

# Annual report and accounts 2015



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The Directors' report for 3i Infrastructure plc ("3i Infrastructure" or "the Company") for the year to 31 March 2015 has been drawn up in reliance upon applicable English and Jersey law and the liabilities of the Company in connection with that report shall be subject to the limitations and restrictions provided by such law. This report may contain certain statements about the future outlook for 3i Infrastructure. Although the Directors believe their expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

# Performance highlights

FY2015

FY2014

## Total return materially above annual target

Total return of £267 million for the year, or 24.6% on opening Net Asset Value ("NAV")<sup>1</sup>, materially above the target of 10%.

Strong performance driven by the value uplift from the realisation of our interest in Eversholt Rail and valuation gains across our European Core investments

Strong growth in NAV per share to 149.9 pence at 31 March 2015

**24.6%**

Total return on opening NAV

**6.6%**

Total return on opening NAV

**149.9p**

NAV per share

**126.4p**

NAV per share

## Proposed dividend ahead of target level

Total proposed dividend of 7.0 pence per share (£61.7 million in aggregate), or 5.7% on opening NAV, ahead of the objective for FY2015 of 5.5% (6.77 pence per share)

**7.0p**

Total proposed dividend per share

**6.7p**

Total dividend per share

## Good level of new investment

£114.2 million committed to the investment in two further oil storage terminals with Oiltanking in Belgium and the Netherlands and to five new primary PPP investments in France, the Netherlands and the UK

**£114.2m**

Investment commitments

**£80.3m**

Investment commitments

## Robust portfolio income

Portfolio income<sup>2</sup> of £79.5 million, in line with prior year

**£79.5m**

Portfolio income

**£82.3m**

Portfolio income

<sup>1</sup> Opening NAV is net of the final dividend for the prior year.

<sup>2</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 31.

# Our portfolio

We have a portfolio of investments that are diversified across sectors and geographies. This portfolio was valued at £1,273 million at 31 March 2015, including investment commitments. In February 2015, we agreed the acquisition of two further oil storage terminals, to be made through our Oystercatcher investment and, since the year end, we completed the sale of our investment in Eversholt Rail and, as shown in the Pro Forma analysis.

## Core infrastructure

- Four investments:
  - **Anglian Water Group**  
UK: water utility
  - **Elenia**  
Finland: electricity distribution
  - **Oystercatcher**  
Europe and Asia: oil and oil product storage terminals
  - **Cross London Trains**  
UK: rail rolling stock
- *Sale completed after the year end:*
  - **Eversholt Rail Group**  
UK: rail rolling stock

As at 31 March 2015

83%

Pro Forma analysis

77%

## Public Private Partnerships (“PPP”)

### Primary projects

- Six investments:
  - **A9**  
Netherlands: road project
  - **A12**  
Netherlands: road project
  - **Ayrshire College**  
UK: education facilities
  - **La Santé**  
France: prison accommodation
  - **Mersey Gateway Bridge**  
UK: bridge project
  - **RIVM**  
Netherlands: government office accommodation

### Operational projects

- Four investments, including 64 underlying projects
  - **Dalmore Capital Fund**  
UK: secondary PFI projects
  - **Elgin**  
UK: school and community healthcare projects facilities
  - **NMM**  
Netherlands: museum facilities
  - **Octagon**  
UK: healthcare facility

As at 31 March 2015

12%

Pro Forma analysis

16%

## India Fund

- Seven investments:
  - **Power generation**
  - **Roads**
  - **Ports**

The India Fund is now closed to new investment and its investments will be realised over time

As at 31 March 2015

5%

Pro Forma analysis

7%

As at 31 March 2015

22

Investments

£1,273m

Portfolio value<sup>1</sup>

£75m

Cash balances

Pro Forma analysis

21

Investments

£965m

Portfolio value<sup>1</sup>

£161m

Cash balances

	31 March 2015		Pro Forma analysis	
	£m	%	£m	%
<b>Core infrastructure portfolio</b>	<b>1,051</b>	<b>83%</b>	<b>743</b>	<b>77%</b>
<i>Eversholt Rail Group</i>	<b>360</b>		<b>Sold</b>	
Anglian Water Group	<b>242</b>		<b>242</b>	
Elenia	<b>239</b>		<b>239</b>	
Oystercatcher	<b>110</b>		<b>162</b>	
Cross London Trains	<b>100</b>		<b>100</b>	
<b>PPP portfolio</b>	<b>159</b>	<b>12%</b>	<b>159</b>	<b>16%</b>
Primary projects	<b>50</b>		<b>50</b>	
Operational projects	<b>109</b>		<b>109</b>	
<b>India Fund</b>	<b>63</b>	<b>5%</b>	<b>63</b>	<b>7%</b>
<b>Total investments</b>	<b>1,273</b>	<b>100%</b>	<b>965</b>	<b>100%</b>
<b>Total cash balances</b>	<b>75</b>		<b>161</b>	

<sup>1</sup> Includes investment commitments.

**The Pro Forma analysis shows the effect on the shape of the portfolio and cash balances as at 31 March 2015 of:**

- the receipt of net proceeds of £365 million from the sale of the Company's interest in Eversholt Rail Group, announced in January 2015 and completed in April 2015;
- the £52 million investment in the Oiltanking Terneuzen and Ghent terminals through Oystercatcher, signed in February 2015 with completion subject to EU Merger Regulation clearance, which is expected by June 2015;
- the payment of the final dividend for FY2015 of £32 million (3.62 pence per share);
- the payment of a special dividend of £150 million (17.0 pence per share); and
- the payment of the performance fee for FY2015 of £45 million.

# Our largest investments

## Anglian Water Group



Anglian Water Group Limited ("AWG") is the parent company of Anglian Water, the largest water and water recycling company in England and Wales by geographical area and the fourth largest 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 current regulatory period started on 1 April 2015 and runs to 31 March 2020.

[See page 40](#)

## Elenia

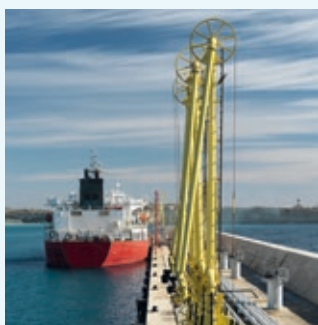


Elenia owns the second largest electricity distribution network in Finland. Headquartered in Tampere, it serves around 412,000 customers in the south west of the country and has a market share of approximately 12%. The business delivers a set return on its regulated asset base. The electricity distribution business accounts for approximately 90% 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 10% of Elenia's overall value.

