; and
- costs: advisory and performance fees, Board and other net operating costs, other transaction fees payable and finance costs relating to the Company's revolving credit facility.

Table 3 below shows the underlying aggregate returns from portfolio assets for each of these elements of returns and costs. Following the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), the Financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries which, in previous financial years, were consolidated on a line-by-line basis.

## Total return

3i Infrastructure generated a total return for the year of £71.0 million, representing a 6.6% return on opening shareholders' equity (2013: £89.1 million, 8.6%). The return was driven principally by portfolio income of £82.3 million and value growth generated from the strong performance of the European assets, but was impacted negatively by the losses in the first half of the year from the India Fund, principally through foreign exchange losses. The overall performance of the India Fund's portfolio improved in the second half and foreign exchange losses were partly reversed.

**Table 3 Summary total return** (year to 31 March 2014, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial statements
Capital return	5.3	4.5 <sup>1</sup>	9.8
Movement in fair value of derivatives	4.9	–	4.9
Total income	82.7	(9.7) <sup>1</sup>	73.0
	<b>92.9</b>	<b>(5.2)<sup>2</sup></b>	<b>87.7</b>
Costs	(21.9)	5.2 <sup>2</sup>	(16.7)
<b>Total return</b>	<b>71.0</b>	<b>–</b>	<b>71.0</b>

<sup>1</sup> Income generated from underlying portfolio assets which has, subsequently, not been distributed from an intermediate unconsolidated holding company as an income distribution and is therefore reflected as a capital profit. The adjustment reclassifies £4.5 million capital return, of which £1.8 million was a realised return and £2.7 million was an unrealised value movement, as income to reflect the nature of the original source of the return as monitored by the Board.

<sup>2</sup> £5.2 million of costs incurred within unconsolidated subsidiaries, comprising fees paid directly to 3i Group (£4.4 million), operating expenses (£0.1 million), transaction fees (£0.1 million) and other costs (£0.6 million). These are reflected in capital returns or income as they have reduced either the carrying value, or the income distributed from these subsidiaries.

### Capital return

Total capital return for the year was £5.3 million (2013: £39.5 million), of which £0.2 million was a realised return (2013: £2.7 million) and £5.1 million was an unrealised value movement (2013: £36.8 million).

#### Realised return

3i Infrastructure generated a small realised capital gain of £0.2 million in the year to 31 March 2014 (2013: £2.7 million) from its share of the India Fund's redemption of some preference shares in Supreme Roads.

#### Unrealised value movement, including foreign exchange movements

The portfolio generated an unrealised value gain of £5.1 million in the year to 31 March 2014 (2013: £36.8 million gain). This comprised a £29.2 million value movement (2013: £31.9 million), offset largely by a £24.1 million foreign exchange loss (2013: gain of £4.9 million).

The European portfolio continued to achieve good returns, with a total unrealised value gain of £37.2 million in the year. This positive performance was offset in part by unrealised value losses of £8.0 million from investment in the India Fund. Full details are included on page 20.

#### Net capital return

Net capital return, including the £4.9 million movement in the fair value of foreign currency hedging derivatives (2013: loss of £3.3 million), totalled £10.2 million (2013: £36.2 million). This is shown in Chart 8 below.

Movements in the fair value of derivatives of £4.9 million (2013: loss of £3.3 million) represent the fair value movements of the euro hedging programme.

### Income

#### Total income

Total income comprises portfolio income of £82.3 million (2013: £72.8 million) and interest receivable of £0.4 million (2013: £0.7 million). This fully covers the proposed total dividend of £59.0 million (2013: £57.2 million) and total costs of £21.9 million (2013: £20.6 million).

#### Portfolio income

The portfolio generated income of £82.3 million in the year (2013: £72.8 million), of which £44.4 million was through dividends (2013: £46.0 million) and £36.8 million through interest on shareholder loans (2013: £26.8 million). This figure also includes a £1.1 million upfront arrangement fee from XLT.

AWG paid a dividend of £13.2 million and accrued interest of £4.8 million (2013: £10.7 million, £4.8 million). The 2013 dividend was lower than this year's principally due to increased spending on measures to mitigate the effect of extreme weather conditions in early 2012.

Following the completion of its refinancing in November 2013, the Company accrued dividends of £18.2 million from Elenia (2013: £20.6 million) and interest of £7.0 million (2013: nil).

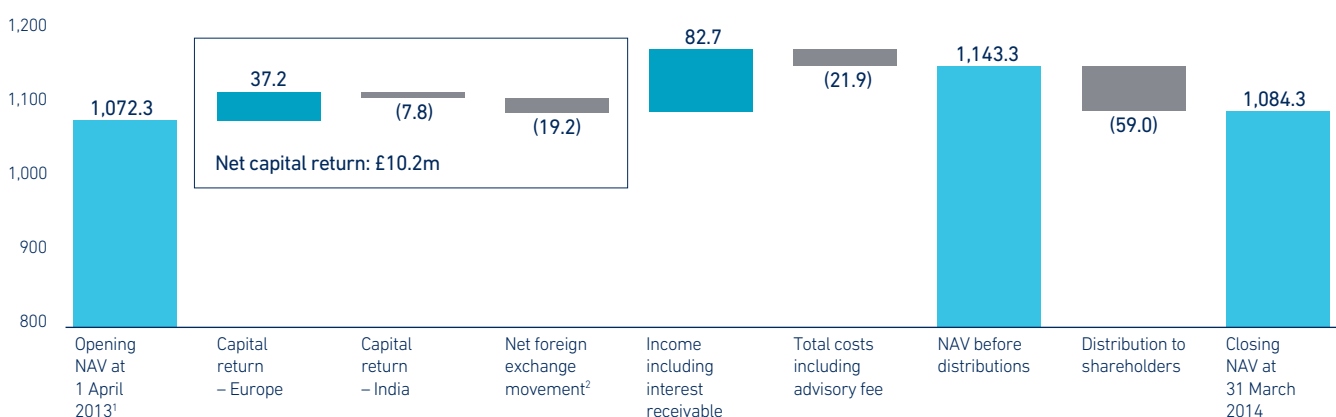
Eversholt continues to perform well and to generate good cash flows. The Company accrued interest payments of £17.9 million from Eversholt (2013: £17.8 million).

Oystercatcher paid dividends of £9.6 million (2013: £11.2 million). The dividend for the comparable period last year had benefited from retained cash being distributed from the vehicle prior to the refinancing of its debt.

XLT, a new investment in the year, paid an upfront arrangement fee of £1.1 million. The Company also accrued interest income of £3.6 million from XLT in the year (2013: nil).

The PPP investments generated income of £6.9 million (2013: £7.7 million), of which £3.4 million was through dividends (2013: £3.5 million) and £3.5 million was through interest (2013: £4.2 million). The amount was lower than the previous year due to the disposal of Alpha Schools in 2013.

**Chart 8 Reconciliation of the movement in net asset value** (year to 31 March 2014, £m)



<sup>1</sup> Net of final dividend for the prior year.

<sup>2</sup> Foreign exchange movements are described in Table 2 on page 23.

## Financial review

**Interest receivable**

Interest income from cash and cash equivalents totalled £0.4 million (2013: £0.7 million), following the reduction in the average cash balances held during the year. The Company's cash balances generated interest at an average rate of 0.4% in the year (2013: 0.5%).

**Costs****Advisory fees and performance fees**

During the year to 31 March 2014, the Company and its unconsolidated subsidiaries incurred advisory fees of £14.0 million (2013: £12.9 million). The increase is due to the growth in portfolio value and the new investments made during the year. The advisory fee, payable to 3i plc, is calculated as 1.5% of the Gross Investment Value, which is based on the opening portfolio value and the cost of any new investments made during the year. The advisory fee reduces to 1.25% for any proportion of an asset held for more than five years. As several of the Company's investments have now been held for more than five years, the advisory fee rate chargeable has reduced for those investments (eg AWG, Oystercatcher, Octagon, Adani Power, Soma Enterprise and Krishnapatnam Port). No performance fees were accrued relating to this year, as the 8% return hurdle was not met. For a more detailed explanation of how fees are calculated, please refer to Note 18 on pages 84 and 85.

**Fees payable**

Fees payable for costs in relation to transactions that did not reach, or have yet to reach completion totalled £2.1 million (2013: £0.7 million), with the increase reflecting a higher number of opportunities which reached an advanced stage.

**Other operating and finance costs**

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £2.3 million (2013: £2.3 million).

Finance costs of £3.1 million (2013: £2.9 million) comprise the arrangement and commitment fees for the Company's £200 million revolving credit facility. The increase compared to last year reflects the release of capitalised costs relating to the previous facility. The previous facility was replaced by the new facility, agreed in May 2013 at improved terms, which will result in lower finance costs going forward.

Other costs, principally relating to local taxes, totalled £0.4 million (2013: £0.4 million).

**Ongoing charges ratio**

The Association of Investment Companies defines an Ongoing Charges ratio, which measures the annual operating costs against average net asset value. The Ongoing Charges ratio for the year was 1.48% (2013: 1.41%).

**Balance sheet**

The net asset value at 31 March 2014 was £1,113.8 million (2013: £1,103.3 million). The principal components of the net asset value are the portfolio assets, cash holdings, the fair value of derivative financial instruments and other net assets and liabilities, principally relating to accrued interest.

Following the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), "Investments at fair value through profit and loss" requires holding company subsidiaries to be held at fair value. These were previously consolidated on a line-by-line basis. These intermediate unconsolidated holding companies may have cash or other net assets/liabilities which are included within that fair value. The Directors consider that it is helpful for the user of the accounts to be able to consider the valuation of the Company's portfolio assets and the total aggregate cash and net asset/liabilities within the Company and its unconsolidated subsidiaries. The non-material adjustments required to provide this analysis are shown in Table 4.

**Table 4 Summary balance sheet** (as at 31 March 2014, £m)

	Underlying aggregate portfolio amounts and other balances	Adjustments for transactions in unconsolidated subsidiaries <sup>1</sup>	Financial statements
Portfolio assets	996.0	0.6	996.6 <sup>2</sup>
Cash balances	92.3	(1.6)	90.7
Financial assets	13.1	–	13.1
Derivative financial instruments	2.6	–	2.6
Other net assets/(liabilities)	9.8	1.0	10.8
<b>Net asset value</b>	<b>1,113.8</b>	<b>–</b>	<b>1,113.8</b>

<sup>1</sup> "Investments at fair value through profit and loss" includes £1.6 million of unrestricted cash balances and £(1.0) million of net liabilities within intermediate unconsolidated holding companies. These adjustments reclassify these balances to show the underlying value of the portfolio assets, the total cash holdings and the net assets/(liabilities) position, as monitored by the Board.

<sup>2</sup> Described as "Investments at fair value through profit and loss" in the Financial statements.

At 31 March 2014, the Company's net assets totalled £1,113.8 million, or £1,084.3 million after the deduction of the final dividend (2013: £1,103.3 million, £1,072.3 million), comprising the asset portfolio, valued at £996.0 million (2013: £918.7 million), cash and cash equivalents of £92.3 million (2013: £179.2 million), other financial assets of £13.1 million (2013: nil), net derivative financial instruments assets of £2.6 million (2013: £2.5 million liabilities) and other current assets of £12.7 million (2013: £12.3 million), primarily relating to accrued income from portfolio investments and prepayments, offset by accrued operating and financing costs of £2.9 million (2013: £4.4 million). A summary balance sheet is included in Table 4.

There were no external borrowings on a recourse basis to the Company.

#### Cash and other financial assets

Cash balances at 31 March 2014 totalled £92.3 million (2013: £179.2 million), including £1.6 million of unrestricted cash balances held within intermediate unconsolidated holding companies (2013: £3.4 million). In addition, an amount of £13.1 million, held on the balance sheet as "Other financial assets", comprises cash held on deposit in a third-party bank account on behalf of the Mersey Gateway Bridge project. The reduction in cash balances was principally a result of new investment in the year.

Cash on deposit was managed actively by the Investment Adviser and there were regular reviews of counterparties and their limits by the Board. Cash is principally held in AAA-rated money market funds, as well as in short-term bank deposits.

#### Revolving credit facility

On 2 May 2013, the company entered into a new three-year revolving credit facility of £200 million.

At 31 March 2014, this facility had not been drawn and it remains undrawn at the time of reporting.

#### Net asset value per share

The total net asset value per share at 31 March 2014 was 126.4p (2013: 125.2p). This reduces to 123.0p (2013: 121.7p) after the payment of the final dividend of 3.35p. There are no dilutive securities in issue.

## Key financial risks in the year

The principal risks faced by the Company in the year are outlined below:

#### Foreign exchange

There has been significant currency volatility in the year. The Indian rupee depreciated materially in the first half of the financial year. The Board conducted a review of the cost of hedging that currency and concluded that it was not cost-effective to hedge this exposure. The strengthening of sterling against the Singapore dollar also led to a value reduction in the carrying valuation of Oystercatcher. The Singapore dollar exposure was only hedged for near-term dividend receipts, however, following the significant depreciation, the Board approved an increase in the scope of the hedging programme to partially protect against valuation fluctuations arising from the foreign exchange risk associated with the investment in Oiltanking Singapore within the Oystercatcher valuation.

#### Liquidity risk

At the start of the financial year, the Company's revolving credit facility was close to expiry. The Company's strategy is to maintain adequate liquidity to complete new investments and manage its liquidity effectively. Therefore, the facility was extended, at improved terms, for a period of three years from May 2013.

#### Financial reporting risk

During the year, several new accounting standards were introduced which impact the Company's reporting. The most fundamental of these to the presentation of the Company's results is the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The implementation of these new standards requires judgments to be made regarding the classification of Investment Entities. As best practice emerges for the application and interpretation of these new requirements and judgments, it may become necessary to review the basis of consolidation.

# 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. The Company also maintains a risk log.

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	<ul style="list-style-type: none"><li>The performance of underlying investments is influenced by macroeconomic conditions in Europe, India and Singapore, where the Company currently has exposure</li><li>M&amp;A and IPO activity and the availability of debt finance affect the ability to make investments and the performance of underlying investments</li></ul>	<ul style="list-style-type: none"><li>Diversification of the portfolio across a range of infrastructure sectors with different economic cycles and across different geographies</li><li>Modelling of sensitivity of each investment to macroeconomic variables</li><li>Regular reviews of hedging, which is undertaken where appropriate</li></ul>	
Geopolitical risk	<ul style="list-style-type: none"><li>The Company's investment strategy involves investing in some less mature or emerging markets</li><li>Legal and regulatory frameworks and capital markets in these countries may be less developed than in Europe</li></ul>	<ul style="list-style-type: none"><li>Periodic legal and regulatory updates on the Company's markets and in-depth market and sector research</li><li>Reports on the India Fund's portfolio performance and macroeconomic issues reviewed during the year</li><li>Extensive research and due diligence on any proposed investment into new geographical markets</li></ul>	
Government policy and regulation risk	<ul style="list-style-type: none"><li>The Company is regulated under the provisions of the Collective Investment Funds (Jersey) Law 1988</li><li>The Investment Adviser is regulated by the Financial Conduct Authority and is an authorised person under the Financial Services and Markets Act 2000</li><li>Breach of these regulations could affect the Company's operations and financial position</li></ul>	<ul style="list-style-type: none"><li>Changes to applicable legal and regulatory frameworks are closely monitored</li><li>Rigorous processes to minimise risk of breach are in place</li><li>Regular monitoring of compliance with the relevant regulations is undertaken by the Company and the Investment Adviser</li></ul>	
Investment	Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across the portfolio		
Investment decisions risk	<ul style="list-style-type: none"><li>The ability to source and execute good quality investments in changing markets is dependent primarily on the Investment Adviser's expertise and relationships</li></ul>	<ul style="list-style-type: none"><li>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 Executive Committee</li><li>A thorough review is then undertaken by the Board prior to the final investment decision</li></ul>	
Investment performance risk	<ul style="list-style-type: none"><li>The performance of the portfolio is dependent on<ul style="list-style-type: none"><li>i) the quality of the initial investment</li><li>ii) the ability to execute on business strategy</li><li>iii) favourable outcomes relative to assumptions in the investment model</li><li>iv) the ability to execute on business strategy in the context of changes in the business' regulatory or operating environment</li></ul></li></ul>	<ul style="list-style-type: none"><li>Formal portfolio asset reviews, which include the assessment of environmental, social, governance and regulatory/operating environment risks, are undertaken regularly and reviewed bi-annually by the Board</li><li>Representation by the Investment Adviser on the board of underlying investments</li></ul>	
Investment concentration risk	<ul style="list-style-type: none"><li>Overexposure to a particular sector or geography could expose the Company to any adverse developments in that sector or geography</li><li>Any increase in the average size of investments over time could increase exposure to a small number of large investments</li></ul>	<ul style="list-style-type: none"><li>Portfolio concentration measures are periodically reviewed by the Board</li><li>The Investment Adviser undertakes a concentration review for each new investment</li></ul>	

Risk type	Risk description		Risk mitigation
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	<ul style="list-style-type: none"> <li>Deviations from assumptions factored in the Company's strategy and business model could affect its performance and financial position</li> </ul>		<ul style="list-style-type: none"> <li>KPIs and forecasts are monitored on an ongoing basis and the Board undertakes regular strategic reviews, including the review of KPIs</li> <li>Plans and underlying assumptions for the Company and portfolio assets are updated continuously</li> </ul>
Competition risk	<ul style="list-style-type: none"> <li>Increasing levels of competition as the asset class becomes more widely recognised or due to lower levels of infrastructure transaction volumes, both of which may influence asset pricing</li> </ul>		<ul style="list-style-type: none"> <li>Building on the strong track record of the Investment Adviser and the 3i Infrastructure brand</li> <li>Investment Adviser's proactive approach to sourcing proprietary deal flow through relationship building with potential vendors</li> </ul>
Financial	Risks in relation to changes in market prices and rates; access to capital markets and the appropriate capital structure		
Credit risk	<ul style="list-style-type: none"> <li>The Company's financial assets are principally unsecured investments in unquoted companies</li> <li>Increases in portfolio concentration or financial counterparty concentration could impact credit risk</li> <li>Variations in interest rates, or variations in the availability of credit for refinancing, could increase credit risk</li> <li>Debt availability is fundamental to completing new deals and financing capital expenditure in several portfolio assets</li> </ul>		<ul style="list-style-type: none"> <li>Regular asset reviews provide early indications of increased credit risk</li> <li>The Company's financial assets are held in AAA-rated money market funds or short-term deposits with banks with a minimum A rating</li> <li>Reviews of counterparties are undertaken regularly and counterparty limits are monitored and revised on a regular basis</li> </ul>
Financing and interest rate risk	<ul style="list-style-type: none"> <li>Changes in interest rates affect               <ol style="list-style-type: none"> <li>the costs of servicing the Company's debt</li> <li>the ability to generate attractive returns from investments</li> <li>the ability to invest in competition with buyers with a lower cost of debt</li> <li>the debt financing capability of portfolio companies</li> <li>the rate of return on the Company's liquid assets</li> </ol> </li> </ul>		<ul style="list-style-type: none"> <li>The level of debt, refinancing risk and hedging requirements of portfolio companies are monitored regularly</li> <li>The financing strategy limits the Company's borrowings to 50% of gross assets. Currently the Company has no recourse borrowings</li> <li>The use of a combination of fixed and floating rate debt in portfolio companies reduces interest rate risk</li> <li>Hedging is undertaken where appropriate to manage the risk exposure</li> </ul>
Currency risk	<ul style="list-style-type: none"> <li>A portion of the underlying investment portfolio is denominated in euro, US dollar and (indirectly) Indian rupee and Singapore dollar</li> <li>Fluctuations in foreign exchange may adversely impact returns</li> </ul>		<ul style="list-style-type: none"> <li>The euro exposure is broadly hedged to stabilise returns</li> <li>The hedging strategy is monitored regularly by the Board. Hedging involves the use of foreign exchange swaps or forward contracts. The Board approved the extension of the Singapore dollar hedging during the year</li> </ul>
Liquidity risk	<ul style="list-style-type: none"> <li>The Company's investments require a long-term commitment of capital and are relatively illiquid</li> <li>The investment rate could exceed current liquidity levels, requiring short-term funding measures to be put in place</li> <li>The ability to meet financial liabilities as they fall due</li> </ul>		<ul style="list-style-type: none"> <li>The Board regularly analyses cash resources against the investment pipeline and the repayment of existing financial liabilities or other payables</li> <li>The committed £200 million revolving credit facility ensures the availability of resources in the event of a liquidity shortfall</li> </ul>
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these		
	<ul style="list-style-type: none"> <li>Operational risks can arise from inadequate processes, people, systems, or external providers</li> <li>External factors, including changes in the senior investment team at the Investment Adviser, also pose a risk to operations</li> </ul>		<ul style="list-style-type: none"> <li>A framework of core values, standards and controls is operated by the Company</li> <li>The Board monitors the performance of the Investment Adviser through the Management Engagement Committee</li> <li>The Board monitors the operations of key service providers, and receives reports of any significant internal control breaches</li> <li>The Company receives regular updates on legal, tax and regulatory matters from its advisers</li> </ul>

# Corporate responsibility

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

For more information on 3i Group's corporate responsibility policies, please refer to its website: [www.3i.com/corporate-responsibility](http://www.3i.com/corporate-responsibility)

The Board believes that these policies meet the Company's objectives in this area.