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## Oystercatcher



Oystercatcher is the holding company through which the Company 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 72 terminals in 22 countries with a total storage capacity of 19 million cubic metres.

In February 2015, the Company announced the acquisition of 45% stakes in two further oil storage facilities in the Netherlands and Belgium. These will be acquired through Oystercatcher. The transaction is expected to complete by June 2015.

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## Cross London Trains



Cross London Trains 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, Cross London Trains is investing £1.6 billion in a fleet of new Siemens Desiro City commuter rail carriages to be leased to the Thameslink rail franchise operator, with the continued leasing of the trains underpinned by the Department for Transport for a period of 20 years. Siemens will manufacture and deliver the trains over a period of five years, with the first delivery into service expected in early 2016.

[See page 46](#)



A photograph of an industrial facility, likely a refinery or chemical plant. The image shows a series of white pipes and valves with red handwheels, receding into the distance. The foreground is in sharp focus, showing the intricate details of the piping and valves. The background is slightly blurred, emphasizing the depth of the facility.

# Strategic report

# Our investment approach

Our strategy is to maintain a balanced portfolio of investments to deliver an attractive mix of income yield and capital appreciation for our shareholders. We invest across Core infrastructure, primary PPP and low-risk energy projects in developed markets, with a focus on the UK and Europe.

## Our market focus

### Core infrastructure

- **Dynamic businesses** that own their asset base in perpetuity, not concessions with a finite life
- **Key sectors:** utilities, energy and transportation
- **Size of investments:** equity investments typically between £50 million and £250 million
- **Return characteristics:** typically between 8% and 10% with a mix of income yield and capital growth, with low volatility

### Primary PPP and low-risk energy

#### Primary PPP

- **Concession-based** projects in their construction phase, with a concession period typically of 20 to 30 years
- **Key sectors:** education, transport, healthcare and public sector accommodation

#### Low-risk energy

- **Key sectors:** wind and solar projects as well as Offshore Transmission Owners ("OFTOs")
- Focus on geographies where we believe that subsidy regimes are robust and will be sustained over the full life of operating projects
- **Size of investments:** equity investments typically between £5 million and £50 million
- **Return characteristics:** typically between 9% and 12%

### India Fund

In May 2013, the Board announced that the Company would not make any further investments in India or in other developing markets



## Our approach

We originate investments through the Investment Adviser's dedicated team based in London and Paris, as well as drawing from its broader European network, with offices in Amsterdam, Frankfurt, Madrid and Stockholm.

We generate returns during our ownership through the Investment Adviser's engaged asset management approach.

The Investment Adviser represents the Company on the boards of all Core investments, engaging with senior management to support:

- strategies for investment in the asset base to support profitable growth over the long term;
- continued improvements in operational performance;
- disciplined cash management to drive yield for shareholders;
- efficient capital structures to optimise funding costs and financial risk; and
- growth through acquisitions if suitable opportunities arise.

We will sell investments from time to time where this generates significant additional value for shareholders.

Our approach is to originate attractive opportunities through the Investment Adviser's relationships with primary developers, including construction companies. We also leverage the Investment Adviser's expertise in the assessment and management of construction risk.

We generate returns by managing primary PPP and low-risk energy projects through their construction phase and operational ramp-up. Once projects become operational, they can be held for yield or sold to crystallise value as part of our broader portfolio management approach.

The Investment Adviser is managing the assets in the India Fund for realisation over the coming years through a dedicated team of investment professionals based in Mumbai.

## About the infrastructure asset class

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 a low correlation with other asset classes, including listed equities, real estate and fixed income. The quality and predictability of their cash flows tend to provide for stable returns to shareholders over time.

# Changing market conditions

## Core infrastructure

The sustained growth in demand for long duration assets in a low interest rate environment has continued to drive increased competition for infrastructure investments. The asset class continues to attract interest from existing specialist financial investors, but also increasingly from large pension funds, sovereign wealth funds and insurance companies, a number of which have developed direct investment capabilities over recent years. Underlying investors have continued to increase their allocations to the infrastructure sector and overall remain under-invested relative to target allocations.

This increase in demand, combined with the availability of debt finance for infrastructure investment on attractive terms, continues to drive the price of some infrastructure assets materially higher and therefore projected returns lower. This trend has been most evident in the market for large Core infrastructure assets over recent months, where the Company has participated in several competitive processes where the pricing and resulting risk-adjusted returns have not been consistent with the Company's targets. This compression in returns has, however, had a materially positive impact on the value of the Company's portfolio.

## Primary PPP and low-risk energy projects

In contrast to the Core infrastructure investment market, returns available from primary PPP and low-risk energy projects have remained relatively stable over the last five years. The market opportunity remains good, particularly in Continental Europe, as resource-constrained governments open up the provision of a number of services through PPP-type transactions. We expect that it will grow further over time, as programmes are expanded across a broader spectrum of sectors, although the near-term pipeline has reduced recently.

# Our approach in these changing markets

In this highly competitive environment, we have remained disciplined in targeting new investment. As competition for large Core infrastructure assets has increased, we have sought more attractive risk-adjusted returns in other areas of the infrastructure market, such as mid market Core infrastructure and primary PPP and low-risk energy projects. During the year, we committed to invest £114 million in two further Oiltanking terminals and in five primary PPP projects, leveraging the Investment Adviser's broad investment platform.

The Company aims to be a long-term investor in its portfolio assets, but it will sell investments from time to time if this generates material additional value for shareholders above that achieved by holding the assets. In line with this approach, during the year we assessed and executed the sale of our investment in Eversholt Rail, realising a significant profit for shareholders. Through this sale, we crystallised an IRR of over 40% during our ownership period of four years and a money multiple of 3.4x over our initial investment.

While we have actively participated in a number of bidding processes during the year, our priority is to maintain a disciplined approach towards making new investment and focus selectively on those investments that are enhancing to the Company and its shareholders. The Investment Adviser continues to monitor and assess opportunities in adjacent markets, including new sectors and geographies.

# Positioning the Company for the future

As announced in the year, the Board has been evaluating the Company's return objectives with a view to setting a sustainable total return target and a revised dividend policy, taking into account market conditions, including recent transactions in the European Core infrastructure market. Following its review, the Board is taking the following steps to position the Company for the future:

	Impact of changing market conditions	Steps taken
<b>Updating our total return target to be sustainable</b>	<ul style="list-style-type: none"> <li>■ Material compression in returns, particularly in large Core infrastructure</li> <li>■ While this has resulted in valuation gains across our investment portfolio, it is more challenging to secure new Core infrastructure investments at prices consistent with the Company's return targets</li> </ul>	<ul style="list-style-type: none"> <li>■ Updated total return target from a 10% annual target to a <b>sustainable target of 8% to 10%, to be achieved over the medium term</b></li> <li>■ This will provide the Company with <b>increased flexibility to invest</b> across the infrastructure market, at attractive risk-adjusted returns for shareholders</li> </ul>
<b>Setting a new dividend policy to be progressive</b>	<ul style="list-style-type: none"> <li>■ The compression in market returns has driven a material increase in the value of our portfolio and NAV</li> <li>■ While NAV has increased materially, the underlying income from our portfolio remains broadly constant</li> <li>■ The Company's previous dividend policy linked dividends to opening NAV and was therefore no longer sustainable</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Introduced a new and progressive dividend policy which sets an absolute dividend per share</b></li> <li>■ In the future, the Company will pay a progressive annual dividend per share, beginning with a <b>target dividend of 7.25 pence per share for FY2016</b></li> </ul>
<b>Actively managing liquidity and maintaining an efficient balance sheet for future investment</b>	<ul style="list-style-type: none"> <li>■ Took advantage of market conditions during the year to sell our interest in Eversholt Rail at a significant uplift, generating material cash proceeds for the Company and excess liquidity</li> <li>■ Favourable debt market conditions enabling the Company to increase and extend its revolving credit facility ("RCF") on more attractive terms and improve its overall cost of funding</li> </ul>	<ul style="list-style-type: none"> <li>■ Negotiated new RCF, <b>increasing facility from £200 million to £300 million on improved terms</b></li> <li>■ Proposed change to single-asset concentration limit, <b>increasing from 20% to 25% to provide additional flexibility for future investment</b></li> <li>■ Combination of an exceptional return from the sale of Eversholt Rail and increased RCF facilitates a <b>return of capital to shareholders of £150 million, to be made in July 2015 through a special dividend of 17.0 pence per share</b></li> <li>■ <b>Minimise returns dilution</b> from holding excessive cash balances, while <b>maintaining a good level of liquidity for future investment</b></li> </ul>

**Our objective is to provide shareholders with a sustainable total return of 8% to 10% to be achieved over the medium term, with a progressive annual dividend per share**

# Chairman's statement

“ I am pleased to report a strong total return of 24.6% on opening NAV for the year, which is materially above our annual target, and the highest since our IPO in 2007. The Board is announcing a revised total return target, providing increased flexibility for future investment, as well as a new dividend policy designed to maintain dividend progression each year for our shareholders. We have also increased the size of the Company's revolving credit facility on attractive terms. In combination with the exceptional return generated from the sale of our interest in Eversholt Rail, this facilitates a return of capital to shareholders, while maintaining a good level of liquidity for new investment. ”

**Peter Sedgwick, Chairman**

11 May 2015



## Performance

3i Infrastructure generated a total return of £267 million for the year to 31 March 2015, or 24.6% on opening Net Asset Value (“NAV”). This very strong return was materially above the Company's annual return objective of 10% for this financial year and was principally driven by the sale of the Company's interest in Eversholt Rail Group (“Eversholt Rail”) and by valuation gains across our Core infrastructure portfolio, as well as by good levels of portfolio income. The Company's NAV increased to 149.9 pence per share at 31 March 2015 (2014: 126.4 pence), after the deduction of a performance fee of £45 million.

The material demand/supply imbalance in the Core infrastructure market has benefited the Company, firstly through the sale of Eversholt Rail at a very strong uplift to cost, as well as through the positive impact on the valuation of the Core infrastructure portfolio, which also continued to be underpinned by good operational performance, regulatory developments and favourable refinancing opportunities. The combination of these factors led us to reduce the discount rate applied to the valuation of our Core investments. The weighted average discount rate of the portfolio at 31 March 2015 reduced to 10.2%, from 10.9% at 30 September 2014 and 11.8% at 31 March 2014.

The overall valuation of the investments in the 3i India Infrastructure Fund (the “India Fund”) was broadly flat in the year.

## Total Shareholder Return

We delivered a strong Total Shareholder Return of 24.9% this year, improving our long-term performance record. The Total Shareholder Return in the period from the Company's IPO in March 2007 to 31 March 2015 was 135.8%, or 11.2% on an annualised basis. This compares favourably with returns delivered by the broader market. Over the same period, the FTSE 250 generated a Total Shareholder Return of 94.3%, or 8.6% on an annualised basis. Importantly, the Company has generated this with comparatively low share price volatility.

## Final dividend

The Board is proposing a final dividend for this financial year of 3.62 pence per share. This, added to the interim dividend of 3.38 pence per share paid in January 2015, delivers a full year dividend of 7.0 pence per share. This represents 5.7% of opening NAV, ahead of the 5.5% objective for this financial year.

## Review of dividend policy and total return target

As I noted in the Half yearly report, the Board has been reviewing the Company's shareholder return targets. We are now announcing a new dividend policy, which targets a progressive annual dividend per share to shareholders, and a revised total return target of 8% to 10%, to be achieved over the medium term. These changes reflect changing market conditions and higher pricing in the infrastructure market, highlighted by several recent transactions, and the consequential impact of the compression in market returns on the valuation of our investment portfolio.

## Dividend policy

Since 3i Infrastructure's IPO in 2007, our dividend policy has been to provide our shareholders with an annual distribution explicitly linked to the Company's opening NAV. This policy has provided an increasing annual dividend, as we have grown our NAV and we have met or exceeded our dividend objective every year.

The Board remains committed to progressive growth in the Company's dividend. However, in light of the compression in market returns and the significant increase in the Company's NAV in the financial year, materially above the development of the underlying income of the investment portfolio, we believe it is no longer appropriate to maintain an explicit link to NAV. As a result, the Board is announcing a new dividend policy, which de-links the amount of the dividend from opening NAV and targets a progressive annual dividend per share.