## Responsible Investment policy

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

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

- the effective assessment and management of environmental, social, business integrity and corporate governance matters has a positive effect on the value of portfolio companies, and hence on 3i Infrastructure itself;
  - compliance with local laws and regulations may not be enough to meet global expectations, deliver value and enhance reputation and licence to operate; and
  - it is vital that the Investment Adviser seeks to identify all material environmental, social and governance ("ESG") risks and opportunities through its due diligence and effectively manage them during the period of investment.
- The Investment Adviser's RI policy makes clear that it aims to use its influence to promote a commitment in portfolio companies to:
- comply, as a minimum, with applicable local and international laws;
  - mitigate adverse environmental and social impacts and enhance positive effects on the environment, workers and relevant stakeholders; and
  - uphold high standards of business integrity and good corporate governance.
- The main features of the policy include:
- clear statements of the commitment to mitigate adverse environmental and social impacts and uphold high standards of business integrity and good corporate governance;
  - an exclusion list of businesses and activities in which investment is precluded;
  - a referral list of businesses and activities which may be particularly sensitive and may require additional scrutiny; and
  - a set of minimum ESG standards that portfolio companies should meet, either at the time of investment or within a reasonable period thereafter.

## Bribery Act

The Company has its own anti-bribery policy and is fully compliant with the provisions of the UK Bribery Act.

## Environment

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

## Procurement

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

## Prompt Payment Code

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

This Strategic report is approved by order of the Board Authorised signatory  
**Capita Financial Administrators (Jersey) Limited**

Company Secretary  
8 May 2014

# Review of investments



## Performance in the year

Cost **£194.8m**

Opening value **£205.5m**

Closing value **£235.7m**

Equity interest	39.3%
Income in the year	£25.2m
Asset total return in the year <sup>1</sup>	£39.8m
Valuation basis	DCF

<sup>1</sup> Includes an unrealised foreign exchange loss of £4.4 million.



## Description

Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 412,000 customers in the south west of the country and has a c.12% market share. The business is regulated on a four-year cycle, delivering a set return on its regulated asset base. The electricity distribution business accounts for approximately 85% of Elenia's overall value.

Elenia Lämpö owns and operates 16 local district heating networks, each with strong market shares in their local areas. District heating, which involves the pumping of hot water directly into homes and businesses from central hubs, is not regulated in Finland. This business accounts for approximately 15% of Elenia's overall value.

The investment is held through 3i Networks Finland LP, an intermediary limited partnership which is managed separately by 3i Investments.

## Investment rationale

3i Infrastructure purchased Elenia from Vattenfall AB in January 2012 in a consortium with 3i Group plc, GS Infrastructure Partners and Ilmarinen Mutual Pension Insurance Company.

Elenia has strong infrastructure characteristics:

- the electricity distribution business operates in a stable and transparent regulatory environment, with regulatory incentives providing opportunities for value-accretive growth;
- the businesses are profitable and provide inflation linkage. This is likely to support a robust yield to 3i Infrastructure over the long term; and
- Finland is an attractive market, providing opportunities for consolidation over the medium term.

## Achievements in the period of ownership

The businesses were rebranded with the "Elenia" name in May 2012, reinforcing the separation from Vattenfall to domestic audiences.

The business successfully completed the post-acquisition corporate reorganisation in early January 2013. The completion of this process allowed Elenia to begin distributing dividends to shareholders. In December 2013, Elenia's original acquisition debt was refinanced through a Whole Business Securitisation, the first of its kind to be applied to a non-UK utility.

Elenia's governance was enhanced through the appointment of new independent chairmen to the boards of each business, as well as through a number of management appointments to further strengthen the executive teams. In addition, management incentives were put in place to align management incentivisation to the objectives of the shareholders.

The consortium has engaged with the management team of Elenia to update and enhance its capital expenditure plans to improve network reliability. A number of acquisitions have also been examined, with the first bolt-on acquisition of an adjacent network completed in August 2012.

## Developments in the year

Overall, both businesses continued to perform well, despite the impact of severe storms in November and December 2013, one of the worst storm periods in Finland in recent decades.

In December 2013, Elenia's original acquisition debt was fully refinanced on attractive terms through a Whole Business Securitisation. This was an important milestone for the business, with positive implications for value, as it provided a platform for access to the long-term capital markets and reduced the ongoing cost of debt. Following the completion of this process, the Company accrued income from Elenia, which totalled £25.2 million.

In December 2013, Elenia became the first Nordic electricity distribution company to be awarded PAS 55 certification for high quality electricity network management. PAS 55 is the British Standards Institute's Publicly Available Specification for the optimised management of physical assets.

The Finnish Government has introduced legislation aimed at improving the reliability of electricity supply in response to outages caused by severe weather conditions in 2011 and 2012. This is a positive development, consistent with Elenia's strategy of investing in the resilience of the network by burying cables, which will reduce outages caused by storms. In response to the legislation, the regulator introduced a new security of supply incentive, effective from January 2014, which will have a positive impact on Elenia's future returns.

Elenia, supported by the consortium, continues to monitor potential acquisition opportunities in the fragmented electricity distribution market. Consolidation of the existing network would allow Elenia to leverage its operational expertise.

# Anglian Water Group

## Performance in the year

Cost **£161.9m**

Opening value **£230.6m**

Closing value **£234.5m**

Equity interest	10.3%
Income in the year	£18.0m
Asset total return in the year	£21.9m
Valuation basis	DCF



## Description

Anglian Water Group Limited ("AWG") is the parent company of Anglian Water, the fourth largest water and water recycling 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 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 managed separately by 3i Investments.

## Investment rationale

AWG was taken private in 2006 by a group of investors, including Canada Pension Plan, Colonial First State, Industry Funds Management and 3i Group, which "seeded" part of its AWG holding into 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 and water recycling services;
- stable and predictable earnings and cash flows through RPI-linked tariffs; and
- largely predictable operating costs.

In addition, AWG has attractive fundamentals:

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

## Achievements in the period of ownership

AWG has flourished under private ownership. It has refocused on its core business, selling Morrison Utilities Services, Morrison Facilities Services and much of its property portfolio. The company has been able to optimise its 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 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, asset quality and customer service rather than short-term earnings and share price performance. The management now balances long-term planning, for example, to respond to the challenges of climate change, with a clear focus on operational efficiency and customer service.

## Developments in the year

AWG performed well during the year, with operational performance and income levels broadly in line with expectations. The business is implementing its cost efficiency and capital spending programmes, performing well against its targets.

The core water business continues to perform well operationally. Anglian Water ranked joint first with Wessex Water in Ofwat's Service Incentive Mechanism (on a combined qualitative and quantitative basis) for the year ending 31 March 2013 and has continued to be ranked first for the qualitative assessment for FY14 (the quantitative assessment is not published by Ofwat until July).

While demand from small businesses remained affected by the weak economic conditions and wet weather conditions during the year, this was offset in part by an increase in trade effluent and larger industrial demand. The company expects that small business demand will recover, albeit slowly.

In December 2013, along with the rest of the industry, AWG submitted its business plan to Ofwat for the 2015–2020 regulatory period ("AMP 6"). In response to the industry's business plans, in January 2014 Ofwat published its Risk and Reward Guidance document, proposing a wholesale weighted average cost of capital ("WACC") of 3.7%, which is below the WACC for the current period, while at the same time setting out a range of performance-based incentives. The Investment Adviser has been working closely with AWG on its business plan to address this challenge. AWG expects to receive a Draft Determination from Ofwat in the summer of 2014 and a Final Determination in December 2014. More detail on this process can be found on AWG's website ([www.awg.com](http://www.awg.com)).

AWG continues to enjoy access to diverse sources of funding, and has raised debt at attractive terms during the year, including further funding from the European Investment Bank.

The Government published its draft Water Bill in July 2012, setting out a number of changes to the structure of the industry, including the extension of competition for business customers, changes to the abstraction regime to encourage more efficient use of water resources and measures to help the industry manage bad debts. The Bill is currently passing through Parliament.

Peter Simpson, previously Managing Director of AWG's regulated business, was promoted to Group CEO in October 2013. Peter has been with the company for over 20 years and has provided strong leadership in the current regulatory review process.

# Eversholt Rail Group

## Performance in the year

Cost	<b>£118.9m</b>	
	Closing cost	Opening cost: £129.8m
Opening value	<b>£153.6m</b>	
Closing value	<b>£160.3m</b>	

Equity interest	33.3%
Capital return in the year	£10.9m
Income in the year	£17.9m
Asset total return in the year	£35.5m
Valuation basis	DCF



## 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 UK 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, Eversholt also owns a freight fleet, which accounts for less than 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.

## 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.

## Achievements 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. Further executive appointments were made to the Irish and UK businesses to bolster Eversholt's technical, legal and financial resources, positioning it well to manage the significant increase in workload as the pace of rail franchise re-tendering accelerates.

Eversholt's capital structure was de-risked in the financial year ended March 2011 through the issuance of three long-dated public bonds for a total of £1.1 billion, priced on attractive terms and attracting strong demand from public market investors, significantly reducing the ongoing debt servicing costs and refinancing risks. A further private placement of £150 million was completed in December 2012. The residual acquisition debt was refinanced in November 2013, at attractive terms.

The consortium has engaged closely with the management team to support the business in the current re-franchising programme and 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.

The drivers underpinning the investment case have so far been broadly proven: passenger demand, particularly in the south east of England where Eversholt has a strong market share, has grown in the period of ownership; and the electrification of the network is proceeding, creating more cascade opportunities for Eversholt's predominantly electric-powered fleets.

## Developments in the year

Eversholt has continued to perform strongly in the year under review.

Following the publication of the Brown and Laidlaw reviews (prompted by the Intercity West Coast refranchising failings) the Department for Transport published a new refranchising timetable in March 2013, which staggers the programme over a longer period. To facilitate the revised timetable, a number of existing franchises have been or will be extended by between seven months and four years. Eversholt continues to work proactively with current franchise holders and prospective bidders, as appropriate, to provide the best rolling stock solutions for the travelling customer, and submitted re-leasing proposals for multiple franchises during the year.

The Thameslink Rolling Stock Procurement Programme reached financial close in June 2013. Eversholt entered into a long-term contract to provide advisory and asset management services to Cross London Trains, in which 3i Infrastructure also holds a 33.3% stake.

Eversholt's residual acquisition bank facilities were refinanced in November 2013 on improved terms, thanks to positive market conditions and the quality of Eversholt's credit. This new debt, totalling £600 million, is predominantly a revolving credit facility, although overall, Eversholt's capital structure remains underpinned by long-term fixed-rate bonds, which minimise exposure to refinancing and interest rate risk in the short to medium term.

# Oystercatcher

## Performance in the year

Cost **£84.5m**

Opening value **£141.4m**

Closing value **£119.8m**

Equity interest	45.0%
Income in the year	£9.6m
Asset total return in the year <sup>1</sup>	£(12.0)m
Valuation basis	DCF

<sup>1</sup> Includes an unrealised foreign exchange loss of £2.6 million.



## Description

Oystercatcher Luxco 2 S.à r.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 3.5 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 75 terminals in 23 countries with a total storage capacity of 23.1 million cubic metres.

## 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 leading player in the oil storage market, with a strong operational reputation.

## Achievements 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 slow-down, even though the "flattening" of the forward curve in recent years has squeezed oil trading margins and increased customers' 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 to provide dedicated storage for biodiesel products for a new production facility adjacent to the site was 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, completed in February 2012, and let on a use-or-pay basis to an existing customer. Since investment, total capacity at the three terminals has increased by 23%.

In March 2013, Oystercatcher's acquisition debt facilities were refinanced, significantly de-risking its financing structure.

## Developments in the year

All three terminals have performed in line with expectations in the year.

Market conditions for trading customers have remained difficult, as trading margins are squeezed by a shallower forward curve. This has resulted in sustained lower throughput. However, the strong market position of the terminals has continued to ensure that capacity at each terminal remains fully let and that contract renewals have been agreed on good terms.

The valuation of 3i Infrastructure's holding in Oystercatcher declined in the year, driven by the depreciation of the Singapore dollar and by the implementation of a major programme of infrastructure process and safety upgrades at the Amsterdam terminal, to accelerate compliance with new regulations being applied to the oil products storage sector in The Netherlands. This has resulted in increased tank maintenance downtime, as well as in a reduction in throughput levels at the terminal.

The Singapore and Malta terminals are performing in line with expectations and have faced no significant operational issues in the year.

# Cross London Trains ("XLT")

## Performance in the year

Cost	£61.8m
Closing value	£64.0m

Equity interest	33.3%
Income in the year	£4.7m
Asset total return in the year	£6.9m
Valuation basis	DCF



## Description

Cross London Trains ("XLT") is a company established to procure and lease the rolling stock for use on the Thameslink passenger rail franchise. As part of a wider upgrade of the Thameslink rail network, XLT will invest £1.6 billion in a fleet of new Siemens Desiro City commuter rail carriages, manufactured by Siemens, to be leased to the Thameslink rail franchise operator, with the continued leasing of the trains underpinned by the Department for Transport ("DfT") for a period of 20 years (the "s54 period").

Siemens will manufacture and deliver the trains over a period of five years, with the first delivery into service expected in early 2016. The fleet will comprise 1,140 Siemens Desiro City commuter rail carriages, capable of running on both overhead and third rail lines. The fleet will be maintained by Siemens under a long-term service agreement. Following the initial 20-year s54 period, XLT will retain the ownership of the fleet and will be free to lease the trains for the remainder of their useful life.

3i Infrastructure owns 33.3% of the equity in XLT, in consortium with Siemens Project Ventures GmbH and Innisfree Limited.

## Investment rationale

The investment has strong infrastructure characteristics and fits well within 3i Infrastructure's investment mandate as:

- it is a strategic asset, operating in the capacity-constrained London commuter market;
- it will generate high quality, low risk cash flows, with rentals due on a "hell or high water" basis and lease revenues underpinned for 20 years by the DfT;
- it will retain ownership of the trains following this initial 20-year period, with their residual value supported by favourable market dynamics; and
- it allows the Company to partner with Siemens, a market leader in UK rolling stock manufacture and maintenance.

## Developments in the year

The business is performing well and Siemens is making good progress on manufacturing the trains. The investment, completed in June 2013, was immediately accretive to the Company, which accrued £3.6 million in loan interest payments in the period of ownership, in addition to a £1.1 million transaction fee.

All material actions in the post-acquisition 100-day plan were completed in the year and a senior management team of an Executive Chairman and Managing Director, each with relevant industry experience, was installed.

The current Thameslink franchise expires in September 2014 and the DfT started a bidding process in September 2013. An announcement of the decision of the winning franchise bidder is expected by May 2014 at the earliest.

# PPP portfolio

## Performance in the year

Cost **£75.8m**

Opening cost: £70.0m

Opening value **£88.5m**

Closing value **£107.8m**

### Equity interest

Elgin	49.9%
Octagon	36.8%
Dalmore	6% LP share
Mersey Gateway Bridge	25.0% <sup>1</sup>
National Military Museum	80.0%
Income in the year	£6.9m
Asset total return in the year	£20.4m
Valuation basis	DCF and LP share of funds for Dalmore

<sup>1</sup> With Fomento de Construcción y Contratas.



## Description

### Primary PPP portfolio

#### Mersey Gateway Bridge

The Mersey Gateway Bridge PPP project involves the design, build, finance and operation of a 1km tolled bridge across the river Mersey in Liverpool, as well as 9km of approach roads, against availability-based payments commencing from 2017. Construction is expected to commence in April 2014, with completion expected in the spring of 2017. 3i Infrastructure, alongside partner Fomento de Construcción y Contratas, a Spanish construction company, is invested in a vehicle that has a 25% interest in the project.

#### National Military Museum

The NMM PPP project, procured by the Dutch Ministry of Defence, comprises the design, build, finance and maintenance of a museum facility on the site of the former Soesterberg Airbase, located c. 60km south east of Amsterdam. The project is currently under construction, with completion scheduled for September 2014. The new facility will showcase military hardware and hold various related events including workshops and symposia on military research. 3i Infrastructure has an 80% interest in the project, with the balance held by Heijmans NV, the construction contractor.