In light of the exceptional profit generated through the sale of the Company's interest in Eversholt Rail, which will be used by the Board to support future dividend distributions, we are providing dividend guidance for the financial year ending 31 March 2016. We are announcing a target dividend for FY2016 of 7.25 pence per share, an increase of 3.6% on the proposed dividend for FY2015.

### Total return target

The Board is also updating the Company's total return target. The Company was established in 2007 with a target to deliver an annual total return to its shareholders of 12%. In May 2013, the Company's return objective was lowered to an annual total return target of 10%, reflecting the performance of investments in the India Fund and the Board's decision not to make further investments there.

Our business model and engaged asset management approach have delivered good results in Europe and the Company has achieved an annualised total return (based on NAV growth and dividends paid) of 10.6% since the IPO in 2007.

We believe that returns compression in the infrastructure market could well persist, at least over the medium term, driven by the strong demand of a growing pool of investors for infrastructure assets that deliver stable cash flows in a low interest rate environment. While these conditions have had a positive impact on the value of the Company's portfolio investments, which were purchased in a more favourable prospective returns environment, they have also made it increasingly challenging for the Company to find investment opportunities in Core infrastructure consistent with the previous target.

The Board is therefore revising the Company's target total return to a sustainable range of 8% to 10%, to be achieved over the medium term. This reduction reflects lower implied returns for recent transactions in the European Core infrastructure market and the recent increase in the Company's NAV. A medium-term target, in place of the previous annual target, better reflects the nature and longevity of the investments in the Company's portfolio and the future investment opportunities it is targeting.

## Investment and realisation activity

In January 2015, the Board approved the realisation of the Company's holding in Eversholt Rail, which generated net proceeds of £365 million. The total proceeds to the Company from the sale of its holding in Eversholt Rail, including the dividend of £15.5 million paid in December 2014, as well as the settlement of all interest receivable, were £381 million. These proceeds represent an uplift of £139 million compared to the valuation at 30 September 2014. This was an exceptional outcome for the Company. We invested in Eversholt Rail in December 2010 and, after four years of ownership, due in part to the Investment Adviser's engaged asset management approach, the Company crystallised a gross IRR of over 40% and a money multiple of 3.4x.

Market conditions for new investment are difficult, with increased competition and rising prices. Throughout the year, we maintained a disciplined approach towards making new investments and focused selectively on those investments that are value-enhancing to the Company and its shareholders.

Against this backdrop, we were particularly pleased with our commitment to invest a total of £114 million in two further oil storage terminals alongside Oiltanking, our long-standing partner in our Oystercatcher investments and in five new primary PPP projects in the year. The investment in the Oiltanking terminals is expected to complete by June 2015, while the commitments to the primary PPP projects will be drawn at completion of construction. Earlier in the financial year, the Company also achieved preferred bidder status for the West of Duddon Sands Offshore Transmission Owner (or "OFTO") project in the UK, with an investment commitment of approximately £25 million. This project is now expected to reach financial close in the summer of 2015.

Finally, we made progress against our objective of realising assets from the India Fund. During the year, the Investment Adviser took advantage of positive market momentum in India at the time of the general election and subsequently to sell approximately 54% of the India Fund's holding in Adani Power.

## Portfolio concentration

As the Company's existing portfolio investments have increased in value and the trend for larger transactions continues, the Company has become increasingly restricted by its single asset concentration limit, set at the time of the IPO in 2007. The Company's existing investment policy states that no investment should exceed 20% of the Company's Gross Assets at the time of making the investment. This limit can restrict the Company's ability to invest additional equity into an existing portfolio investment that may itself be undertaking acquisition activity, or in a portfolio investment in which a co-shareholder may be selling part of, or its entire stake. The Board is therefore proposing to amend the Company's investment policy to increase the limit from 20% to 25%, to provide additional flexibility for future investment without significantly increasing the portfolio concentration risk. As this would be a material change to the Company's investment policy, it is subject to shareholder approval, which will be sought at an Extraordinary General Meeting ("EGM") of the Company alongside the Annual General Meeting ("AGM") in July 2015.

## Liquidity management

The management of the Company's liquidity was an important area of focus for the Board during the year. The Board remains committed to managing an efficient balance sheet, ensuring that it maintains adequate liquidity to pursue new investment opportunities, while not unduly diluting shareholder returns by holding surplus cash balances.

In February 2015, the Company secured the availability of additional short-term credit facilities to support bidding activity and, since the year end, we renewed the revolving credit facility, increasing its size from £200 million to £300 million. This meets the Company's ongoing liquidity needs, including the provision of letters of credit from the facility to support commitments to new primary PPP investments during construction. We achieved this at lower pricing, such that the incremental cost of providing the additional £100 million undrawn commitment is £0.3 million per annum.



# Chairman's statement

In April 2015, the Company received net cash proceeds of £365 million from the sale of Eversholt Rail. Given our commitment to efficient balance sheet management, the increase in the Company's liquidity following the receipt of these proceeds and the increase of the Company's revolving credit facility by £100 million, the Board is announcing its intention to implement a £150 million return of capital to shareholders through a special dividend of 17.0 pence per share, expected to be paid in July 2015. This return of capital will allow shareholders to participate in the success of the realisation of Eversholt Rail, while ensuring that the Company retains a good level of liquidity for new investment.

It is proposed that the return of capital is combined with a share consolidation which is subject to shareholder approval, which will be sought at an EGM, alongside the Company's AGM in July 2015. The target dividend for FY2016 is calculated assuming that the share consolidation is approved.

## Corporate governance, Board developments and shareholder meetings

There were several changes to the Board during the year. Earlier in the year, as set out in the 2014 Annual report, following the appointment of Ben Loomes as Managing Partner of 3i Group's Infrastructure business, Ian Lobley replaced Ben as 3i Group's nominee non-executive Director on the Board with effect from 6 May 2014.

On 6 November 2014, the Company announced that Sir John Collins would step down from the Board from 31 December 2014, after six years as a non-executive Director. We would like to thank Sir John for his significant contribution to the Company over the years. On the same day, the Company also announced the appointment of Douglas Bannister and Wendy Dorman as non-executive Directors with effect from 1 January 2015 and 1 March 2015 respectively. Both are resident in Jersey and bring relevant experience to the Board. Douglas has significant experience in the ports sector, and is currently CEO of Ports of Jersey, and Wendy is currently a partner at PwC and Chairman of the Jersey Branch of the Institute of Directors.

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 AGM, held on 8 July 2014, shareholders approved the election or re-election of all Directors as proposed to the Board. This year's AGM will be held on 7 July 2015. The non-executive Directors' base fees have been unchanged since 2008. The Remuneration Committee has proposed an increase to non-executive Directors' fees which will be subject to shareholder approval and therefore will be included in the resolutions put to the AGM.

During the year, the Company also held an EGM. On 9 May 2014, the Company announced that it had entered into an agreement (the "Amendment Agreement") with its Investment Adviser to amend the terms of the existing investment advisory agreement between the Company and the Investment Adviser. The principal changes included a reduction in the fee rate for future primary PPP and certain renewable project investments and the addition of a "high water mark" requirement to the performance fee calculation, conditional upon obtaining the approval of both the Jersey Financial Services Commission and the Company's shareholders (other than 3i Group plc) at an EGM.

The Company's EGM was held on 8 July 2014 and the resolution regarding the Amendment Agreement was approved by independent shareholders with an overwhelming majority of over 99% of the votes. The Jersey Financial Services Commission approval was obtained prior to the EGM.

## Outlook

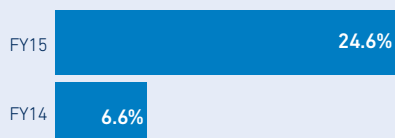
Following a successful year for the Company, which has seen the delivery of a significant increase in NAV for our shareholders, as well as the expansion of our primary PPP portfolio through the Investment Adviser's increased capabilities in this area, we have taken steps to position the Company for the future.

There is clear evidence that competition for infrastructure assets has increased. We have therefore revised the Company's return target to position the Company to continue to deliver an attractive total return, with a progressive annual dividend, to shareholders.

# Key Performance Indicators

## Total Return

% of opening Net Asset Value



## Target for the year

To provide shareholders with a total return of 10%

## Outcome for the year

Total return of 24.6% for the year to 31 March 2015

## Rationale and definition

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

## Performance in the year

- Total return of £266.8 million, or 24.6% on opening NAV in the year, significantly above the 10% objective
- Strong return driven by the value uplift from the sale of Eversholt Rail and valuation gains across the European portfolio
- Costs ahead of last year, due to the increased levels of bidding and additional corporate costs
- Exceptional return generated a performance fee of £45.0 million

## Changes effective from FY2016

Total return objective updated to a range of 8% to 10% to be achieved over the medium term

## Annual dividend

% of opening Net Asset Value



To provide shareholders with an annual dividend of 5.5% of opening NAV

Dividend of 5.7% of opening NAV for the year to 31 March 2015

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

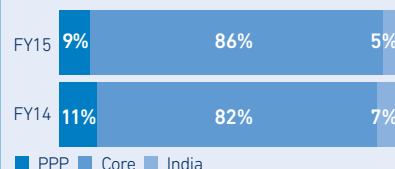
- Total dividend declared for the year of £61.7 million, or 7.0 pence per share, ahead of the annual objective of 6.77 pence per share
- Income and fees generated from the portfolio and cash deposits, including non-income cash distributions from portfolio companies, totalled £85.0 million for the year. Operational and net financing costs used to assess dividend coverage were £21.5 million, hence dividends and costs were fully covered

Progressive dividend per share policy

Target dividend for FY2016 of 7.25 pence per share. This target dividend is calculated assuming that the share consolidation is approved

## Portfolio balance

% of portfolio value



At least 75% of the portfolio invested in Core infrastructure

86%<sup>1</sup> of the portfolio invested in Core infrastructure at 31 March 2015

- The Company's strategy is to deliver differentiated access to the infrastructure asset class by investing in a portfolio weighted towards Core infrastructure investments that own their asset base in perpetuity
- This provides shareholders with a differentiated investment proposition versus other UK-listed infrastructure investment vehicles
- The India portfolio is being managed by the Investment Adviser with a view to realisation over the next few years

- 86%<sup>1</sup> of the portfolio invested in Core infrastructure at 31 March 2015
- Realisation of the India portfolio commenced in the year, with the sale of approximately 54% of the India Fund's stake in Adani Power
- Based on the Pro Forma analysis described on page 3, following the sale of Eversholt Rail the percentage of the portfolio invested in Core infrastructure remains above 75%

<sup>1</sup> For the purpose of this analysis, the portfolio is measured as the underlying portfolio asset value for each asset and does not include investment commitments until they are drawn. Including investment commitments, this percentage is 83%, as shown on page 3.

# Our 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 responsible for all investment and divestment decisions, as well as for determining the valuation of the portfolio.

## Strategic priorities

Board
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 low-risk energy projects which offer attractive risk-adjusted returns
Manage intensively the portfolio to deliver a robust income yield and stable capital appreciation over time
Add selectively to the portfolio, targeting opportunities in our markets and realise assets opportunistically when a sale crystallises value above that achievable by holding the investment and when the sale is consistent with 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 monitored adequately 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 delivering the Board's objectives successfully