### Secondary PPP portfolio

#### Elgin

Elgin Infrastructure Limited ("Elgin") is 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 sub-contracted to Robertson Facilities Management (in 15 projects) and Carillion Facilities Management (in one project).

#### Octagon

Octagon Healthcare Limited ("Octagon") is 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 sub-contracts the provision of facilities services to Serco.

#### Dalmore

Dalmore Capital Fund ("Dalmore") is a 25-year LP fund managed by Dalmore Capital Limited, investing in equity and subordinated debt in secondary PFI transactions which are operational and do not have volume-based payment regimes. The fund can invest across the social infrastructure sector and targets gross returns of 10% for its investors. At 31 March 2014, Dalmore had total commitments of £249 million, 99% of which were drawn.

## Investment rationale

Exposure to social infrastructure through PPP projects provides the Company's portfolio with lower risk, index-linked cash flows. Investments in primary projects also tend to generate capital uplifts as the investments are managed from the construction phase through ramp-up.

## Achievements in the period of ownership

All assets in the PPP 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 the Company's holdings in Alma Mater, I<sup>2</sup> and Alpha Schools at significant uplifts over cost in 2008, 2009 and 2013 respectively, generating an aggregate IRR of 30%.

## Developments in the year

All assets in the PPP portfolio performed well operationally during the year, delivering good levels of income.

All 16 projects in Elgin are performing in line with expectations. All service providers are performing well, with no significant new operational issues arising at any of the projects during the period. In September, Robertson sold its stake in Elgin to Dalmore, but remains closely involved in the portfolio's ongoing day-to-day management.

Octagon continues to perform well financially and operationally and has maintained its strong working relationship with the NHS Trust and with Serco, who continues to provide a good service to the Trust. The valuation of 3i Infrastructure's holding in Octagon increased substantially in the year, driven by the adoption of a revised lifecycle programme.

The underlying assets in the Dalmore portfolio are performing well and cash generation has been ahead of projections. The fund drew £6.8 million from the Company during the year, to finance the purchase of holdings in various PFI projects, taking the total amount drawn from the Company to £14.8 million. Dalmore also returned £3.6 million to 3i Infrastructure during the year, as a result of new commitments from additional LPs, resulting in net investment in the fund of £3.2 million in the year.

In November 2014, 3i Group completed the acquisition of Barclays' European PPP investment business, broadening the Investment Adviser's access to opportunities in the European PPP market. This acquisition resulted in two new investments in primary PPP projects for the Company, in the Mersey Gateway Bridge, completed at the end of March 2014, and NMM, completed in November 2013. Both these projects are proceeding to plan and are expected to become fully operational in 2017 and 2014 respectively.

The Investment Adviser's PPP team is assessing a number of opportunities across Europe, which are likely to result in further PPP investments for the Company in the coming year.

# 3i India Infrastructure Fund

## Performance in the year

Cost **£106.8m<sup>1</sup>**

Opening value **£99.1m**

Closing value **£73.9m**

Partnership interest **20.9%**

Asset total return in the year<sup>2</sup> **£(24.9)m**

Valuation basis **LP share of funds**

1 Opening cost was £106.9 million.

2 Includes a net foreign exchange loss of £17.1 million.



## Description

The 3i India Infrastructure Fund (the "India Fund") is a US\$1.2 billion fund which closed in 2008, investing 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 this fund.

The investment period for the India Fund ended on 30 November 2012 and the Board expects that the Company's remaining commitment of US\$37.5 million will not be substantially drawn. As at 31 March 2014, the India Fund was 73% invested in a portfolio of seven assets in the power and transportation sectors.

### Transportation

The investments in the Transportation sector accounted for 53% of the India Fund's value at 31 March 2014.

**Krishnapatnam Port** has a concession to develop, operate and maintain the port of Krishnapatnam in the state of Andhra Pradesh.

**KMC Roads** is developing a c. 1,200km portfolio of 11 "build-operate-transfer" ("BOT") road projects, one of the largest portfolios of its kind in India.

**Supreme Roads**, a subsidiary of Supreme Infrastructure India Limited, is building a portfolio of BOT road projects.

**Soma Enterprises** is an infrastructure developer in India, which focuses mainly on BOT road projects, but also on projects in the hydro power, irrigation, railways, power transmission and urban infrastructure sectors.

### Power

The investments in the Power sector accounted for 47% of the India Fund's value at 31 March 2014.

**Adani Power** focuses on the development and operation of power plants and the sale of power generated. With operational capacity of 7,920MW and a further 1,320MW under construction, it is currently the largest independent private power producer in India in terms of operating capacity.

**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.

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

## Investment rationale

The investment case underpinning the Company's commitment to the India Fund in 2007 can be summarised as follows:

- there was much need for infrastructure investment in India, with the current infrastructure deficit in the country providing opportunity for private investment;
- the Indian Government was actively seeking and encouraging private investment in infrastructure development;
- the investment in the India Fund offered 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 India Fund was well positioned, with an established presence in its market through its investment manager.

## Achievements in the period of ownership

The India Fund reached the end of its investment period in November 2012 and now has a diversified portfolio of assets in the power, ports and roads sectors, in line with its mandate. 3i Investments, which manages the India Fund, is focused on monitoring the portfolio and on realising value from the portfolio over the next two to three years, if market conditions allow.

### 3i India Infrastructure Fund

The valuation of the India Fund's assets has been affected by a number of market and other external factors, including the depreciation of the Indian rupee. At 31 March 2014, the India Fund's net asset value was 0.9x its investment cost in rupee terms, and 0.7x in sterling terms. Overall, the Board is satisfied that appropriate action is being taken to manage the performance of the India Fund's assets within the constraints of the macroeconomic and market challenges.

#### Developments in the year

Overall, the investments in the India Fund have continued to face significant challenges in the year, related in particular to the depreciation of the Indian rupee against the US dollar (down 9.4% in the year), as well as other currencies.

#### Transportation

The India Fund's transportation assets were valued in aggregate at £39.4 million at 31 March 2014 (2013: £61.7 million).

In addition to the valuation impact of the rupee depreciation in the first half, the road investments are facing funding constraints, as project execution has slowed down across the infrastructure sector and raw material costs have increased, resulting in working capital constraints. As a result of these difficulties, the valuations of Soma Enterprises and KMC Roads were reduced over the year. Supreme Roads has been less affected by these difficulties and has continued to make progress in the construction of its projects.

The India Fund's port asset, Krishnapatnam Port, has continued to be affected by an iron ore mining ban, which, although now lifted in some areas, will subdue exports for some time as production resumes and pent-up domestic demand is satisfied. The company has continued to focus on broadening its cargo mix and performed well in the year, supported by increases in its coal import and general cargo volumes.

On 30 September 2013, the India Fund exercised a put option over its holding in the company. Part of the consideration under the put option should have been paid to the India Fund before the end of March 2014 but has not been paid and there is now a dispute between the parties.

#### Power

The power sector investments were valued in aggregate at £34.5 million at 31 March 2014 (2013: £37.4 million). The factors affecting their performance have remained broadly unchanged, and include:

- the availability of domestic coal and gas. Coal India continues to struggle to match supplies with the contracted demand from power producers, and is making up for the shortfall with expensive imports. There are also shortages of gas;
- the depreciation of the rupee over the year has further exacerbated issues regarding the pricing of fuel; and

- the strain on the financial position of State Electricity Boards ("SEBs"). While the central government has approved debt restructuring packages for the SEBs, not all SEBs have accepted the terms and negotiations are still ongoing.

The Indian government has been working to resolve some of these issues, developing a mechanism to allow power producers to pass through increased fuel costs through higher tariffs under existing long-term power purchase agreements ("PPAs"). This has yet to be agreed with the relevant authorities. Despite the difficult market backdrop, the management and promoters of Adani Power took a strategic decision not to slow down the planned build-out of capacity and have infused further equity in the business. After declining sharply in the first half of the year, the share price in Adani Power recovered significantly in the second half of the year, and increased by 20% year on year.

GVK faces fuel availability issues due to the lack of gas supply to its principal plant, which has continued to affect its valuation. Ind-Barath Utkal was able to make good construction progress in the year and contracted a significant part of its off-take under a long-term PPA at attractive terms in August 2013.



# Governance

# Introduction

This section of the report describes how 3i Infrastructure is governed. It explains how the Board is organised and operates, including the roles and composition of each of its Committees, and provides details on our Board members and how they are remunerated.

3i Infrastructure's Board is responsible to shareholders for the overall management and oversight of the Company, for agreeing its strategy, monitoring its financial performance, setting and monitoring its risk appetite and maintaining an effective system of internal controls.

3i Infrastructure has no employees, and its investment and portfolio monitoring activities are carried out by 3i Investments plc, its Investment Adviser, under the Investment Advisory Agreement. As such, it is the Board's responsibility to ensure that the Company has a clear strategy, and that its Investment Adviser has the resources and structures to support the delivery of this strategy.

## Board of Directors and Committees

The Board is assisted in its activities by a number of standing committees of the Board and in undertaking its duties, it delegates certain authorities and decisions to these Committees. The Board committee structure, together with a summary of the roles and composition of the Committees, is outlined in the diagram below. The Committees have terms of reference, which are available on [www.3i-infrastructure.com](http://www.3i-infrastructure.com)

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. He is also responsible for organising the business of the Board and setting its agenda. In addition to the Chairman, there are currently four independent, non-executive Directors and one 3i Group plc nominee.

Further details on the key responsibilities and areas of focus of the Board and its Committees, as well as details on attendance at full Board meetings, are set out on pages 55 and 58.

## 3i Infrastructure plc Board Committees

Audit Committee	Management Engagement Committee	Investment Committee	Remuneration Committee	Nominations Committee
<b>Financial reporting, risk and internal controls</b>	<b>Monitoring of the performance of the Investment Adviser</b>	<b>Acquisition, monitoring and disposal of investments</b>	<b>Director remuneration</b>	<b>Board appointments and size, balance and composition of the Board</b>
<ul style="list-style-type: none"> <li>■ Steven Wilderspin (chair)</li> <li>■ Philip Austin</li> <li>■ Sir John Collins</li> <li>■ Paul Masterton</li> </ul>	<ul style="list-style-type: none"> <li>■ Peter Sedgwick (chair)</li> <li>■ Philip Austin</li> <li>■ Sir John Collins</li> <li>■ Paul Masterton</li> <li>■ Steven Wilderspin</li> </ul>	<ul style="list-style-type: none"> <li>■ Whole Board</li> </ul>	<ul style="list-style-type: none"> <li>■ Philip Austin (chair)</li> <li>■ Peter Sedgwick</li> <li>■ Sir John Collins</li> <li>■ Paul Masterton</li> <li>■ Steven Wilderspin</li> </ul>	<ul style="list-style-type: none"> <li>■ Peter Sedgwick (chair)</li> <li>■ Philip Austin</li> <li>■ Paul Masterton</li> </ul>

Note: The table shows the current membership of the committees. Details of membership throughout the year are on page 58.

# Board of Directors



**Peter Sedgwick**  
Non-executive Chairman

Between 2000 and 2006, Peter was a member of the management committee and a Vice President of the European Investment Bank ("EIB"), one of the largest multinational lending institutions in the world. He was also a director of the European Investment Fund from 2002 to 2006. Before joining the EIB, he was a career HM Treasury civil servant in the UK. He also sits on the boards of two of 3i Infrastructure plc's Luxembourg subsidiaries, 3i Infrastructure (Luxembourg) Holdings S.à r.l. and 3i Infrastructure (Luxembourg) S.à r.l. He was a trustee and director of Dyslexia Institute Limited (trading as Dyslexia Action) between 2007 and 2011 and has been appointed Chairman of Bowel Cancer UK from 2013. Chairman since 29 January 2007, resident in the UK.



**Philip Austin** Non-executive Director,  
Senior Independent Director

Philip spent most of his career in banking with HSBC in the UK and Jersey and, from 1997 to 2001, was Deputy Chief Executive of the bank's business in the Offshore Islands. In 2001, he became the founding CEO of Jersey Finance Ltd, the body set up as a joint venture between the government of Jersey and its Finance Industry, to represent and promote the Industry in Jersey and internationally. Between 2006 and 2009, he was at Equity Trust where he had direct responsibility for Jersey, Guernsey and Switzerland as well as being a member of the Group Executive Committee. He has since taken a number of directorships in companies in the financial services sector. He is a Fellow of the Chartered Institute of Bankers and a Fellow of the Institute of Management. Board member since 16 January 2007, resident in Jersey.



**Sir John Collins**  
Non-executive Director

Sir John Collins was previously Chairman of DSG International plc, National Power Limited, and Shell UK plc. He was a non-executive director of Rothschild Continuation Holdings AG, and The Peninsular and Oriental Steam Navigation Company plc. He has also served as Chairman of the Advisory Committee on Business and the Environment, Chairman of the DTI's Energy Advisory Panel, Chairman of the DTI/DEFRA's Sustainable Energy Policy Advisory Board, President of the Energy Institute and as a Governor of Wellington College. Board member since 1 January 2009, resident in Guernsey.



**Ian Lobley**  
Non-executive Director

Ian joined 3i in 1987. He has been a Partner since 1994 and an active investor and board member across Europe and the USA. In his role as Partner – Asset Management, Ian has responsibility for investments in companies across a variety of sectors and is an experienced board member across multiple geographies. He is a member of the 3i Group Investment Committee and is a member of the BVCA UK and European Capital Committee. Board member since 6 May 2014, resident in the UK.



**Paul Masterton**  
Non-executive Director

Paul spent most of his career in the printing and communications industry, holding various appointments in the UK, the US and Asia. From 2008 to 2013, Paul was the chief executive of the Durrell Wildlife Conservation Trust, an international wildlife charity. Paul has a number of directorships in banking, insurance and property development and, in 2012, was appointed as the founding chairman for Digital Jersey, a partnership between the Government of Jersey and the digital sector to represent and promote the industry. Appointed with effect from 4 April 2013, resident in Jersey.



**Steven Wilderspin** Non-executive Director,  
Chairman of Audit Committee

Steven has been the Principal of Wilderspin Independent Governance, which provides independent directorship services, since April 2007. He was previously a director of fund administrator Maples Finance Jersey Limited. He has served on a number of private equity, property and hedge fund boards as well as the boards of special purpose companies engaged in structured finance transactions. Before that, from 1997, he acted as Head of Accounting at Perpetual Fund Management (Jersey) Limited. Qualified Chartered Accountant. Board member since 20 September 2007, resident in Jersey.

# Directors' report

The Directors' report contains statutory and corporate governance information for the year to 31 March 2014 ("the year").

## Principal activity

3i Infrastructure is a closed-ended investment company that invests in infrastructure businesses and assets. The Directors do not anticipate any change in the principal activity of the Company in the foreseeable future. Its principal subsidiaries are shown on page 85.

## Regulation

3i Infrastructure is incorporated in Jersey and is regulated as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988. It has a Premium Listing on the London Stock Exchange.

Significant changes to regulation are outlined on page 53.

## Results and dividends

The financial statements of the Company and its subsidiaries (together referred to as the "Group") for the year appear on pages 65 to 68. Total comprehensive income for the year was £71.0 million (2013 restated: £89.1 million). An interim dividend of 3.35p (2013: 2.97p) per share in respect of the year to 31 March 2014 was paid on 9 January 2014. The Directors recommend that a final dividend of 3.35p (2013: 3.52p) per share (which, added to the interim dividend of 3.35p per share, equates to 5.5% of opening net asset value) be paid in respect of the year to 31 March 2014 to shareholders on the register at the close of business on 20 June 2014.

The distribution of the dividend payments between interim and final dividends is evaluated by the Board each year, according to the Company's performance and portfolio income generation.

## Operations

The Company has a non-executive Board of Directors and no employees. The Board acts as the Company's investment committee and is responsible for the determination and supervision of the investment policy and for the approval of investment opportunities sourced by the Investment Adviser. The Board also supervises the monitoring of existing investments and approves divestments and further financing of portfolio assets.

## Advisory arrangements

3i Investments plc ("3i Investments"), a wholly-owned subsidiary of 3i Group plc ("3i Group"), acts as Investment Adviser to 3i Infrastructure through its Infrastructure business. The investment advisory team provides advice to the Company on the origination and completion of new investments, on the realisation of investments, on funding requirements, as well as on the management of the investment portfolio. It provides its services under an Investment Advisory Agreement (the "IAA"), which includes an investment exclusivity arrangement in respect of investment opportunities within the Company's investment policy.

During the year the Company commenced discussions with the Investment Adviser concerning the IAA with a view to agreeing certain amendments to the fee arrangements and the exclusivity provisions. On 8 May 2014 the Company and the Investment Adviser entered into an amendment agreement to the IAA (the "Amendment Agreement"). The Amendment Agreement is conditional only on obtaining the approval of both the Company's shareholders (other than 3i Group) at an extraordinary general meeting and the Jersey Financial Services Commission.

Pursuant to the Amendment Agreement, the Company and the Investment Adviser have extended the IAA for a further period of four years. The appointment of the Investment Adviser may, inter alia, be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing to expire no earlier than 7 May 2019. In addition, either party may terminate the agreement on 12 months' notice at any time, in the event that the Investment Adviser ceases to be a member of 3i Group, or with immediate effect by either party in the event of the insolvency of, or material or persistent breach of the agreement's terms 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.

The investment exclusivity granted to the Company under the IAA has been reformulated under the Amendment Agreement. Previously exclusivity lasted for an investment period ending on the earlier of 13 March 2015, the date of expiry of the IAA, or the date of full investment of a specified sum described as the "Relevant Investment Amount". This related principally to the funds available to the Company for new investment generated from the IPO and subsequent Placing and Open Offer and to increases agreed, from time to time, between the Company and Investment Adviser. Under the amended IAA, the concept of "Relevant Investment Amount" has been removed and the Company is granted exclusivity for the term of the IAA, provided that the Company maintains sufficient funds available to invest. These may include cash and undrawn debt facilities.

The current and the revised fee arrangements (including the addition of a high watermark) and the amount payable to 3i plc (a wholly-owned subsidiary of 3i Group) for the year are set out in Note 18 "Related parties" on page 84. For information on the performance evaluation of the Investment Adviser, please see page 56.

The Board considers the Amendment Agreement is fair and reasonable.

## Other significant service arrangements

In addition to the arrangements described above, 3i plc and 3i Investments, in relation to certain regulatory services, have been appointed by the Company to provide support services to the Group, including treasury and accounting services, investor relations and other back office support services. The amounts payable under these arrangements are described in more detail in Note 18 on page 84.