# Risk factors and actions

Strategic priorities	Risk factors in FY2015	Delivery in FY2015
Maintain a balanced portfolio of infrastructure investments focusing on the Core infrastructure market, while building exposure to primary PPP and low-risk energy projects	<p>There were no material risks to maintaining a portfolio focused on Core infrastructure and the portfolio balance remains aligned with the Company's objectives.</p> <p>The assets in the India Fund are to be realised over time. A combination of market, political and asset-specific risks continues to affect their potential realisation (see pages 51 and 52).</p>	<p>At 31 March 2015, 83% of the portfolio was invested in Core infrastructure, and 12% in the PPP market.</p> <p>In a challenging market environment, the Company committed £114 million to new investments in both Core infrastructure and primary PPP projects. The India Fund sold approximately 54% of its holding in Adani Power during the year.</p> <p>As shown in the Pro Forma analysis on page 3, following the realisation of Eversholt Rail in April 2015, the balance of the portfolio remains in line with the Company's objective.</p>
Manage intensively the portfolio to deliver a robust income yield and stable capital appreciation over time	<p>A number of the investments in the portfolio, including notably AWG and Elenia, were subject to regulatory developments during the year.</p> <p>Some of the assets in the portfolio are sensitive to low interest and inflation rates. Low interest rates have a particularly negative impact on Elenia, whose allowed return is calculated based on the Finnish 10-year government bond yield (see page 43).</p>	<p>The Investment Adviser continued to dedicate significant resource and expertise to portfolio management, engaging with investee companies to manage the risks deriving from regulation and the persisting low interest rate, low inflation environment. Portfolio income levels were stable year-on-year at £79.5 million (2014: £82.3 million).</p> <p>The Investment Adviser worked with AWG and Elenia to manage regulatory developments, including the UK water sector regulatory review for the 2015-2020 period.</p> <p>In positive market conditions, Oystercatcher refinanced its debt and Elenia issued further bonds on attractive terms.</p>
Add selectively to the portfolio, targeting opportunities in our markets and realise assets opportunistically	<p>There was continued compression in returns in the European Core infrastructure market during the year. While this had positive valuation implications for the portfolio, it has been more challenging for the Company to secure new investments at total returns and yields consistent with its existing targets.</p>	<p>The Company was able to take advantage of prevailing market conditions to crystallise an exceptional return through the sale of Eversholt Rail, which generated an uplift of £139 million compared to the valuation at September 2014 and an IRR of over 40% over the life of the investment. This sale was a key driver of the return for the year.</p> <p>The Investment Adviser leveraged its network and expertise across the infrastructure market to continue to invest, committing a total of £114 million to new investments in the Core infrastructure and primary PPP markets. The expansion of the Investment Adviser's primary PPP origination capabilities increased the Company's portfolio in this sector through commitments to five new investments.</p>
Manage the Company's financial position efficiently	<p>During the year, the Company had to balance the liquidity requirements of an active pipeline of investment activity with the objective of running its balance sheet efficiently.</p> <p>The Company was exposed to foreign exchange risk due to highly volatile exchange rates, particularly for £/€.</p>	<p>Liquidity risk was monitored actively throughout the year. In February 2015, the Company secured the availability of additional short-term borrowing facilities (since cancelled) to enable it to continue to invest while awaiting the proceeds of the sale of its investment in Eversholt Rail.</p> <p>Following the exceptional return generated from the realisation of Eversholt Rail, the Board is announcing its intention to implement a £150 million return of capital to shareholders. The Board also agreed the renewal of the Company's revolving credit facility, increasing the amount to £300 million on improved terms.</p> <p>Throughout the year, the Company managed a foreign exchange hedging programme which significantly reduced the impact of the £/€ foreign exchange volatility.</p>
Manage the relationship with the Investment Adviser	<p>Renewal of the Investment Advisory Agreement on acceptable terms and subject to shareholder approval.</p>	<p>The Board maintained an excellent relationship with the Investment Adviser throughout the year. The Chairman had a regular dialogue with 3i Group's Chief Executive to discuss the performance of the investment advisory team.</p> <p>The amendments to the Investment Advisory Agreement were approved at the Company's EGM in July 2014 by an overwhelming majority of the independent shareholders (not including 3i Group).</p>

# Investment Adviser's review

“ It was a busy year across the business. We announced the sale of the Company's holding in Eversholt Rail, which underpinned a very strong return for the year. We were also active on the investment front with investments in the Oiltanking companies, as well as in a number of primary PPP projects. Given market conditions, we continue to take a disciplined approach towards making new investments and are focusing selectively on those investments that are value-enhancing to the Company and its shareholders. The European portfolio continues to perform well and we continue to manage actively our investments to drive further value for shareholders. ”

**Ben Loomes and Phil White**  
Managing Partners,  
Infrastructure, 3i Investments plc  
11 May 2015



## About the Investment Adviser

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

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 of investing in, and managing, 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 the Company's Initial Public Offering in 2007 and subsequent Placing and Open Offer in 2008 and owns approximately 34% of the equity in the Company.



## Profiles of senior members of the investment advisory team



**Ben Loomes**  
Managing Partner, Infrastructure

Ben is Managing Partner, Co-head of 3i's Infrastructure business as well as 3i Group Strategy Director. He has been a member of 3i's Executive Committee and Investment Committee since 2012 and has experience across all of 3i's business lines. In his role as Group Strategy Director, Ben has been heavily involved in 3i Group's strategic transformation. As Co-head of 3i's Infrastructure business, Ben is responsible for the management and strategic development of the business. Ben also leads the relationship with the Board of 3i Infrastructure plc. 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, 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.



**Stephen Halliwell**  
CFO, Infrastructure

Stephen has been Chief Financial Officer for 3i Group's Infrastructure business since April 2007. He manages 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 is involved in the origination and execution of investment opportunities in PPP and low-risk energy projects across Europe. Previously, Stéphane was head of Egis Investment Partners.



**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, BILF, a long-term 'buy and hold' PPP fund which acquired I<sup>2</sup> in 2009.



**Scott Moseley**  
Partner, Infrastructure

Scott joined 3i in 2007 and is a Partner in the Infrastructure team, leading investment origination and execution. He has 14 years experience in European Infrastructure, spanning utilities, transportation and social infrastructure. Whilst at 3i, Scott has been responsible for the investments in Elenia and Cross London Trains and was a senior deal team member for the investment in Eversholt Rail.

# Investment Adviser's review

## Implementation of our investment approach throughout the year

The Investment Adviser was disciplined in the implementation of the Company's strategy for new investment throughout the year, operating within the constraints of increased competition and higher asset pricing, particularly in the Core infrastructure market. Within these constraints, the Board and Investment Adviser focused on:

**Crystallising exceptional value for our shareholders.** The Investment Adviser identified the opportunity to realise the Company's holding in Eversholt Rail at a material uplift, as a result of the increase in the market's interest for rail leasing assets. The Board and Investment Adviser carefully evaluated the price offered against their assessment of the potential for the business, as well as the impact on the Company's investment portfolio of selling this investment. The sale of the Company's holding in Eversholt Rail generated net proceeds of £365 million which, including the dividend of £15.5 million paid in December 2014, as well as the settlement of all interest receivable, represent an uplift of £139 million compared to the valuation of the Company's holding in the business at 30 September 2014. The sale crystallised an IRR of over 40% and a money multiple of 3.4x. This is described in the case study on page 20.

**Driving value from the Core infrastructure portfolio.** During the course of the year, the Investment Adviser worked with AWG on finalising its business plan for the 2015-2020 regulatory period ("AMP6") and in assessing the impact of Ofwat's draft and final determinations. The Investment Adviser is now focusing with the management team on the implementation of the capital expenditure and efficiency programmes to drive value through AMP6. Elenia will enter a new regulatory period in January 2016 and the Investment Adviser is working with the business to assess the impact of draft guidelines for the next regulatory settlement issued in February 2015 by the Finnish Energy Authority. The Investment Adviser continued to work with the Company's portfolio companies to optimise their capital structure and was able to take advantage of positive market conditions for debt issuance to complete refinancings for Oystercatcher and XLT in October 2014 and February 2015 respectively, while Elenia issued two new bonds under its Whole Business Securitisation programme (see pages 43 and 45).

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

**Diversifying the portfolio in mid market Core infrastructure and primary PPP projects.** The Company committed to invest £114 million in the year to the end of March 2015, in 45% holdings in two oil terminals in the Netherlands and Belgium alongside its existing partner Oiltanking (as described in the case study opposite) and in five new primary PPP projects (see page 23), taking advantage of the Investment Adviser's capabilities across a broad spectrum of the infrastructure market. The Investment Adviser has the skills and network to continue to access attractive investment opportunities and, as a result, whilst remaining disciplined in its approach, the Company is well placed to continue to invest at attractive risk-adjusted returns.

**Building partnerships for new investment, leveraging the Investment Adviser's network and expertise.** During the year our strategy to build strong partnerships delivered the new investments in the Oiltanking companies and in three additional primary PPP projects through our joint venture with Heijmans NV, a leading Dutch construction contractor.

**Continuing to manage the assets in the India Fund,** with the objective of realising value over the next few years. During the year, the Investment Adviser sold approximately 54% of the India Fund's holding in Adani Power, as described on page 23.

## Outlook

Projected returns in the European infrastructure market have compressed, particularly in the market for large Core infrastructure investments. However, there are areas of the market, including mid market Core infrastructure and primary PPP, where we have successfully originated new investments for the Company. We have the network, skills and investment track record to enable us to access attractive opportunities in these market segments, as demonstrated by the investments in the Oiltanking companies and primary PPP projects announced this year, which will contribute to the delivery of the Company's targets.

In this competitive environment, we will remain focused on investing at prices that are consistent with the Company's new total return and dividend targets. Following a period of significant bidding activity and with several investments secured in the year, we are building the Company's pipeline of investment opportunities. Core infrastructure remains a key area of focus for the Company and we are assessing a broad set of early stage opportunities in this market, as well as assessing opportunities in new sectors and geographies.

## Oiltanking Terneuzen and Oiltanking Ghent

## Core infrastructure investing – leveraging the Investment Adviser's network and expertise



### The investment

On 20 February 2015, 3i Infrastructure announced that it had signed an agreement with Oiltanking GmbH ("Oiltanking") to acquire a 45% interest in each of Oiltanking Terneuzen B.V. in the Netherlands ("OTT") and Oiltanking Ghent N.V. in Belgium ("OTG"), for an aggregate consideration of €107 million (£77 million). Oiltanking will retain the remaining 55% equity in the companies. The investment remains conditional upon receiving clearance from the European Commission under the EU Merger Regulation and is expected to complete by June 2015.

OTT is a modern, state of the art, 0.5 million cubic metre storage terminal located near the Scheldt River estuary in the Netherlands, providing storage and related services for refined oil products and chemicals to a small number of clients under long-term contracts. As it was built only recently, the terminal has limited investment requirements, and offers potential expansion opportunities.

OTG is an older, but well maintained, 1.0 million cubic metre storage terminal on the Terneuzen-Ghent canal in Belgium, providing storage and related services for oil products, chemicals and biofuels to a diverse portfolio of customers, including strategic stockholding agencies and traders, as well as local industries and their suppliers.

### Financing of the transaction

Since signing the transaction, the Company has sought to finance part of this investment through additional debt in Oystercatcher. In April 2015, Oystercatcher secured approval for this additional financing, which will reduce the Company's equity commitment requirement for this transaction to €72 million (£52 million). Upon completion of the transaction, the investments in OTT and OTG will form part of the Oystercatcher portfolio.

### Our partnership with Oiltanking

Oiltanking is one of the world's leading oil products storage operators with an excellent reputation for being a trusted guardian of valuable product, for running safe operations and for providing high levels of customer service.

These two terminals are good additions to the Company's existing investments in Oiltanking Amsterdam, Malta and Singapore, completed in 2007, which have generated strong returns. Our experience with these three terminals provided us with insight into the drivers and risks of the investments in OTT and OTG. Our excellent working relationship with Oiltanking proved an advantage in securing the investment in a competitive process.

### A strong investment case

The key elements of the investment case for OTG and OTT are consistent with the investment case for the three existing Oystercatcher terminals:

- there is strong projected demand for oil and oil-related products. Demand has increased further as a result of current market conditions, which have seen a steepening of the forward curve for oil and oil products;
- storage capacity remains scarce and is a key component of the oil and oil product supply chain, resulting in high occupancy;
- the two terminals are located in the Amsterdam-Rotterdam-Antwerp region, one of the global trading hubs for oil and oil products, and have a strong market position. The region benefits from its proximity to North Sea oil production and European refinery capacity, its high quality ports infrastructure and its strong connectivity via pipeline, road, rail and inland waterway, to European consumers of refined products;
- both businesses provide essential services and the terminals benefit from facilities and operational capabilities that make them attractive to existing and potential clients; while their facilities are almost fully let, they are well placed to benefit as contracts are renewed;
- both businesses are profitable, with resilient cash flows;
- this transaction allows 3i Infrastructure to build on its existing successful partnership with Oiltanking; and
- through this investment, the Company will diversify its portfolio of oil storage investments, adding two storage terminals to the three existing investments in Oystercatcher.