Capita Financial Administrators (Jersey) Limited was appointed as the Administrator and Company Secretary to the Company, with effect from 1 April 2014.

As at 31 March 2014, and at the date of this statement, the Company was party to a £200 million multi-currency Revolving Facility Agreement, which runs to 1 May 2016, with Lloyds TSB Bank Plc and four other banks.

## Changes in regulation

### AIFMD

The Alternative Investment Fund Managers Directive (the "Directive") entered into force on 22 July 2013. The Company is a non-EU Alternative Investment Fund ("AIF") and is internally managed, which means that the Board of the Company also performs the functions of an Alternative Investment Fund Manager ("AIFM") under the Directive and the AIF and the AIFM are the same entity. As a non-EU AIFM, the Company is currently outside the full scope of the Directive, but will be subject to a number of the Directive's requirements should it wish to market the Company's securities within the EU, depending on when and how such marketing of securities is performed.

### FATCA

Foreign Account Tax Compliance Act ("FATCA") is US legislation aimed at preventing offshore tax avoidance by US persons and imposes obligations on non-US financial entities (Foreign Financial Institutions, or "FFI") to identify and report details relating to their US investors. Unless FFIs undertake to comply with the relevant reporting requirements under the FATCA rules they face being subject to 30% US withholding tax on certain US source payments, starting with effect from 1 July 2014. As 3i Infrastructure is classified as an FFI under the FATCA rules, it has undertaken the appropriate FATCA registration process to confirm its intent to comply with the relevant reporting requirements. In practice, 3i Infrastructure is expected to face minimal ongoing reporting requirements because the FATCA rules provide an exemption from reporting for "regularly traded" interests such as the interests of investors in listed companies.

### NMPI

On 31 January 2014, the Company issued a statement noting the changes to the UK Financial Conduct Authority ("FCA") rules to the restrictions on the retail distribution of unregulated collective investment schemes and close substitutes ("non-mainstream pooled investments", or "NMPIs"), which came into effect on 1 January 2014.

In this statement, the Company asserted that its shares are excluded from these rules and therefore the restrictions relating to non-mainstream pooled investments will not apply to its shares.

It is the Board's intention that the Company will continue to conduct its affairs in such a manner that the Company's shares will continue to be excluded from the FCA's rules relating to NMPIs.

## Share capital

The issued share capital of the Company as at 31 March 2014 was 881,351,570 ordinary shares (2013: 881,351,570).

## Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital as at 31 March 2014 and 30 April 2014, which are disclosable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, are as follows:

Interests in ordinary shares	%	Number of ordinary shares <sup>1</sup> as at 31 March and 30 April 2014
3i Group plc (and subsidiaries)	34.14	300,922,661

1 Each ordinary share carries the right to one vote.

## Directors' interests

In accordance with FCA Listing Rule 9.8.6(R)(1), Directors' interests in the shares of the Company (in respect of which transactions are notifiable to the Company under FCA Disclosure and Transparency Rule 3.1.2(R)) as at 31 March 2014 are shown below:

Directors' interests and beneficial interests <sup>1</sup>	Ordinary shares at 31 March 2014
Peter Sedgwick	104,653
Philip Austin	10,000
Sir John Collins	19,215
Ben Loomes <sup>2</sup>	—
Paul Masterton <sup>3</sup>	—
Steven Wilderspin	10,000

1 No options have ever been granted since the inception of the Company.

2 Served from 9 July 2013 to 16 April 2014.

3 Served from 4 April 2013.

In the period from 1 April 2014 to 30 April 2014, there were no changes in the interests of each serving Director. Ian Loble, who was appointed a Director on 6 May 2014, has no interest in the shares of the Company.

## Directors' authority to buy back shares

The Company did not purchase any of its own shares during the year. The current authority of the Company to make market purchases of up to 14.99% of the issued ordinary share capital expires at the next Annual General Meeting ("AGM"), to be held on 8 July 2014 ("the 2014 AGM"). The Company will seek to renew such authority until the end of the AGM in 2015, specifying the maximum and minimum price at which shares can be bought back. Any buyback of ordinary shares will be made subject to Jersey law and the making and timing of any buybacks will be at the absolute discretion of the Directors. Such purchases will also only be made in accordance with the Listing Rules of the FCA which provide that the price paid must not be more than the higher of: (i) 5% above the average middle market quotations for the ordinary shares for the five business days before the shares are purchased; and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange at such time.

## Directors' report

### Directors' conflicts of interests

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association enable Directors to approve conflicts of interest and include other conflict of interest provisions. The Company has implemented processes to identify potential and actual conflicts of interest. Such conflicts are then considered for approval by the Board, subject, if necessary, to appropriate conditions.

### Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Statutes, every Director of the Company shall be indemnified out of the assets of the Company against all liabilities and expenses incurred by him or her in the actual or purported execution or discharge of his or her duties. "Statutes" here refers to the Companies (Jersey) Law 1991 and every other statute, regulation or order for the time being in force concerning companies registered under the Companies (Jersey) Law 1991. In addition, the Company has entered into indemnity agreements for the benefit of its Directors and these remain in force at the date of this report. The Company also had Directors' and officers' liability insurance in place in the year.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and accounts 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 FCA'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 Group are required by law to give a true and fair view of the state of affairs of the Group at the period end and of the profit or loss of the Group 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.

The Directors are also responsible for preparing the Annual report and accounts and the Directors confirm that they consider that, taken as a whole, the Annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

- (a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group taken as a whole; and
- (b) the 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 on page 51.

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2014.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 9 to 32 and in the Financial statements and related Notes on pages 65 to 85. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial statements and related Notes on pages 65 to 85. In addition, Note 9 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

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

By order of the Board  
Authorised signatory

### Capita Financial Administrators (Jersey) Limited

Company Secretary  
8 May 2014

Registered Office:  
12 Castle Street  
St Helier  
Jersey, Channel Islands  
JE2 3RT

# Corporate governance statement

This section of the Directors' report contains the corporate governance statement required by FCA Disclosure and Transparency Rule 7.2.

## The Company's approach to corporate governance

The Company is committed to upholding the highest standards of corporate governance. It observes the requirements of the UK Corporate Governance Code, a copy of which is available from the Financial Reporting Council website ([www.frc.org.uk](http://www.frc.org.uk)), subject to the FCA's Listing Rule 15.6.6(2), and to the extent applicable to the Company, given that it has no Executive Directors. The Code applies to all companies with a Premium Listing on the London Stock Exchange, irrespective of their country of incorporation.

The Company complied with all the applicable provisions of the Code for the financial year ending 31 March 2014.

The Board has adopted a code of Directors' dealings in ordinary shares, which is based on the Model Code for Directors' dealings contained in the Listing Rules (the "Model Code"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the Directors.

## The Board's responsibilities and processes

The Board is responsible to shareholders for the overall management of the Company. It determines matters including financial strategy and planning and takes all investment decisions, taking into account the advice it receives from the Investment Adviser. The Board has put in place an organisational structure to ensure the efficient performance of its responsibilities. This is further described under the heading "Internal control".

## Matters reserved for the Board

The Board has approved a formal schedule of matters reserved to it and the Audit Committee for decision. The matters reserved for the Board include:

- approval of the Company's overall strategy, plans and annual operating budget;
- approval of the Company's half-yearly and annual financial statements and changes in the Company's accounting policies or practices;
- approval of changes relating to the capital structure of the Company or its regulated status;
- approval of the appointment and removal of the Investment Adviser and annual review and continued approval of key agreements with service providers, including the Investment Advisory Agreement with 3i Investments plc;
- approval of major changes in the nature of business operations or investment policy;
- approval of investments and divestments;
- approval of portfolio company valuations and review of the performance and plans for each portfolio company;
- review of the adequacy of internal control systems, including those operated by independent service providers; and
- appointments to the Board and determination of terms of appointment of Directors.

## Meetings of the Board

The Board is required to meet a minimum of four times a year. A calendar of seven scheduled main Board meetings was agreed at the start of the year. Due to the nature of the Board's close involvement in the operation of the Company and in making investment-related decisions, a number of further meetings are arranged from time to time at shorter notice. During the year, there were seven main meetings of the Board of Directors. In addition to these meetings, there were three full Board meetings arranged at short notice and two meetings of specifically formed committees to execute decisions arising from full Board meetings. The Directors' attendance at main Board meetings is set out in the table below:

Directors' attendance (year to 31 March 2014)	Number of meetings	Attendance
Peter Sedgwick	7	7
Philip Austin	7	7
Sir John Collins	7	7
Ben Loomes <sup>1</sup>	5	5
Paul Masterton <sup>2</sup>	7	7
Florence Pierre <sup>3</sup>	2	2
Paul Waller <sup>4</sup>	2	2
Steven Wilderspin	7	7

1 Served from 9 July 2013 to 16 April 2014.

2 Served from 4 April 2013.

3 Served until 9 July 2013.

4 Served until 9 July 2013.

The Board's responsibilities and business model to deliver the Company's strategy is set out on page 10 of the Strategic report. The principal matters considered by the Board during the year in relation to those responsibilities included the following:

## Strategy and portfolio balance

- review of the Company's strategy, following the update of return targets in the previous year, which included a review of its market positioning, geographic and investment strategy and analysis of the primary PPP asset class and the Company's target exposure to this sector. The Board concluded that it should continue to focus on core infrastructure and that at least 75% of the Company's portfolio will remain invested in core infrastructure assets;
- regular reviews of portfolio asset performance, including the underlying performance of assets within the India Fund; and
- review of the recommendations of the Investment Adviser on the valuation of portfolio investments.

## Add selectively to the portfolio

- approval of new investment decisions, including the decision to invest in XLT and in the NMM and Mersey Gateway Bridge PPP projects; and
- review of regular reports from the Investment Adviser relating to the infrastructure market and early stage work-in-progress.

# Corporate governance statement

## Financial management

- approval of the renewal of the Company's revolving credit facility and a review of the management of the Company's liquidity and its liquidity policy;
- ongoing review of foreign exchange hedging with specific reviews conducted into the options for Indian rupee hedging during a period of significant Indian rupee depreciation and the decision to broaden the Company's Singapore dollar hedging programme; and
- approval of the Company's annual budget.

## Manage relations with the Investment Adviser

- approval of amendments to the Investment Advisory Agreement following the process to agree new terms undertaken by the Chairman and Senior Independent Director; and
- review of the impact of team changes within the Investment Adviser following: (i) new appointments to the Infrastructure team leadership at 3i Investments plc; and (ii) 3i's acquisition of the Barclays Infrastructure Funds Management business.

## Other matters considered by the Board

- the Board undertook a review of companies offering Corporate Administration and Company Secretary services in Jersey. Following a competitive tender process, it approved the appointment of Capita Financial Administrators (Jersey) Limited as its new Corporate Administrator and Company Secretary;
- the Board received updates to UK and Jersey law and regulations and considered their impact on the Company, including specifically matters relating to the Alternative Investment Fund Managers Directive, Foreign Account Tax Compliance Act and Non Mainstream Pooled Investment rules. These are detailed further on page 53; and
- the Board considered the market practice for offering a scrip dividend alternative to shareholders.

In addition, the Chairman represents the Company on the advisory board of the India Fund and participated in two meetings of that board in India in the past year, as well as the India Fund's annual investor meeting, which were attended by the Investment Adviser's team and included a presentation from an external speaker covering an overview of the Indian economy.

## Information

Reports and papers are circulated to the Directors in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

## Performance evaluation

### Board

During the year, the Board conducted a formal evaluation of its own performance and that of its committees. This was an internal exercise following the full external review conducted by Tracy Long of Boardroom Review, an independent specialist consultancy, in 2012. The evaluation this year considered, amongst other factors, the balance of skills, experience and knowledge of the Company of Board members. It also considered the operational effectiveness of the Board, given the prospect of the Board processing and managing information for a relatively high number of smaller value primary PPP assets as a result of the Investment Adviser's enhanced origination capability.

As part of the review:

- the Chairman led a review of the performance of the Board and its Committees, as well as of individual Directors;

- the Senior Independent Director led a review of the Chairman; and
- the chairman of the Audit Committee led a review of the Audit Committee.

The results of the processes were formally reported to the Board and Audit Committee respectively. All Board members, as well as a number of members of the Investment Adviser, gave personal views and feedback was presented to the Board.

Following the completion of the above process, the Board noted that the results of the exercise showed a high overall degree of satisfaction with the operation of the Board and interaction with the Investment Adviser.

The following recommendations were also made:

- to review Board procedures in relation to information requirements and Board decision making in relation to smaller value PPP assets, following the increase in smaller PPP assets added to the work-in-progress pipeline this financial year and expected to be added to the portfolio in subsequent years; and
- to increase the level of infrastructure transaction market analysis available to the Board, to include a regular review of any core infrastructure transactions that the Investment Adviser does not recommend that the Company pursues and, where possible, a report on transactions for which the Company made a final offer but was not successful in acquiring the asset.

## Investment Adviser

The Board has a Management Engagement Committee (comprising all Board members, with the exception of Ben Loomes, the 3i Group nominee Director who served until 16 April 2014 and Ian Lobley, who served as the 3i Group nominee Director from 6 May 2014), which carries out the annual evaluation of the Investment Adviser required under the Listing Rules and which manages the relationship with the Investment Adviser on behalf of the Company. During the year, the Committee assessed the performance of the Investment Adviser and supported the Board in the decisions relating to the amendments to the Investment Advisory Agreement, described on page 52. Following its assessment of the Investment Adviser, the Directors believe that the continued appointment of the Investment Adviser on the revised terms set out on page 52 is in the interest of shareholders, based on the performance of the Investment Adviser.

## Appointment and re-election of Directors

The Company's Articles of Association ("the Articles") provide for:

- (a) Directors to retire at the first AGM after their appointment by the Board and for the number nearest to, but not exceeding, one-third of the remaining Directors to retire by rotation at each AGM; and
- (b) all Directors to retire at least every three years.

Under the UK Corporate Governance Code, however, all directors of FTSE 350 companies should be subject to annual election by shareholders. As a result, all Directors will voluntarily retire and stand for election or re-election at the 2014 AGM (see below).

Following his appointment as Managing Partner and Co-head of 3i Group's Infrastructure business on 12 February 2014, Ben Loomes indicated that he wished to resign from the Board. Consent for his resignation was received from the Jersey Financial Services Council on 16 April 2014. 3i Group exercised its right under the Relationship Agreement to nominate a successor to Ben Loomes to be the 3i Group nominated Director to the Company, and nominated Ian Lobley. Consent for his appointment was received from the Jersey Financial Services Commission on 6 May 2014. Ian Lobley will be seeking shareholder approval for his appointment at the 2014 AGM.

## The Chairman

The Chairman, Peter Sedgwick, leads the Board in the determination and implementation of its strategy. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman also acts as a manager (the equivalent of a director) of 3i Infrastructure (Luxembourg) Holdings S.à r.l. and 3i Infrastructure (Luxembourg) S.à r.l., which are subsidiaries of the Company and is the Company's appointed member to the Advisory Board for the 3i India Infrastructure Fund. He receives no additional remuneration for these roles. The Chairman facilitates the effective contribution of all the Directors and constructive relations between the Company's advisers, including the Investment Adviser, and the Directors. The Chairman maintains direct links with the Company's advisers and ensures that regular reports from them are circulated to the Directors to enable the Directors to remain aware of shareholders' views. The Chairman ensures, with the co-operation of the Investment Adviser, that a programme of effective communications is available for shareholders, including with the Chairman and Senior Independent Director, when shareholders so wish.

## Senior Independent Director

Philip Austin is the Senior Independent Director. In accordance with the Code, any concerns can be conveyed to the Senior Independent Director. The contact details of the Senior Independent Director are freely available on the Company's website or through the Company Secretary.

## Directors

The Board comprises the Chairman and five non-executive Directors. Biographical details for each of the Directors are set out on page 51. All Directors served throughout the year under review, with the exception of Paul Waller and Florence Pierre, who resigned from the Board at the Company's AGM on 9 July 2013, Ben Loomes, who was appointed to the Board on 9 July 2013 and whose resignation took effect on 16 April 2014, and Ian Lobley, who was appointed with effect from 6 May 2014 (see page 56).

No Director has a service contract with the Company, nor are any such contracts proposed. The Directors were appointed as non-executive Directors by the subscribers to the Memorandum of Association of the Company or at subsequent Board meetings. Their appointment was confirmed by letters dated 29 January 2007 in the case of Peter Sedgwick and Philip Austin, 20 September 2007 in the case of Steven Wilderspin, 27 November 2008 in the case of Sir John Collins, 19 March 2013 in the case of Paul Masterton and 26 July 2013 in the case of Ben Loomes. Appointment letters for Directors were updated following the Company's Annual General Meeting in July 2011 in order to bring them into line with the requirements of the Code. The letters were refreshed in November 2012 to reflect the best practice guidelines published in December 2011 by the Institute of Chartered Secretaries and Administrators. The current letters are dated 5 September 2013 in the case of Steven Wilderspin, 7 December 2011 in the case of Sir John Collins, 13 December 2012 in the case of Peter Sedgwick and 13 December 2012 in the case of Philip Austin. All current Directors were elected or re-elected at the 2013 AGM. Following the formal appraisal process of Directors, and in accordance with Section B.7.2 of the Code, the Chairman will propose the re-election or election of all Directors at the forthcoming AGM.

Copies of the appointment letters are available from the Company Secretary upon request.

The Directors' appointment can be terminated, without compensation for loss of office, in accordance with the Articles. Under the Articles, their appointments can (inter alia) be terminated on notice from the other members of the Board, and also on ceasing to be a Director if they fail to be re-elected at any Annual General Meeting.

In addition to fulfilling their legal responsibilities as Directors, the Directors are expected to bring an independent judgment to bear on issues of strategy, performance, investment appraisal and standards of conduct. They are also expected to ensure high standards of financial probity on the part of the Company. As well as papers for Board meetings, the Directors receive monthly management accounts, reports and information which enable them to scrutinise the Company's performance against agreed objectives.

## Directors' independence

All the Directors, with the exception of Ian Lobley, who was appointed as the 3i Group nominee to the Board with effect from 6 May 2014, are considered by the Board to be independent for the purposes of the Code. The Board assesses and reviews the independence of each of the Directors at least annually, having regard to the potential relevance and materiality of a Director's interests and relationships. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial year in relation to the business of the Company.

As non-independent Directors who served during part of the year and who were not members of the Management Engagement Committee, Paul Waller and Ben Loomes did not participate in the Board's evaluation of the performance of the Investment Adviser.

## Training and development

The Company has developed a framework within which training for Directors is planned, with the objective of ensuring that the Directors understand the duties and responsibilities of being a director of a listed company and the business environment of the Company. All Directors are required to continually update their skills and maintain their familiarity with the Company and its business. Presentations on different aspects of the Company's business are made regularly to the Board, usually by the Investment Adviser.

On appointment, all Directors have discussions with the Chairman and Company Secretary, following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures and, where appropriate, briefings on the infrastructure market are arranged. The Company provides opportunities for Directors to obtain a thorough understanding of the Company's business and the industry it operates in by meeting senior members of the investment advisory team who in turn can arrange, as required, visits to portfolio investments or support teams.

This year, the Directors also received presentations on aspects of the infrastructure market and met with a transaction specialist in the infrastructure market who has advised on several key recent infrastructure transactions in the European market. The Board also received briefings on legal updates in relation to changes to laws and regulations in Jersey and the UK.

The Directors, and specifically members of the Audit Committee, attended a number of seminars, meetings and conferences on governance, regulation, including the introduction of the AIFMD and the introduction of the Strategic Report as required by the Companies Act 2006. The Chairman attended a number of externally facilitated meetings on corporate governance. The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

## Corporate governance statement

### The Board's committees

The Board is assisted by various standing committees which report regularly to the Board and reviews the membership of these committees on a regular basis.

The Board's committees all have clearly defined terms of reference which are available at [www.3i-infrastructure.com](http://www.3i-infrastructure.com). The terms of reference of the Audit Committee, of the Nominations Committee, of the Remuneration Committee and of the Management Engagement Committee provide that no one other than the particular committee chairman and members may attend meetings, unless invited to attend by the relevant committee.

#### Audit Committee

The Audit Committee, chaired by Steven Wilderspin, in the year under review also comprised Philip Austin, Sir John Collins, Paul Masterton and Florence Pierre. All members served throughout the year, except for Paul Masterton, who was appointed on 1 June 2013, and Florence Pierre, who served until her resignation on 9 July 2013. The qualifications of the members of the Audit Committee are set out in the biographical details of the Directors on page 51. All the members of the Audit Committee are independent non-executive Directors. The Board is satisfied that the Audit Committee chairman, Steven Wilderspin, has recent and relevant financial experience and is a qualified Chartered Accountant.

During the year to 31 March 2014, there were five meetings of the Audit Committee, attended by all members. A report from the Audit Committee is set out on page 60.

#### Remuneration Committee

The Remuneration Committee, chaired by Philip Austin, is charged with reviewing the scale and structure of the non-executive Directors' remuneration, and for the year under review was constituted by all the independent non-executive Directors (Peter Sedgwick, Philip Austin, Steven Wilderspin, Sir John Collins, Paul Masterton and Florence Pierre). All members served throughout the year, except for Paul Masterton, who was appointed on 4 April 2013, and Florence Pierre, who served until her resignation on 9 July 2013. The Remuneration Committee had two meetings in the year to 31 March 2014, attended by all members. A report from the Remuneration Committee is set out on page 61.

#### Nominations Committee

The Nominations Committee, chaired by Peter Sedgwick, in the year under review comprised Philip Austin and Sir John Collins, who served throughout the year. Paul Masterton was appointed to this Committee on 1 May 2014, replacing Sir John Collins, who served until that date. The Committee held two scheduled meetings in the year to 31 March 2014, attended by all members. In addition, there were several informal discussions held between the members in relation to matters agreed at scheduled meetings.

The Committee is responsible for adopting a formal and transparent procedure for the appointment of new Directors, including interviewing potential candidates. Final decisions on nominations, however, are taken by the entire Board. The Nominations Committee can avail itself of the services of external search consultancies. During the year, the Nominations Committee approved the nomination of Ian Lobleby as 3i Group nominee Director, following 3i Group's recommendation. As this was a 3i Group nomination, no external search consultancy or open advertising were used.

As well as seeking an appropriate balance of expertise and experience, especially in finance and infrastructure, the nominations process has to take account of the residence of Directors, as the majority of Directors have to be non-resident in the UK. For practical reasons relating to the conduct of the Company's affairs, most Directors are resident in the Channel Islands.

The Committee has been reviewing succession planning, to ensure that processes and plans are in place with regards to Board appointments dealing with succession. The Board's policy on diversity is set out below.

#### Diversity

The Company's policy is to have a Board with a diverse range of skills, professional backgrounds and gender. To that end it will continue to ensure that in making appointments to the Board it, and any executive search firm that assists it, will consider a wide range of candidates from different backgrounds while making appointments solely on merit and which meet the objectives of its policy on diversity, including gender.

In the majority of years since the Company's IPO there has been one or more female members of the Board. However, since the resignation of Florence Pierre on 9 July 2013, there is currently no female member of the Board. Therefore, in line with its policy objectives, the Nominations Committee will continue to search for a suitable female candidate for future appointments.

#### Investment Committee

As outlined on page 50, the Board as a whole acts as the Investment Committee.

#### Management Engagement Committee

The Management Engagement Committee is chaired by Peter Sedgwick and, in the year under review, comprised Philip Austin, Sir John Collins, Steven Wilderspin and Florence Pierre, until her resignation from the Board on 9 July 2013. Paul Masterton joined the Management Engagement Committee upon his appointment as a Director on 4 April 2013.

While the remit of the Committee is to manage all aspects of the relationship with the Investment Adviser, its principal function is to consider annually, and recommend to the Board, whether the continued appointment of the Investment Adviser is in the best interest of the Company and its shareholders and to give reasons for its recommendation. The Committee also reviews the terms of the Investment Advisory Agreement.

During the year, there were four meetings of the Management Engagement Committee, attended by all members. In those meetings, the Committee monitored the overall relationship and among specific topics it:

- considered the amendments to the Investment Advisory Agreement;
- reviewed reports from industry analysts, comparing the performance of listed infrastructure investment companies, including an analysis of the terms of their advisory agreements and fees charged;
- monitored and reviewed the Investment Adviser's performance against the Company's targets and general market conditions;
- reviewed the quality, timeliness, accuracy and relevance of the information provided to the Board, including reviews of portfolio company performance; and
- reviewed non-investment services provided by the Investment Adviser.

### The Company Secretary

State Street Secretaries (Jersey) Limited acted as Company Secretary throughout the year. On 1 April 2014, the Company announced that it had appointed Capita Financial Administrators (Jersey) Limited as its new Corporate Administrator and Company Secretary and, as a result, the Company's registered office has also changed. The new registered office address is set out on page 54. The Company's Articles and the schedule of matters reserved for the Board (or its duly authorised committees for decision) provide that the appointment and removal of the Company Secretary is a matter for the full Board.

A full review and tender process was conducted to appoint the Corporate Administrator and Company Secretary, to which State Street Secretaries (Jersey) Limited were invited to participate.

All Directors have access to the advice and services of the Company Secretary and legal advisers to the Company, who advise the Board, through the Chairman, on governance matters.

## Relations with shareholders

The Board recognises the importance of maintaining a good relationship with the Company's shareholders. The Chairman maintains a dialogue with shareholders on strategy and corporate governance as required. Shareholders are offered the opportunity to meet with the Chairman and with the Senior Independent Director. In May 2014, a small number of significant shareholders (based on the size of their shareholdings) were consulted as part of the process to agree the amendments to the Investment Advisory Agreement.

Senior members of the investment advisory team also meet with the Company's principal institutional shareholders to discuss the Company's performance.

The Board receives reports from the Company's brokers and other advisers on shareholder issues.

At the AGM, business presentations are made by the Chairman and senior members of the investment advisory team. The chairman of the Audit Committee is also available to answer shareholders' questions. The Notice of AGM for 2013 was dispatched to shareholders not less than 20 working days before the meeting. At that meeting, voting on each resolution was taken on a poll and the results were made available on the Company's website.

## Portfolio management and voting policy

In relation to unquoted investments, the Company's approach is to seek to add value to the businesses in which it invests through the extensive experience, resources and contacts of the investment advisory team. In relation to quoted equity investments, the Company's policy is to exercise voting rights on matters affecting the interests of the Company.

## Internal control

The Board is ultimately responsible for the Group's own system of internal control. The Audit Committee performed its annual review of the system's effectiveness and reported its conclusions to the Board. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has contractually delegated investment advisory and support services to its key service providers and their contractual obligations encompass the implementation of systems of internal control, including financial, operational and compliance controls and risk management. The Audit Committee of the Company receives reports on the control systems and their operation from its main service providers, and is responsible for reviewing these reports for determining the effectiveness of internal controls.

In addition, the Board regularly reviews the principal risks faced by the Company and any entries in the Company's risk log.

Key procedures designed to provide effective internal control for the year under review and up to the date of this Report include:

- the Investment Advisory and UK Support Services agreements specifically define the roles and responsibilities of the Investment Adviser and the service providers. These agreements set out information and reporting systems for monitoring the Company's investments and their performance;

- the Board considers and approves the Company's strategy and approves a budget on an annual basis;
- reports on the planning, forecasting and controlling of expenditure and the making of investments are regularly submitted to the Board and reviewed in detail;
- the Investment Adviser's procedures for evaluating investments include detailed appraisals and due diligence that are reviewed by the Board as appropriate;
- the Investment Adviser and the service providers prepare valuations and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Investment Adviser's compliance and internal audit departments continually review the Investment Adviser's operations. The Audit Committee has access to relevant sections of their reports;
- the Investment Adviser and the service providers prepare the half-yearly and annual accounts of the Group and monitor all associated financial reporting processes that are reviewed by the Board as appropriate; and
- the Investment Adviser and the service providers notify the Board of any changes in accounting standards which may impact the Company's significant accounting policies or any other statutory requirements which may subsequently impact the financial statements.

The Company does not have a separate internal audit function as it is not deemed appropriate given the structure of the Company, although this is reviewed annually by the Audit Committee.

## Principles and processes

The Company adopts a set of core values and controls, which include:

- a planning framework which incorporates a Board-approved medium-term strategy;
- formal business and operating risk reviews which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas;
- the setting of control, mitigation and monitoring procedures and the review of actual occurrences, identifying lessons to be learned;
- a comprehensive system of financial reporting to the Board, based on an annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance measures and regular reforecasting;
- regular treasury reports to the Board, which analyse the funding requirements, track the generation and use of capital and the volume of liquidity and record the level of compliance with the Company's funding objectives;
- well defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures, incorporating appropriate levels of authority and regular post-investment reviews; and
- an Audit Committee which considers significant control matters and receives relevant reports from key service providers' compliance, control or internal audit functions.

# Report of the Audit Committee

## Matters reviewed in the year

During the year, the Audit Committee undertook its responsibilities in accordance with its Terms of Reference, as detailed on the Company's website. The principal matters reviewed by the Committee during the year are described below.

### Adoption of IFRS 10, IFRS 12, IAS 27 and the Investment Entities Amendments

During the year the Committee considered the impact to the Annual report and accounts – including the Financial statements and Notes to the Financial statements – of the early adoption of the Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27 ("the Amendments"). As part of that review the Committee considered:

- the criteria assessed by the Directors to conclude that the Company meets the definition of an Investment Entity;
- any other entities within the Group which qualify as Investment Entities;
- the impact to the Financial statements and Notes to the Financial statements of the early adoption of the Amendments demonstrated by a report from the Investment Adviser which provided examples and a reconciliation of changes to restated historical financial information;
- the process undertaken to restate the prior year comparatives; and
- a review, on a line-by-line basis, of disclosures used in the prior year financial statements and the Investment Basis to ensure consistency of reporting.

As a result, the Committee recommended to the Board that: (i) the Company early adopt the Amendments and (ii) the Company would no longer need to prepare supplementary financial information (ie the Investment Basis reporting) as the Group's net asset value and total return reported under the new standard aligns to the Investment Basis.

The Committee's review also concluded that through the adoption of the Amendments, some of the individual line items within the Company's Financial statements are not fully aligned to the way the Board reviews the performance and valuation of the portfolio investments. Therefore, in order for the Annual report and accounts to be fair and balanced and consistent with prior years, that the Financial and Portfolio reviews include information on the underlying source of income from, and valuation of, the portfolio in line with the measures the Board uses to review the performance of the Company, including details of reconciling items where necessary.

### Financial reporting

The Committee considered the requirements of the UK Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 with which it is complying voluntarily, in line with best practice reporting. The Committee specifically reviewed the Annual report and accounts to conclude whether the financial reporting is fair, balanced, understandable, comprehensive and consistent with (i) prior year reporting and (ii) how the Board assesses the performance of the Company's business during the financial year, as required for companies with a Premium Listing under the UK Corporate Governance Code. As part of this review, the Committee considered if the Annual report and accounts provided the information necessary to shareholders to assess the Company's performance, strategy and business model and reviewed the description of the Company's Key Performance Indicators.

The Committee presented its conclusions to the Board and advised the Board that it considered the Annual report and accounts and Financial statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

In addition to the above matters, the Committee's work was focused on the following areas:

- reviewing the effectiveness of the internal control environment of the Company and the Company's compliance with its regulatory requirements;
- reviewing and recommending to the Board significant accounting matters and the accounting disclosures in the half yearly and annual Financial statements of the Company, including matters of judgment in relation to infrastructure asset valuation. This year, the areas examined included: the level of discounts applied in valuation models, with a particular focus on those used for Elgin and Elenia, where changes were proposed; and the valuation of Indian assets in the light of the significant macroeconomic and asset-specific challenges that they face. The Committee discussed these matters with the Investment Adviser and the auditor, including the auditor's infrastructure valuation specialist;
- overseeing the Company's relations with its external auditors, including assessing the conduct and effectiveness of the audit process and the auditor's independence and objectivity, considering a report on the auditor's conduct of the Group's 2013 audit issued by the Audit Quality Review team of the FRC, recommending the auditor's reappointment and approving the auditor's fees;
- reviewing the Company's compliance with its regulatory obligations in Jersey, including a review of compliance with the Codes of Practice for Certified Funds; and
- reviewing the impact of international initiatives such as the EU Alternative Investment Fund Management Directive and US Foreign Account Tax Compliance Act and the UK variant thereof applicable to Jersey.

The Committee reported to the Board on how it has discharged its responsibilities and reported to the Board the key matters arising at each meeting. All recommendations were accepted by the Board.

## External audit

The Audit Committee reviewed the effectiveness of the external audit process during the year, considering performance, objectivity, independence and relevant experience, and concluded that Ernst & Young LLP's appointment as the Company's auditors should be continued. In structuring its review, the Committee used a practical framework based on a guide issued by the Institute of Chartered Accountants of Scotland. Ernst & Young LLP have been the Company's auditors since inception in 2007 and the audit has not been re-tendered. In reaching this conclusion, the Directors noted that the Company continues to benefit from the insight and knowledge that its auditors have of the Investment Adviser's processes and controls in relation to the Company.

The Audit Committee monitors the Company's policy for non-audit services to ensure that the provision of such services by the external auditor does not impair the auditors' independence or objectivity. In order to safeguard auditor objectivity and independence, the chairman of the Audit Committee is required to approve in advance all non-audit work undertaken, for the Company and its subsidiaries, by the auditors and as a general rule the auditor will not be engaged on investment-related work. However, exceptions to this may be permitted if (i) the Company is acting in a consortium, (ii) the audit firm is considered a specialist in the sector, or (iii) the auditor is best placed to undertake the work through its knowledge of the Company's financial systems, procedures and internal controls.

Ernst & Young LLP provided non-audit services for fees totalling £5,000 for the year to 31 March 2014 (2013: £17,000). This related to an advisory and performance fee review. In previous years, and in line with the Company's policy, Ernst & Young LLP provided non-audit services to support the transaction activity conducted by the Group during the year in relation to certain investee companies. The fees for these services are generally borne by the underlying investee companies or unconsolidated subsidiaries, and therefore are not included in the expenses of the Group.

### Steven Wilderspin

Chairman, Audit Committee  
8 May 2014

# Report of the Remuneration Committee

## Remuneration policy

The remuneration of each of the Directors is subject to fixed fee arrangements and none of the Directors received any additional remuneration or incentives in respect of his or her services as a Director of the Company. During the financial year to 31 March 2014, the Directors who served during that period were due the following:

	Amount paid in the year ending 31 March 2014 (£)	Amount paid in the year ending 31 March 2013 (£)
Directors' fees		
Peter Sedgwick	140,000	140,000
Philip Austin	53,000	53,000
Sir John Collins	45,000	45,000
Ben Loomes <sup>1</sup>	30,473	–
Paul Masterton	47,126	–
Florence Pierre	15,095	55,000
Paul Waller <sup>1</sup>	11,527	42,000
Steven Wilderspin	55,000	55,000

1 Paul Waller's and Ben Loomes' remuneration was paid directly to 3i Group plc for making available their services.

Directors' fees are calculated on the following basis:

	Annual fee for years to 31 March 2013 and 2014 (£)
Directors' fees	
Chairman's fee	140,000
Non-executive Director base fee	42,000
Additional fee for the Senior Independent Director	5,000
Additional fee for the Audit Committee Chairman	10,000
Additional fee for Audit Committee members	3,000
Additional fee for Directors resident in Jersey	3,000

Note: The Company would pay an additional £10,000 to any non-UK and non-Channel Islands Director to reflect the additional time spent travelling to Board meetings.

## Remuneration review

During the year, the Remuneration Committee considered the remuneration of Directors. There have been no increases in Directors' remuneration since October 2011. In October 2013, the Remuneration Committee appointed Kepler Associates Partnership LLP ("Kepler"), an independent board remuneration specialist, to review the fees of the Chairman, Senior Independent Director and other non-executive Directors. The fee paid for this review was £4,000. The Kepler review looked at remuneration of Boards for similar sized companies or those in similar industries or sectors, taking account of the activities and time commitment of the various roles of the Board and Committee members and chairmen.

Following this review, the Remuneration Committee is not proposing any changes to Directors' fees except for an increase to the additional fee paid to the Senior Independent Director from £5,000 per annum to £7,000 per annum. This reflects the increase in activity for the Senior Independent Director in various areas, including, in the year under review, supporting the Chairman in the revisions to the Investment Advisory Agreement.

This change will be voluntarily submitted to shareholders for approval at the Company's AGM prior to implementation.



## Financials and other information

# Independent auditor's report to the members of 3i Infrastructure plc

We have audited the financial statements of 3i Infrastructure plc for the year ended 31 March 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Significant Accounting Policies and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Article 113A the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

## Our assessment of risks of material misstatement

We identified the following risks as having the greatest effect on our overall Group audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- valuation of the Group's investments;
- ownership of the Group's investments;
- calculation of the advisory and performance fees; and
- material acquisitions or disposals of investments.

## Our application of materiality

We apply the concept of materiality to the individual account or balance level through our determination of performance materiality, which is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We determined materiality for the Group to be £11.1 million, which is 1% of total equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment is that overall performance materiality for the Group is 50% of materiality, namely £5.6 million. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in the financial statements did not exceed our materiality level.

We have reported to the Audit Committee all audit differences in excess of £0.6m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

The Group consists of the Company, its 5 wholly owned subsidiaries, 5 majority owned subsidiaries and 5 limited partnerships, which are all subject to a full scope audit by the Group audit team.

Our principal responses to the risks identified above included;

- with the assistance of our valuation experts, we assessed the appropriateness of the valuation techniques used to value the investments. We challenged the discount rates applied to the cash flows used to value each asset and performed a benchmarking analysis to verify that the rates were within an appropriate range. We obtained evidence to corroborate the significant inputs used in the valuation models;
- we obtained independent confirmation from the underlying investee companies of the Group's shareholding in each investment and agreed them to the books and records of the Group;
- we recalculated the advisory and performance fees earned in accordance with the investment advisory agreement; and
- we obtained the contractual agreements to support the Group's most significant acquisition investment in Cross London Trains and ensured that the acquisition was accounted for in accordance with IFRS.

# Independent auditor's report to the members of 3i Infrastructure plc

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the part of the Corporate Governance Statement relating to the Group's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

**Geraint Davies**  
**for and on behalf of Ernst & Young LLP**

Jersey, Channel Islands  
8 May 2014

1 The maintenance and integrity of the 3i Infrastructure plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated statement of comprehensive income

For the year to 31 March

	Notes	Year to 31 March 2014 £m	Year to 31 March 2013 restated* £m
Realised gains over fair value on the disposal of investments		2.0	2.5
Net gains on investments at fair value through profit or loss	7	7.8	43.1
		9.8	45.6
Portfolio income			
Investment income		71.5	62.2
Fees payable on investment activities		(2.0)	(0.7)
Fees receivable on investment activities		1.1	–
Interest receivable		0.4	0.7
<b>Investment return</b>		<b>80.8</b>	107.8
Advisory, performance and management fees payable	2	(9.6)	(10.6)
Operating expenses	3	(2.2)	(2.1)
Finance costs	4	(3.1)	(2.9)
Unrealised gains/(losses) on the fair value of derivative financial instruments	5	4.9	(3.9)
Net realised gains over fair value on the settlement of derivative financial instruments	5	–	0.6
Other income		0.2	0.2
<b>Profit before tax</b>		<b>71.0</b>	89.1
Income taxes	6	–	–
<b>Profit after tax and profit for the year</b>		<b>71.0</b>	89.1
<b>Total comprehensive income for the year</b>		<b>71.0</b>	89.1
Attributable to:			
Equity holders of the Company		71.0	89.1
<b>Earnings per share</b>			
Basic and diluted (pence)	14	8.1	10.1

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

# Consolidated statement of changes in equity

For the year to 31 March

	Stated capital account £m	Retained reserves £m	Translation reserve £m	Total shareholders' equity £m	Non- controlling interests £m	Total equity £m
<b>For the year to 31 March 2014</b>						
Opening balance at 1 April 2013 as previously reported	181.6	882.8	45.6	1,110.0	137.7	1,247.7
Impact of change in accounting policy	–	38.9	(45.6)	(6.7)	(137.7)	(144.4)
Restated balance at 1 April 2013*	181.6	921.7	–	1,103.3	–	1,103.3
Total comprehensive income for the year	–	71.0	–	71.0	–	71.0
Dividends payable to shareholders of the Company during the year	–	(60.5)	–	(60.5)	–	(60.5)
<b>Closing balance at 31 March 2014</b>	<b>181.6</b>	<b>932.2</b>	<b>–</b>	<b>1,113.8</b>	<b>–</b>	<b>1,113.8</b>
<b>For the year to 31 March 2013</b>						
Opening balance at 1 April 2012 as previously reported	181.6	855.0	33.5	1,070.1	127.2	1,197.3
Impact of change in accounting policy	–	30.0	(33.5)	(3.5)	(127.2)	(130.7)
Restated balance at 1 April 2012*	181.6	885.0	–	1,066.6	–	1,066.6
Total comprehensive income for the year, as restated*	–	89.1	–	89.1	–	89.1
Dividends payable to shareholders of the Company during the year	–	(52.4)	–	(52.4)	–	(52.4)
<b>Restated closing balance at 31 March 2013*</b>	<b>181.6</b>	<b>921.7</b>	<b>–</b>	<b>1,103.3</b>	<b>–</b>	<b>1,103.3</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

# Consolidated balance sheet

As at 31 March

	Notes	31 March 2014 £m	31 March 2013 restated* £m	1 April 2012 restated* £m
<b>Assets</b>				
<b>Non-current assets</b>				
Investments at fair value through profit or loss	7	996.6	928.9	906.4
<b>Investment portfolio</b>		<b>996.6</b>	<b>928.9</b>	<b>906.4</b>
Derivative financial instruments	10	2.5	1.4	1.8
<b>Total non-current assets</b>		<b>999.1</b>	<b>930.3</b>	<b>908.2</b>
<b>Current assets</b>				
Trade and other receivables	8	12.7	12.4	4.0
Derivative financial instruments	10	2.3	0.3	0.9
Other financial assets	16	13.1	–	–
Cash and cash equivalents		90.7	175.8	157.0
<b>Total current assets</b>		<b>118.8</b>	<b>188.5</b>	<b>161.9</b>
<b>Total assets</b>		<b>1,117.9</b>	<b>1,118.8</b>	<b>1,070.1</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Derivative financial instruments	10	(2.1)	(3.7)	(0.6)
<b>Total non-current liabilities</b>		<b>(2.1)</b>	<b>(3.7)</b>	<b>(0.6)</b>
<b>Current liabilities</b>				
Trade and other payables	12	(1.9)	(11.3)	(2.2)
Derivative financial instruments	10	(0.1)	(0.5)	(0.7)
<b>Total current liabilities</b>		<b>(2.0)</b>	<b>(11.8)</b>	<b>(2.9)</b>
<b>Total liabilities</b>		<b>(4.1)</b>	<b>(15.5)</b>	<b>(3.5)</b>
<b>Net assets</b>		<b>1,113.8</b>	<b>1,103.3</b>	<b>1,066.6</b>
<b>Equity</b>				
Stated capital account		181.6	181.6	181.6
Retained reserves		932.2	921.7	885.0
<b>Total equity attributable to equity holders of the Company</b>		<b>1,113.8</b>	<b>1,103.3</b>	<b>1,066.6</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

**Directors**  
8 May 2014

# Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2014 £m	Year to 31 March 2013 restated* £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(67.8)	(16.8)
Investment in other financial assets	(13.1)	–
Proceeds from partial realisations of investments	25.2	19.7
Proceeds from full realisations of investments	–	21.6
Investment income	56.5	53.1
Fees received on investment activities	1.1	–
Fees paid on investment activities	(1.0)	(1.2)
Operating expenses paid	(2.3)	(2.1)
Interest received	0.4	0.7
Advisory, performance and management fees paid	(10.9)	(9.3)
Carried interest paid	(1.4)	–
Temporary loan (repaid to)/extended from unconsolidated subsidiaries	(7.2)	6.8
Other income received	0.2	0.2
<b>Net cash flow from operations</b>	<b>(20.3)</b>	<b>72.7</b>
<b>Cash flow from financing activities</b>		
Amounts received on the settlement of derivative contracts	0.5	1.9
Amounts paid on the settlement of derivative contracts	(0.7)	(1.2)
Fees paid on financing activities	(4.1)	(2.2)
Dividends paid	(60.5)	(52.4)
<b>Net cash flow from financing activities</b>	<b>(64.8)</b>	<b>(53.9)</b>
<b>Change in cash and cash equivalents</b>	<b>(85.1)</b>	<b>18.8</b>
Cash and cash equivalents at the beginning of the year	175.8	157.0
Effect of exchange rate movement	–	–
<b>Cash and cash equivalents at the end of the year</b>	<b>90.7</b>	<b>175.8</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

# Significant accounting policies

## Corporate information

3i Infrastructure plc (the "Company") is a company incorporated in Jersey, Channel Islands. The consolidated financial statements for the year to 31 March 2014 comprise the financial statements of the Company and its consolidated subsidiaries as defined in IFRS 10 Consolidated Financial Statements (together referred to as the "Group"). The Companies (Jersey) Law 1991 does not require the directors of a company to present separate financial statements where consolidated financial statements are presented and therefore the financial results and position of the Company are not presented alongside the consolidated financial statements of the Group.

The financial statements were authorised for issue by the Directors on 8 May 2014.

## Statement of compliance

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

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

## Basis of preparation

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

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

## Basis of consolidation

The Group has early adopted IFRS 10 'Consolidated Financial Statements', including the Amendments, 'Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)' (Investment Entity Amendments). The Amendments require entities that meet the definition of an investment entity to fair value certain subsidiaries through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement, rather than consolidate their results. However, those entities that are not themselves investment entities and provide investment related services to the Company will continue to be consolidated.

## Key estimates and judgments

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

**(i) Assessment as investment entity** – Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. To determine that the Company meets the definition of an

investment entity, the Company is required to meet the following three essential criteria:

- (a) the Company obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) the Company commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the criteria as follows:

- the Company provides investment management services and has several investors who pool their funds to gain access to these services and investment opportunities that they might not have had access to individually. An investment in infrastructure businesses would not be considered generally available to individual investors, due to the high capital costs and complexity of transaction execution. The Company, being listed on the Main Market of the London Stock Exchange, obtains funding from a diverse group of external shareholders;
- an investment entity should invest funds solely for returns from capital appreciation, investment income, or both. The Group's annual accounts state that the strategy of the Company is to deliver stable returns to shareholders through a mixture of income yield and capital appreciation; and
- the Company has elected to measure and evaluate the performance of all of its investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations, as well as the IPO and Placing and Open Offer prospectuses. In addition, the Company reports fair value information internally to Directors, who use fair value as the primary measurement attribute to evaluate the performance of all of its investments and to make investment decisions.

The Directors are of the opinion that the Company has all the typical characteristics of an investment entity and meets the definition in the standard. This conclusion will be reassessed on an annual basis, if any of these criteria or characteristics change.

**(ii) Assessment of investments as structured entities** – The Directors have assessed whether the entities in which the Group invests should be classified as structured entities and have concluded that none of the entities should be classified as structured entities as voting rights are the dominant factor in deciding who controls these entities.

**(iii) Assessment of control** – The Group holds significant stakes in the majority of its investee companies. The Group must exercise judgment in the level of control of the underlying investee company that is obtained and consider the need to classify certain investee companies as associates, joint ventures or subsidiary undertakings.

**(iv) Valuation of the investment portfolio** – The adoption of certain accounting policies by the Group also requires the use of certain critical accounting estimates in determining the information to be disclosed in the financial statements.

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

The majority of assets in the investment portfolio are valued on a discounted cash flow basis which requires assumptions to be made regarding future cash flows and the discount rate to be applied to

# Significant accounting policies

these cash flows. Refer to Note 7 for further details of the valuation techniques, significant inputs to those techniques and sensitivity of the fair value of these investments to the assumptions that have been made.

## New standards adopted for the current year

The accounting policies adopted in the current year are consistent with those of the previous year, except that the Group has adopted IFRS 13 Fair Value Measurement, and has early adopted the following new and revised accounting standards:

IFRS 10 Consolidated Financial Statements including Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Separate Financial Statements (revised)

IAS 28 Investments in Associates and Joint Ventures (revised)

Of these standards, only IFRS 10 (including the investment entities amendments) has made a significant impact to the financial performance and position of the Group as its adoption requires the restatement of results previously presented.

IFRS 12 and IFRS 13 require additional disclosures to be made, but have no effect on the financial position or performance of the Group. The adoption of IFRS 11, IAS 27 (revised) and IAS 28 (revised) has not had a material impact on the financial statements.

## Standards issued but not yet effective

As at 31 March 2014, the following new or amended standards, which have not been applied in these financial statements, had been issued by the International Accounting Standards Board (IASB).

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

IAS 32 (Amendment) Offsetting Financial Assets and Financial Liabilities (effective for accounting periods commencing on or after 1 January 2014).

IAS 36 (Amendment) Recoverable amount disclosures for non-financial assets (effective for accounting periods commencing on or after 1 January 2014).

IAS 39 (Amendment) Novation of derivatives and continuation of hedge accounting (effective for accounting periods commencing on or after 1 January 2014).

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

## IFRS 10 Consolidated Financial Statements and Investment Entities Amendments

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. In addition, IFRS 10 includes an exception from consolidation for entities which meet the definition of an investment entity and requires such entities to recognise all investments at fair value through profit or loss. The Company meets the definition of an investment entity and, therefore, subsidiaries are recognised at fair value through profit or loss, unless those subsidiaries perform investment-related services. This has changed the treatment for the Company's investment in a number of subsidiary entities which were previously consolidated.

The adoption of IFRS 10 has not resulted in the Company treating any of its investments that were previously treated as an investment in associate as an investment in subsidiary.

Under the transitional provisions of IFRS 10, this change in accounting policy is required to be accounted for retrospectively. Therefore, the relevant comparative figures have been restated.

The impact of adopting Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) is the deconsolidation of assets, liabilities, income and expenses of the subsidiary entities which were previously consolidated on a line-by-line basis. The intermediate holding companies are now held at fair value and no longer consolidated.

The total fair value as at 1 April 2012 of the subsidiaries that ceased to be consolidated was £749.4 million. The previous carrying value of these subsidiaries was £880.1 million. The difference of £130.7 million being attributable to the non-controlling interests (£127.2 million) with the remaining £3.5 million attributable to equity holders of the parent which has been shown through reserves.

The most significant differences resulting from adopting the standards can be summarised as follows:

	As at 31 March 2013 £m	Impact of change in accounting policy £m	Restated 31 March 2013 £m
<b>Consolidated Balance Sheet</b>			
Investment portfolio	1,222.6	(293.7)	928.9
Derivative financial instruments	(12.1)	9.6	(2.5)
Trade and other receivables	18.9	(6.5)	12.4
Cash and cash equivalents	185.3	(9.5)	175.8
Loans and borrowings	(160.6)	160.6	–
Trade and other payables	(6.4)	(4.9)	(11.3)
<b>Net assets</b>	<b>1,247.7</b>	<b>(144.4)</b>	<b>1,103.3</b>
Stated capital account	181.6	–	181.6
Retained reserves	882.8	38.9	921.7
Translation reserve	45.6	(45.6)	–
<b>Total equity attributable to equity holders of the parent</b>	<b>1,110.0</b>	<b>(6.7)</b>	<b>1,103.3</b>
Non-controlling interests	137.7	(137.7)	–
<b>Total equity</b>	<b>1,247.7</b>	<b>(144.4)</b>	<b>1,103.3</b>
	As at 31 March 2013 £m	Impact of change in accounting policy £m	Restated 31 March 2013 £m
<b>Consolidated Statement of Comprehensive Income</b>			
Realised gains/(losses) over fair value on the disposal of investments	2.7	(0.2)	2.5
Net gains on investments at fair value through profit or loss	34.4	8.7	43.1
Investment income	98.4	(36.2)	62.2
Fees (payable)/receivable on investment activities	(0.7)	–	(0.7)
Interest receivable	0.7	–	0.7
Advisory, performance and management fees payable	(15.5)	4.9	(10.6)
Operating expenses	(2.3)	0.2	(2.1)
Finance costs	(17.8)	14.9	(2.9)
Unrealised gains/(losses) on the fair value of derivative financial instruments	0.1	(4.0)	(3.9)
Net realised (losses)/gains over fair value on the settlement of derivative financial instruments	(0.4)	1.0	0.6
Other (expenses)/income	(0.3)	0.5	0.2
Tax	(0.1)	0.1	–
Exchange gains/(losses) on translation of foreign operations	12.6	(12.6)	–
Non-controlling interests	(19.5)	19.5	–
<b>Total comprehensive income attributable to equity holders of the parent</b>	<b>92.3</b>	<b>(3.2)</b>	<b>89.1</b>
<b>Earnings per share</b>	<b>9.1</b>	<b>1.0</b>	<b>10.1</b>

The overall impact on profit for the year attributable to equity holders of the parent was an increase of £8.9 million as foreign exchange gains are now included within fair value movement rather than in other comprehensive income.

Prior to the adoption of the Investment Entities Amendments, the Company consolidated on a line-by-line basis its two majority owned entities: 3i Osprey LP (68.5% ownership) and 3i Networks Finland LP (87.3% ownership), the vehicles through which it holds investments in AWG and Elenia respectively. The remaining portions of these entities are held by other third parties. The adoption of the Investment Entities Amendments requires the Company's investment in these entities to be held at fair value through profit or loss; this has the effect of eliminating the non-controlling interest entitlement shown in the statement of comprehensive income and the balance sheet. In addition, the presentation of the accounts will be different as any cash and other assets or liabilities within these entities will be held in "Investments at fair value through profit or loss" in the Consolidated balance sheet rather than consolidated on a line-by-line basis. Similarly, the recognition of income for the Company will depend on the nature of income distribution from 3i Osprey LP and 3i Networks Finland LP and will not be determined by the underlying income distribution from AWG and Elenia.

The Company has a wholly-owned subsidiary, Oystercatcher Luxco 2 S.à r.l. ("Oystercatcher") which is used to fund the minority investment into three subsidiaries of Oiltanking GmbH. External borrowings were obtained by Oystercatcher to partly fund the investments. These borrowings are non-recourse to the Company. Prior to the adoption of the Investment Entities Amendments, the Company consolidated Oystercatcher on a line-by-line basis. The adoption of the Investment Entities Amendments requires that Oystercatcher is accounted for as an investment at fair value through profit or loss. As a result the borrowings will be included within "Investments at fair value through profit or loss" in the Consolidated balance sheet rather than consolidated on a line-by-line basis.

# Significant accounting policies

In addition the Company has a number of wholly owned intermediate holding company subsidiaries which were previously consolidated on a line-by-line basis. As a result of adopting the Investment Entities Amendments cash and other assets/liabilities held in these subsidiaries, which can be transferred to the Company with no significant restrictions, are disclosed within "Investments at fair value through profit or loss" and are not consolidated within the relevant financial statement line item.

Following the adoption of the Investment Entities Amendments, the Net Asset Value and Total Return of the Group approximate the results previously presented as the Investment basis in the Annual report and accounts 2013. However, there is considerable disparity between the two bases of preparation in the way the individual line items are presented in the primary statements.

## A Classification

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

**(ii) Associates** – Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28, Investment in Associates, which allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the year.

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

**(iv) Transactions eliminated on consolidation** – Intragroup balances between the Company and the consolidated subsidiary; 3i Infrastructure Seed Assets GP Limited, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. There will be no elimination with subsidiaries held at fair value.

## B Exchange differences

**Foreign currency transactions** – Transactions entered into by the Group in a currency other than its functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated to the functional currency at the exchange rate ruling at the balance sheet date. Foreign exchange

differences arising on translation to the functional currency are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency using exchange rates ruling at the date the fair value was determined.

## C Investment portfolio

**Recognition and measurement** – Investments are recognised and derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and obtaining capital appreciation from changes in the fair value of investments. Therefore, all quoted investments and unquoted investments are designated as at fair value through profit or loss upon initial recognition and subsequently carried in the balance sheet at fair value. All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying the Group's valuation policy. Acquisition costs are attributed to equity investments and recognised in the statement of comprehensive income.

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

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

## Income

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

Investment income relates to returns from investments in the Portfolio, excluding fair value movement on the value of the Portfolio.

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

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

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

## D Fees

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

(ii) **Advisory fee** – An annual advisory fee is payable to 3i plc based on the Gross Investment Value of the Group. The fee is payable quarterly in advance and is accrued in the period it is incurred. Further explanations are provided in Note 18.

(iii) **Performance fee** – 3i plc is entitled to a performance fee based on the Adjusted Total Return per ordinary share generated in the period in excess of a performance hurdle. The fee is payable annually in arrears and is accrued in the period it is incurred. Further explanations are provided in Note 18.

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

## E Treasury assets and liabilities

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

(i) **Cash and cash equivalents** – Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above. Interest receivable on cash and cash equivalents is recognised on an accruals basis.

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

(iii) **Other financial assets** – Other financial assets in the balance sheet comprise cash held on deposit in a third party bank account on behalf of the Mersey Gateway project. The Company retains the right to replace this cash deposit for a letter of credit of the equivalent amount.

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

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

sterling using the exchange rates in force at the date of disposal; and are recognised in the statement of comprehensive income.

## F Other assets

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

## G Other liabilities

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

## H Equity and reserves

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

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

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

## I Income taxes

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

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

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

# Notes to the accounts

## 1 Segmental analysis

The Directors review information on a regular basis that is analysed by geography. 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 generated 61% (2013 restated\*: 62%) of its investment income in the year from investments held in the UK and Ireland and 39% (2013 restated\*: 38%) of investment income from investments held in continental Europe. During the year, the Group generated income from its investments in Elenia of £23.2 million (2013 restated\*: £19.1 million), Eversholt of £17.9 million (2013 restated\*: £17.8 million), AWG of £15.6 million (2013 restated\*: £13.3 million) and Oiltanking of £4.2 million (2013 restated\*: £4.3 million), which represents 33% (2013 restated\*: 31%), 25% (2013 restated\*: 29%), 22% (2013 restated\*: 21%) and 6% (2013 restated\*: 7%), respectively of the total investment income. There was no other income entitlement during the year (or in the comparative year) that represented more than 10% of portfolio income. Given the nature of the Group's operations, the Group is not considered to be exposed to any operational seasonality or cyclicalities that would impact the financial results of the Group during the year or the financial position of the Group at 31 March 2014.

	UK and Ireland <sup>1</sup> £m	Continental Europe <sup>2</sup> £m	Asia £m	Total £m
<b>For the year to 31 March 2014</b>				
<b>Investment return</b>				
Realised gains over fair value on the disposal of investments	–	2.0	–	2.0
Net movement on investments at fair value through profit or loss	39.7	(7.0)	(24.9)	7.8
Investment income	44.0	27.5	–	71.5
Net fees payable on investment activities	(0.9)	–	–	(0.9)
Interest receivable	0.4	–	–	0.4
<b>Investment return/(loss)</b>	<b>83.2</b>	<b>22.5</b>	<b>(24.9)</b>	<b>80.8</b>
Finance costs	(3.1)	–	–	(3.1)
Other net expenses	(6.7)	–	–	(6.7)
<b>Profit/(loss) before tax</b>	<b>73.4</b>	<b>22.5</b>	<b>(24.9)</b>	<b>71.0</b>
<b>As at 31 March 2014</b>				
<b>Balance sheet</b>				
Investments at fair value through profit or loss	563.8	358.3	74.5	996.6
Cash and cash equivalents	90.7	–	–	90.7
Other financial assets	13.1	–	–	13.1
Derivative financial instruments	4.7	–	–	4.7
Other assets	5.6	7.1	–	12.7
<b>Assets</b>	<b>677.9</b>	<b>365.4</b>	<b>74.5</b>	<b>1,117.8</b>
Derivative financial instruments	(2.1)	–	–	(2.1)
Other liabilities	(1.9)	–	–	(1.9)
<b>Liabilities</b>	<b>(4.0)</b>	<b>–</b>	<b>–</b>	<b>(4.0)</b>
<b>Net assets</b>	<b>673.9</b>	<b>365.4</b>	<b>74.5</b>	<b>1,113.8</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

1 Including Channel Islands.

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

## 1 Segmental analysis continued

	UK and Ireland <sup>1</sup> £m	Continental Europe <sup>2</sup> £m	Asia £m	Total £m
<b>For the year to 31 March 2013 restated*</b>				
<b>Investment return</b>				
Realised gains over fair value on the disposal of investments	2.5	–	–	2.5
Net movement on investments at fair value through profit or loss	28.7	34.5	(20.1)	43.1
Investment income	38.8	23.4	–	62.2
Net fees payable on investment activities	(0.7)	–	–	(0.7)
Interest receivable	0.7	–	–	0.7
<b>Investment return/(loss)</b>	<b>70.0</b>	<b>57.9</b>	<b>(20.1)</b>	<b>107.8</b>
Finance costs	(2.9)	–	–	(2.9)
Other net expenses	(15.8)	–	–	(15.8)
<b>Profit/(loss) before tax</b>	<b>51.3</b>	<b>57.9</b>	<b>(20.1)</b>	<b>89.1</b>
<b>As at 31 March 2013 restated*</b>				
<b>Balance sheet</b>				
Investments at fair value through profit or loss	473.2	356.2	99.5	928.9
Cash and cash equivalents	175.8	–	–	175.8
Derivative financial instruments	1.7	–	–	1.7
Other assets	12.4	–	–	12.4
<b>Assets</b>	<b>663.1</b>	<b>356.2</b>	<b>99.5</b>	<b>1,118.8</b>
Derivative financial instruments	(4.2)	–	–	(4.2)
Other liabilities	(11.3)	–	–	(11.3)
<b>Liabilities</b>	<b>(15.5)</b>	<b>–</b>	<b>–</b>	<b>(15.5)</b>
<b>Net assets</b>	<b>647.6</b>	<b>356.2</b>	<b>99.5</b>	<b>1,103.3</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

1 Including Channel Islands.

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

## 2 Advisory, performance and management fees payable

	<b>Year to 31 March 2014 £m</b>	Year to 31 March 2013 restated* £m
Advisory fee paid directly from the Company	<b>9.6</b>	9.2
Performance fee	–	1.4
	<b>9.6</b>	10.6

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

Total advisory, performance and management fees paid for the year to 31 March 2014 were £14.0 million (2013: £14.3 million) which includes, in addition to the fees described above, management fees of £4.4 million (2013: £3.7 million) which were paid to 3i Group plc from unconsolidated subsidiary entities. Note 18 provides further details on the calculation of the advisory fee, performance fee and management fee.

# Notes to the accounts

## 3 Operating expenses

Operating expenses include the following amounts:

	Year to 31 March 2014	Year to 31 March 2013 restated*
	£m	£m
Audit fees	0.2	0.2
Directors' fees and expenses	0.4	0.5

In addition to the fees described above, audit fees of £0.05 million (2013: £0.06 million) were paid by unconsolidated subsidiary entities for the year to 31 March 2014.

### Services provided by the Group's auditors

During the year the Group obtained the following services from the Group's auditor, Ernst & Young LLP.

	Year to 31 March 2014	Year to 31 March 2013 restated*
	£m	£m
<b>Audit services</b>		
Statutory audit		
Group	0.19	0.18
UK unconsolidated subsidiaries <sup>1</sup>	0.01	0.02
Overseas unconsolidated subsidiaries <sup>1</sup>	0.04	0.04
	0.24	0.24

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

<sup>1</sup> These amounts were paid from unconsolidated subsidiary entities and do not form part of operating expenses but will be included in the net gain on investments at fair value through profit or loss.

### Non-audit services

Ernst & Young LLP provided non-audit services for fees totalling £5,000 for the year to 31 March 2014 (2013: £17,000). This related to an advisory and performance fee review. In previous years, and in line with the Company's policy, Ernst & Young LLP provided non-audit services to support the transaction activity conducted by the Group during the year in relation to certain investee companies. The fees for these services are generally borne by the underlying investee companies or unconsolidated subsidiaries, and therefore are not included in the expenses of the Group. The Company's policy for engaging the auditor for non-audit services is set out on page 60.

## 4 Finance costs

	Year to 31 March 2014	Year to 31 March 2013 restated*
	£m	£m
Interest payable on loans and borrowings	2.0	2.2
Professional fees payable associated with the arrangement of debt financing	1.1	0.7
	3.1	2.9

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

## 5 Movements in the fair value of derivative instruments

	Year to 31 March 2014	Year to 31 March 2013 restated*
	£m	£m
Unrealised gains/(losses) on the fair value of forward foreign exchange contracts	4.9	(3.9)
Net realised gains over fair value on the settlement of forward foreign exchange contracts	–	0.6
	4.9	(3.3)

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

## 6 Income taxes

	Year to 31 March 2014 £m	Year to 31 March 2013 restated* £m
Current year charge	–	–

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

Profits arising from the operations of the Company are subject to tax at the standard rate in Jersey of 0% (2013: 0%). Unconsolidated subsidiaries of the Company have provided for taxation at the appropriate rates that are applicable in the countries in which each subsidiary operates. The returns of these subsidiaries are largely not subject to tax, in each of these relevant countries.

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

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

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

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

At 31 March 2014, the Group held the following classes of financial instruments that are measured at fair value. For all other assets and liabilities their carrying value approximates to fair value. During the year ended 31 March 2014, there were no transfers of financial instruments between Levels of the fair value hierarchy (2013: none). There were no non-recurring fair value measurements.

### Financial instruments classification

	As at 31 March 2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Investments at fair value through profit or loss	–	–	996.6	996.6
Derivative financial instruments	–	4.8	–	4.8
	–	4.8	996.6	1,001.4
<b>Financial liabilities</b>				
Derivative financial instruments	–	(2.2)	–	(2.2)
	As at 31 March 2013 restated*			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Investments at fair value through profit or loss	–	–	928.9	928.9
Derivative financial instruments	–	1.7	–	1.7
	–	1.7	928.9	930.6
<b>Financial liabilities</b>				
Derivative financial instruments	–	(4.2)	–	(4.2)

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

# Notes to the accounts

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

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

	As at 31 March 2014 £m
<b>Level 3 fair value reconciliation</b>	
Opening fair value	928.9
Additions	83.4
Disposals and repayment	(23.5)
Fair value movement (including exchange movements)	7.8
<b>Closing fair value</b>	<b>996.6</b>
	As at 31 March 2013 restated* £m
<b>Level 3 fair value reconciliation</b>	
Opening fair value	906.4
Additions	16.8
Disposals and repayment	(37.4)
Fair value movement (including exchange movements)	43.1
<b>Closing fair value</b>	<b>928.9</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

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

The holding period of the 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.

#### Unquoted investments

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

The Group's policy is to fair value both the equity and debt investments in infrastructure assets together where they will be managed and valued as a single investment, were invested at the same time and cannot be realised separately. For the year to 31 March 2014, the fair value of unquoted investments was £980.4 million (2013 restated\*: £907.1 million). Individual portfolio asset valuations are shown within the Portfolio summary on page 20.

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

A discussion of the range of discount rates applied can be found on page 24. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £88.1 million (2013: £80.0 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £106.0 million (2013: £95.3 million).

The majority of assets held within Level 3 have revenues that are linked, partially linked or in some way correlated to inflation. The long-term inflation rate assumptions range from 5.0% (India) to 2.0% (Finland) but with the majority at 2.5% (UK). Changing the inflation rate assumption may result in consequential changes to other assumptions used in the valuation of each asset. The impact of increasing the inflation rate assumption by 1% for the next two years would increase the value of the portfolio by £18.2 million (2013: £18.1 million). Decreasing the inflation rate assumption used in the valuation of each asset by 1% for the next two years would decrease the value of the portfolio by £18.4 million (2013: £19.6 million).

The valuations are sensitive to changes to interest rates, which may result from: (i) unhedged existing borrowings within portfolio companies; (ii) interest rates on uncommitted future borrowings assumed within the asset valuations; and (iii) cash deposits held by portfolio companies. These comprise a wide range of interest rates from short-term deposit rates to longer-term borrowing rates across a broad range of debt products. Increasing the cost of borrowing assumption for unhedged borrowings and any future uncommitted borrowing and the cash deposit rates used in the valuation of each asset by 1% would reduce the value of the portfolio by £44.8 million. Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £43.1 million. This calculation does not take account of any offsetting variances which may be expected to prevail if interest rates changed, the most significant impact would be in the portfolio assets with regulated returns where the future allowed return may also be influenced by the interest rate.

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

### Unlisted managed funds

The Company invests in one externally managed fund, The Dalmore Capital Fund, which is not quoted in an active market. The Company considered the valuation techniques and inputs used in valuing this fund as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the net asset value ("NAV") of this fund may be used as an input into measuring its fair value. In measuring this fair value, the NAV of the fund is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, illiquid nature of the investments and other specific factors of the fund and fund manager. The Company classifies the fair value of this investment as Level 3. For the year to 31 March 2014, the fair value of unlisted managed funds was £15.6 million (2013: £11.6 million). There are no adjustments currently made to the NAV of the fund. A 10% adjustment in the NAV of the fund would result in a £1.6 million (2013: £1.2 million) change in the valuation.

### Intermediate holding companies

The Company invests in a number of intermediate holding companies that are used to hold the unquoted investments, valued as referred to above. All other assets and liabilities of the intermediate holding companies are held either at fair value or a reasonable approximation to fair value. The fair value of these intermediate holding companies therefore approximates to their NAV and the Company classifies the fair value as Level 3. For the year to 31 March 2014, the fair value of these investments was £0.6 million (2013: £10.2 million).

### Over-the-counter derivatives

The Company holds its over-the-counter derivatives at fair value which represents the replacement cost of the instruments at the balance sheet date. This is discussed further in Note 10.

### Valuation process for Level 3 valuations

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

## 8 Trade and other receivables

	Year to 31 March 2014	Year to 31 March 2013 restated*
	£m	£m
Prepayments and accrued income	11.3	12.0
Capitalised finance costs	1.4	0.4
	12.7	12.4

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

The carrying value of the trade and other receivables balance equates to fair value and all balances are expected to be settled within one year.

## 9 Financial risk management

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

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

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

### Capital structure

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

# Notes to the accounts

## 9 Financial risk management continued

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

Capital is allocated for investment in utilities, transportation, primary PPP projects and renewable energy projects across the UK, continental Europe and Asia. As set out in the Group's investment policy, the maximum exposure to any one investment is 20% of gross assets (including cash holdings) at the time of investment.

### Credit risk

The Group is subject to credit risk on its unquoted investments, cash, deposits, derivative contracts and receivables. The maximum exposure to credit risk as a result of counterparty default equates to the current carrying value of these financial assets. Throughout the year and the prior year, the Group's cash and deposits were held with a variety of counterparties, principally in AAA-rated money market funds, as well as in short-term bank deposits with a minimum of a single A credit rating. The counterparties selected for the derivative financial instruments were all banks with a minimum of a single A credit rating. The credit quality of loans and receivables and debt instruments within the investment portfolio is based on the financial performance of the individual portfolio companies. The performance of underlying investments is monitored by the Board to assess future recoverability.

For those assets and income entitlements that are not past due, it is believed that the risk of default is small and capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the investment. If the portfolio company has failed, or is expected to fail in the next 12 months, the Group's policy is to record a fair value adjustment for the full amount of the investment. Fair value adjustments, or "investment impairments", are made when the net present value of the future cash flows predicted to arise from the asset, discounted using the effective interest rate method, implies non-recovery of all or part of the Group's investment. In these cases an investment impairment is recorded equal to the valuation shortfall.

As at 31 March 2014, the Group had no investments subject to impairment (2013: nil). No other assets held by the Group were considered to be impaired. The Company had no loans or receivables or debt investments considered past due (2013: nil).

3i Infrastructure plc actively manages counterparty risk. Counterparty limits are set and closely monitored by the Board and a regular review of counterparties is undertaken by the Investment Adviser and the Board. As at 31 March 2014, the Group did not consider itself to have exposure to one large counterparty and held deposits and derivative contracts with a number of different counterparties to reduce counterparty risk.

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

### Liquidity risk

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

	Payable on demand	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due greater than 5 years	Total
2014	£m	£m	£m	£m	£m	£m
<b>Liabilities</b>						
Loans and borrowings <sup>1</sup>	–	(2.0)	(2.0)	(0.2)	–	(4.2)
Trade and other payables	(1.9)	–	–	–	–	(1.9)
Forward currency contracts	–	(0.1)	–	(2.1)	–	(2.2)
Financial commitments	(25.3)	–	–	–	–	(25.3)
<b>Total undiscounted financial liabilities</b>	<b>(27.2)</b>	<b>(2.1)</b>	<b>(2.0)</b>	<b>(2.3)</b>	<b>–</b>	<b>(33.6)</b>
2013 restated*	£m	£m	£m	£m	£m	£m
<b>Liabilities</b>						
Loans and borrowings <sup>1</sup>	–	(2.0)	(2.0)	(2.2)	–	(6.2)
Trade and other payables	(11.3)	–	–	–	–	(11.3)
Forward currency contracts	–	(0.5)	(0.6)	(3.1)	–	(4.2)
Financial commitments	(28.1)	–	–	–	–	(28.1)
<b>Total undiscounted financial liabilities</b>	<b>(39.4)</b>	<b>(2.5)</b>	<b>(2.6)</b>	<b>(5.3)</b>	<b>–</b>	<b>(49.8)</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

<sup>1</sup> Loans and borrowings relate to undrawn commitment fees payable on the Revolving Credit Facility referred to in Note 11.

All derivatives are settled net. The financial commitment relates to the Company's commitments to the 3i India Infrastructure Fund, the National Military Museum and the Dalmore Capital Fund (Note 16).

The cash flows from financial assets are not used to manage contractual liquidity risk.

## 9 Financial risk management continued

### Market risk

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

#### (i) Interest rate risk

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

An increase or decrease of 250 basis points in interest rates over 12 months (2013: 250 basis points) would lead to an approximate increase or decrease in net assets and to the net profit of the Group of £2.3 million (2013 restated\*: £4.4 million). This exposure relates principally to changes in interest receivable on cash on deposit held at the year end. The average cash balance of the Group during the year was £105.7 million (2013 restated\*: £155.5 million) and the weighted average interest earned was 0.4% (2013 restated\*: 0.5%).

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

#### (ii) Currency risk

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

As at 31 March 2014				
	Sterling £m	Euro £m	US dollar £m	Total £m
<b>Net assets</b>	<b>673.9</b>	<b>365.4</b>	<b>74.5</b>	<b>1,113.8</b>
<b>Sensitivity analysis</b>				
Assuming a 10% appreciation in sterling against the euro and US dollar exchange rates:				
Impact of exchange movements on net profit	33.0	(33.2)	(6.8)	(7.0)
Impact of exchange movements on net assets	33.0	(33.2)	(6.8)	(7.0)
As at 31 March 2013 restated*				
	Sterling £m	Euro £m	US dollar £m	Total £m
<b>Net assets</b>	<b>647.6</b>	<b>356.2</b>	<b>99.5</b>	<b>1,103.3</b>
<b>Sensitivity analysis</b>				
Assuming a 10% appreciation in sterling against the euro and US dollar exchange rates:				
Impact of exchange movements on net profit	30.0	(32.4)	(9.0)	(11.4)
Impact of exchange movements on net assets	30.0	(32.4)	(9.0)	(11.4)

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

The impact of an equivalent depreciation in sterling against the euro and US dollar exchange rates has the inverse impact on net profit and net assets from that shown above. There is an indirect exposure to the rupee through the investment in the 3i India Infrastructure Fund which is denominated in US dollars but it is only the direct exposure that is considered here.

#### (iii) Market price risk

Further information about the management of external market risk and its impact on market price or valuation, which arises principally from unquoted investments, is provided in the Risk section. A 10% increase in the fair value of those investments would have the following direct impact on net profit and net assets.

	As at 31 March 2014	As at 31 March 2013
	Investments at fair value £m	Investments at fair value restated* £m
Increase in net profit	99.7	91.9
Increase in net assets	99.7	91.9

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

# Notes to the accounts

## 9 Financial risk management continued

The impact of a 10% decrease in the fair value of those investments would have the inverse impact on net profit and net assets, from that shown above.

By the nature of the Group's activities, it has large exposures to individual assets that are susceptible to movements in price. However, the Directors have a set investment policy that establishes predefined limits for the exposure of the Group to an individual asset. These limits have not been exceeded at 31 March 2014 (or at 31 March 2013), and hence the Directors do not consider that any of these investments represent a large exposure.

### (iv) Fair values

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

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

## 10 Derivative financial instruments

	As at 31 March 2014 £m	As at 31 March 2013 restated* £m
<b>Non-current assets</b>		
Forward foreign exchange contracts	2.5	1.4
<b>Current assets</b>		
Forward foreign exchange contracts	2.3	0.3
<b>Non-current liabilities</b>		
Forward foreign exchange contracts	(2.1)	(3.7)
<b>Current liabilities</b>		
Forward foreign exchange contracts	(0.1)	(0.5)

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

### Forward foreign exchange contracts

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

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates. The fair value of these contracts is recorded in the balance sheet. No contracts are designated as hedging instruments and consequently all changes in fair value are taken to the statement of comprehensive income.

As at 31 March 2014, the notional amount of the forward foreign exchange contracts held by the Group was £330.0 million (2013: £317.0 million).

### Fair value of derivatives

The Company holds its over-the-counter derivatives at fair value which represents the replacement cost of the instruments at the balance sheet date. The valuation technique incorporates various inputs including foreign exchange spot and forward rates, interest rate curves and uses present value calculations. For these financial instruments, significant inputs into models are market observable and are included within Level 2. There have been no reclassifications for derivatives that have been transferred in or out of Level 2 or Level 3 during the year (2013: nil).

## 11 Loans and borrowings

On 2 May 2013, the Company signed a new, three-year, unsecured £200 million revolving credit facility at a fixed margin above LIBOR. This replaced the existing facility which was due to expire in November 2013. The facility has standard loan covenants, including a debt service coverage ratio and loan to value ratio. There is an annual agency fee of £15,000 associated with the facility. As at 31 March 2014, the Company had not drawn down against this facility (2013: nil).

## 12 Trade and other payables

	As at 31 March 2014	As at 31 March 2013 restated*
	£m	£m
Trade payables	0.3	0.3
Advisory, performance and management fees	0.2	1.5
Amounts payable to unconsolidated subsidiaries	–	7.5
Accruals	1.4	2.0
	<b>1.9</b>	<b>11.3</b>

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

## 13 Issued capital

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

	As at 31 March 2014		As at 31 March 2013	
	Number	£m	Number	£m
Issued and fully paid				
Opening balance	881,351,570	887.8	881,349,570	887.8
Conversion of warrants	–	–	2,000	–
<b>Closing balance</b>	<b>881,351,570</b>	<b>887.8</b>	<b>881,351,570</b>	<b>887.8</b>

The warrants, which were issued under the Initial Public Offering ("IPO") in March 2007, entitled the holder to subscribe for one ordinary share at £1.00 at any time from 13 September 2007 to 13 March 2012. At 13 March 2012, 2,000 warrants were submitted for exercise but the associated shares were not issued until 30 April 2012. At 13 March 2012, 281,491 warrants that had not been exercised were cancelled following the expiry of the warrant conversion period. At 31 March 2014, there were no warrants in issue (2013: nil).

Aggregate issue costs of £13.1 million arising from IPO and subsequent share issues were offset against the stated capital account in previous years. In addition, the stated capital account was reduced by Court order on 20 December 2007 with an amount of £693.1 million transferred to a new, distributable reserve which has been combined with retained reserves in these accounts. Therefore as at 31 March 2014, the residual value on the stated capital account was £181.6 million (2013: £181.6 million).

## 14 Per share information

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

	Year to 31 March 2014	Year to 31 March 2013 restated*
<b>Earnings per share (pence)</b>		
Basic	8.1	10.1
Diluted	8.1	10.1
<b>Earnings (£m)</b>		
Profit after tax for the year attributable to equity holders of the Company	71.0	89.1
<b>Number of shares (million)</b>		
Weighted average number of shares in issue	881.4	881.4
Effect of dilutive potential ordinary shares – warrants	–	–
<b>Diluted shares</b>	<b>881.4</b>	<b>881.4</b>
	As at 31 March 2014	As at 31 March 2013 restated*
<b>Net assets per share (pence)</b>		
Basic	126.4	125.2
Diluted	126.4	125.2
<b>Net assets (£m)</b>		
Net assets attributable to equity holders of the Company	1,113.8	1,103.3

\* Comparative information, including relevant Notes, has been restated to reflect implementation of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

# Notes to the accounts

## 15 Dividends

	As at 31 March 2014		As at 31 March 2013	
	Pence per share	£m	Pence per share	£m
<b>Declared and paid during the year</b>				
Interim dividend paid on ordinary shares	<b>3.35</b>	<b>29.5</b>	2.97	26.2
Prior year final dividend paid on ordinary shares	<b>3.52</b>	<b>31.0</b>	2.97	26.2
	<b>6.87</b>	<b>60.5</b>	5.94	52.4

The Company proposes paying a final dividend of 3.35p per share which will be payable to those shareholders that are on the register on 20 June 2014. On the basis of the shares in issue at year end, this would equate to a total final dividend of £29.5 million.

## 16 Commitments

	As at 31 March 2014 £m	As at 31 March 2013 £m
Unquoted investments	<b>25.3</b>	28.1

As at 31 March 2014, the Group was committed to subscribing a further £22.5 million (2013: £24.7 million) to the 3i India Infrastructure Fund, a further £2.6 million to the National Military Museum investment (2013: nil) and a further £0.2 million (2013: £3.4 million) to the Dalmore Capital Fund. The remaining commitment to the National Military Museum is expected to be drawn down in financial year 2015. The commitment to invest a further £13.1 million into Mersey Gateway Bridge is currently backed by cash held in a third-party bank account and is therefore not included in the above.

## 17 Contingent liabilities

At 31 March 2014, there was no material litigation or other contingent liabilities outstanding against the Company or any of its consolidated or unconsolidated subsidiary undertakings (2013: nil).

## 18 Related parties

### Transactions between 3i Infrastructure and 3i Group

3i Group plc ("3i Group") holds 34.1% (2013: 34.1%) of the ordinary shares of the Company. This classifies 3i Group as a "substantial shareholder" of the Company as defined by the Listing Rules.

The Group has committed US\$250 million to the 3i India Infrastructure Fund ("the India Fund") to invest in the Indian infrastructure market. 3i Group has also committed US\$250 million of investment capital to the India Fund. No commitments (2013: US\$8.1 million or £5.3 million) were drawn down by the India Fund from the Company during the period for investment and deal fees. In total, commitments of US\$183.7 million or £110.4 million re-translated (2013: US\$183.7 million or £121.1 million) had been drawn down at 31 March 2014 by the India Fund from the Company. As the India Fund has reached the end of its investment period, the Company's outstanding commitment to the India Fund is limited to 15% of the original US\$250 million commitment. At 31 March 2014, the outstanding commitment was US\$37.5 million, or £22.5 million re-translated (2013: US\$37.5 million or £24.7 million).

3i Networks Finland GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Networks Finland LP, an unconsolidated subsidiary of the Company. During the year, £2.2 million (2013: £1.7 million) was payable directly to 3i Group, of which the Company's share was £2.0 million (2013: £1.5 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2014, nil remained outstanding (2013: nil).

3i Osprey GP Limited, a subsidiary of 3i Group, receives a priority profit share from 3i Osprey LP, an unconsolidated subsidiary of the Company. During the year, £3.5 million (2013: £3.2 million) was payable directly to 3i Group, of which the Company's share was £2.4 million (2013: £2.2 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2014, £0.3 million remained outstanding (2013: £0.2 million).

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

Under the IAA, an annual advisory fee is payable to 3i plc based on the Gross Investment Value of 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 2014, £14.0 million (2013: £12.9 million) was payable and £0.8 million (2013: £0.6 million) remains due to 3i plc. This amount includes fees of £4.4 million (2013: £3.7 million) which were paid directly from unconsolidated subsidiary entities to 3i plc. On 8 May 2014 the Company entered into an Amendment Agreement with the Investment Adviser, conditional on obtaining the approval of the Company's shareholders (other than 3i Group plc) and the Jersey Financial Services Commission ("JFSC"), which included a new, lower fee of 1% per annum for any future investments in primary PPP and individual renewable energy projects.

## 18 Related parties continued

The IAA also provides for an annual performance fee to be payable to 3i plc. This becomes payable when the Adjusted Total Return per ordinary share (being mainly closing Net Asset Value per share aggregated with any distributions made in the course of the financial period and any accrued performance fees relating to the financial period) for the period exceeds the Target Total Return per share, being the Net Asset Value per ordinary share equal to the opening Net Asset Value per ordinary share increased at a rate of 8% per annum ("the performance hurdle"). If the performance hurdle is exceeded, the performance fee will be equal to 20% of the Adjusted Total Return per share in excess of the performance hurdle for the relevant financial period, multiplied by the weighted average of the total number of shares in issue over the relevant financial period. In addition, as part of the Amendment Agreement to the IAA, from the year commencing 1 April 2014, conditional on obtaining the approval of the Company's shareholders (other than 3i Group plc) and the JFSC, the performance fee will include a high water mark requirement so that, before payment of a performance fee, besides the 8% performance hurdle, the return must also exceed the performance level in respect of which any performance fee has been paid in the previous three financial years. The performance hurdle was not exceeded for the year to 31 March 2014, hence no performance fee is payable (2013: £1.4 million) and no amounts remained due to 3i plc (2013: £1.4 million).

Under the IAA, the Investment Adviser's appointment may be terminated by either the Company or the Investment Adviser giving the other not less than 12 months' notice in writing, 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. As part of the Amendment Agreement to the IAA, the IAA has been extended for a period of four years and can therefore be terminated by either the Company or the Investment Adviser, giving the other not less than 12 months' notice in writing, to expire no earlier than 7 May 2019. This amendment is also conditional on obtaining the approval of the Company's shareholders (other than 3i Group plc) and the JFSC.

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 2014 was £0.8 million (2013: £0.8 million). The outstanding balance payable as at 31 March 2014 was £0.2 million (2013: £0.2 million).

The National Military Museum PPP project ("NMM") to design, build, finance and maintain a museum facility in The Netherlands was purchased by 3i Infrastructure from 3i Group for £5.4 million on 11 November 2013. 3i Group acquired its holding in NMM simultaneously with the completion of its acquisition from Barclays Bank plc of Barclays Infrastructure Funds Management Limited on 8 November 2013. Under Listing Rule 11.1.10, this transaction is classified as a "smaller related party transaction".

## 19 Principal unconsolidated subsidiaries

Name	Place of incorporation and operation	Ownership interest
3i Infrastructure (Luxembourg) S.à r.l.	Luxembourg	100%
3i Infrastructure (Luxembourg) Holdings S.à r.l.	Luxembourg	100%
Oystercatcher Luxco 1 S.à r.l.	Luxembourg	100%
Oystercatcher Luxco 2 S.à r.l.	Luxembourg	100%
3i Networks Finland LP	UK	87%
Tampere Luxco S.à r.l.	Luxembourg	87%
Tampere Finance B.V.	The Netherlands	87%
3i Osprey LP	UK	69%
3i Infrastructure Seed Assets LP	UK	100%
3i India Infrastructure Fund A LP	UK	100%
BIF WIP LP	UK	100%
BIFWIP Dutch Holdco B.V.	The Netherlands	80%
Heijmans Capital B.V.	The Netherlands	80%
NMM Company B.V.	The Netherlands	80%

The list above comprises the principal unconsolidated subsidiary undertakings of the Group as at 31 March 2014.

The principal activity of the subsidiaries is to act as intermediary holding vehicles for the Group's investment portfolio with the exception of NMM Company B.V., a project special purpose vehicle set up to design, build, finance and maintain a museum facility.

There are no current commitments or intentions to provide financial or other support to any of the unconsolidated subsidiaries, including commitments or intentions to assist the subsidiary in obtaining financial support except for those disclosed in Note 16. No such financial or other support was provided during the year.

There are no significant restrictions on the ability of any of the unconsolidated subsidiaries to transfer funds to the Company in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the Company except in the case of Oystercatcher Luxco 2 S.à r.l..

Oystercatcher Luxco 2 S.à r.l. has borrowings from a consortium of five banks of €189.0 million or £156.7 million (2013: €190.0 million, £160.6 million). These facilities were agreed in March 2013, and are repayable in full in March 2018. The facilities agreement requires mandatory prepayments of an agreed percentage of any excess cash flow every six months. The estimated amount payable within the next 12 months is €2.0 million or £1.7 million (2013: €0.7 million or £0.6 million). The facilities have certain loan covenants including interest cover ratios and a leverage ratio. RBC Europe Ltd as security agent, has security over the equity investments held by Oystercatcher Luxco 2 S.à r.l.. The value of this security at 31 March 2014 was £278.8 million (2013: £309.3 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 Board approval. Depending on the size of the relevant investment and the identity of the relevant co-investor, such a co-investment arrangement may be subject to the related party transaction provisions contained in the Listing Rules and may therefore require shareholder consent.

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

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

# Portfolio valuation methodology

A description of the methodology used to value the investment portfolio of 3i Infrastructure and its consolidated 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 in compliance with IFRS 13 Fair Value Measurement. Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.

## General

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

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

## Quoted investments

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

## Unquoted investments

Unquoted investments are valued using one of the following methodologies:

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

## DCF

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

## Proportionate share of net assets

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

## Sales basis

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

## Cost less fair value adjustment

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

# Information for shareholders

## Financial calendar

Ex-dividend date for final dividend	18 June 2014
Record date	20 June 2014
Annual General Meeting	8 July 2014
Final dividend expected to be paid	11 July 2014
Half-yearly results	November 2014

## Registrars

For shareholder services, including notifying changes of address, the registrar details are as follows:

Capita Registrars (Jersey) Limited  
12 Castle Street  
St. Helier  
Jersey JE2 3RT  
Channel Islands

e-mail: [registrars@capita.je](mailto:registrars@capita.je)  
Telephone: +44 (0)1534 632 310  
Shareholder helpline: +44 (0)20 8639 3399

## Website

For full up-to-date investor relations information including the latest share price, recent reports, results presentations and financial news, please visit our investor relations website **[www.3i-infrastructure.com](http://www.3i-infrastructure.com)**

If you would prefer to receive shareholder communications electronically, including your annual reports and notices of meetings, please go to **[www.3i-infrastructure.com/e-comms](http://www.3i-infrastructure.com/e-comms)** for details of how to register.

Frequently used registrars' forms may be found on our website at **[www.3i-infrastructure.com/e-comms](http://www.3i-infrastructure.com/e-comms)**

## Warning to shareholders – boiler room scams

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or are offered an inflated price for shares they own. These calls come from fraudsters operating in "boiler rooms" that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

Most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

### Protect yourself

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the Financial Services Register at [www.fca.org.uk/register](http://www.fca.org.uk/register) to ensure that they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the Financial Conduct Authority Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the Financial Conduct Authority's list of unauthorised firms and individuals to avoid doing business with.
6. **Remember:** if it sounds too good to be true, it probably is. If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

### Report a scam

If you are approached about a share scam you should tell the Financial Conduct Authority using the share fraud reporting form at [www.fca.org.uk](http://www.fca.org.uk), where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.

## 3i Infrastructure plc

Registered office:  
12 Castle Street  
St. Helier  
Jersey JE2 3RT  
Channel Islands

Tel: +44 (0)1534 847 410

Registered in Jersey No. 95682

3i Infrastructure plc is regulated by the Jersey Financial Services Commission.



This report is printed on Cocoon Silk 50% which is made using 50% post consumer recycled fibre and 50% FSC® virgin fibre and produced at a mill certified with ISO14001 Environmental Management Standard.

Printed by **Pureprint Group** using environmental print technology and vegetable-based inks throughout. 99% of the dry waste and 95% of the cleaning solvents associated with this production were recycled.

Designed and produced by **Radley Yeldar** [www.ry.com](http://www.ry.com)



### **3i Infrastructure plc**

Registered office:  
12 Castle Street  
St. Helier  
Jersey JE2 3RT  
Channel Islands  
Tel: +44 (0)1534 847 410  
[www.3i-infrastructure.com](http://www.3i-infrastructure.com)

### **Annual report online**

To receive shareholder communications electronically in future, including your annual and half-yearly reports and notices of meetings, please go to:



For details of how to register, log on:  
[www.3i-infrastructure.com/e-comms](http://www.3i-infrastructure.com/e-comms)