## Eversholt Rail Group

# Crystallising exceptional value for our shareholders



## About Eversholt Rail Group

Eversholt Rail 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 are leased to 11 Train Operating Companies ("TOCs"). The Company, in a consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners ("the Consortium"), acquired 100% of Eversholt Rail in December 2010. Each had an equal interest in the business.

The rationale for the investment was compelling, as Eversholt Rail has strong infrastructure characteristics:

- 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;
- high quality cash flows contracted for the medium term through lease agreements with the TOCs; and
- defensive fleet portfolio, predominantly weighted towards electric trains, with a good operational history, leased to a diversified customer base.

The drivers underpinning the investment case were proven through the period of ownership: passenger demand, particularly in the south east of England where Eversholt Rail has a strong market share, has been growing; and the electrification of the network is proceeding, potentially creating more re-leasing opportunities for Eversholt Rail's predominantly electric-powered fleets.

## The realisation

On 20 January 2015, the Consortium announced it had agreed to sell Eversholt Rail to CK Investments S.A R.L., a company jointly owned by Cheung Kong Infrastructure Holdings Limited and Cheung Kong (Holdings) Limited (together, "CKI"), subject to certain regulatory approvals. This sale generated net proceeds of £365 million, which were received in April 2015. The total proceeds, including the dividend of £15.5 million paid in December 2014, as well as the settlement of all interest receivable, were £381 million. These proceeds represent an uplift of £139 million compared to the valuation at 30 September 2014. The IRR through the period of ownership was over 40% and the money multiple was 3.4x.

Cost	£151m
Income received in the period of ownership	£104m
Capital receipts in the period of ownership	£36m
Net realisation proceeds (after transaction costs)	£365m
Gross IRR	>40%
Total return over cost	£354m
Gross money multiple	3.4x

While the Company aims to hold its Core investments over the long term, it will sell investments from time to time where this generates material additional value for shareholders.

## Value creation through engaged asset management

As set out on page 18, our engaged asset management approach is key to driving value from our investments during our ownership. After making each investment, the Investment Adviser engages with the management team of investee companies at board level, as well

as more informally, to develop strategies that support investment in the asset base over the long term, continued improvements in operational performance, disciplined cash management to drive yield for shareholders, an efficient capital structure and the alignment of interest between management and shareholders.

In the case of Eversholt Rail, the Investment Adviser together with our consortium partners achieved the following:

### Investment to promote growth over the long term

The Consortium engaged closely with the management team to support the business in the ongoing 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. Eversholt Rail was repositioned as an asset management business, capable of renewing its asset base in perpetuity, and not as a lessor of depreciating fleets. Eversholt Rail added to its capabilities through securing a long-term contract to manage the new Thameslink train fleet with the Company's other investment, Cross London Trains.

### An efficient capital structure

Eversholt Rail's capital structure was de-risked through the issuance of long-dated public bonds and a private placement, priced on attractive terms, significantly reducing the ongoing debt servicing costs and refinancing risks. The residual acquisition debt was refinanced in November 2013 and November 2014, on attractive terms, which leaves Eversholt Rail in a strong position for future growth.

### Separation from HSBC and renewed focus on business

The Consortium worked with the management team to transform Eversholt Rail into a fully functioning stand-alone business, compared to its previous reliance on HSBC. This included developing a full finance function and making further executive appointments to bolster Eversholt Rail's technical, financial and legal resources, positioning it well to manage the significant increase in workload as the pace of rail franchise re-tendering accelerated.

### Strong corporate governance and incentive structure

The Consortium strengthened Eversholt Rail's governance through several new appointments to the board, including a new chairman, a highly experienced non-executive director, a CFO and COO and the establishment of audit and remuneration committees with investor representation. In addition, Eversholt Rail's management incentives were restructured post acquisition, with a strong link to the long-term value of the business and returns to shareholders.



## 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. As a result of the adoption of new accounting standards, described in detail in the 2014 Annual Report, "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 analyses in previous years.

**Table 1 Portfolio summary** (year to 31 March 2015, £m)

	Directors' valuation 31 March 2014	Investment in the year	Divestment in the year	Value movement	Foreign exchange translation	Directors' valuation 31 March 2015	Profit/ (loss) on disposal	Underlying portfolio income in the year	Allocated foreign exchange hedging	Asset total return in the year
<b>Portfolio assets</b>										
<b>Core infrastructure</b>										
Eversholt Rail Group	160.3	5.1 <sup>1</sup>	(3.9)	198.3	–	<b>359.8</b>	–	31.1	–	<b>229.4</b>
Anglian Water Group	234.5	–	–	7.8	–	<b>242.3</b>	–	10.5	–	<b>18.3</b>
Elenia	235.7	11.0 <sup>1</sup>	(8.2)	29.5	(29.5)	<b>238.5</b>	(0.1)	19.9	26.4	<b>46.2</b>
Oystercatcher	119.8	–	–	(0.7)	(8.6)	<b>110.5</b>	–	4.3	2.9	<b>(2.1)</b>
Cross London Trains	64.0	–	–	35.8	–	<b>99.8</b>	–	4.8	–	<b>40.6</b>
	<b>814.3</b>	<b>16.1</b>	<b>(12.1)</b>	<b>270.7</b>	<b>(38.1)</b>	<b>1,050.9</b>	<b>(0.1)</b>	<b>70.6</b>	<b>29.3</b>	<b>332.4</b>
<b>Primary PPP</b>										
Mersey Gateway Bridge	–	–	–	–	–	–	–	0.2	–	<b>0.2</b>
Ayrshire College	–	–	–	–	–	–	–	0.8	–	<b>0.8</b>
A12	–	–	–	–	–	–	–	0.1	–	<b>0.1</b>
A9	–	–	–	–	–	–	–	0.1	–	<b>0.1</b>
La Santé	–	–	–	–	–	–	–	0.1	–	<b>0.1</b>
RIVM	–	–	–	–	–	–	–	0.2	–	<b>0.2</b>
	–	<b>0.1</b>	–	–	–	<b>0.1</b>	–	<b>1.5</b>	–	<b>1.5</b>
<b>Operational PPP</b>										
Elgin	46.8	–	(0.1)	(2.0)	–	<b>44.7</b>	–	2.8	–	<b>0.8</b>
Octagon	42.6	–	–	(0.4)	–	<b>42.2</b>	–	3.2	–	<b>2.8</b>
Dalmore	15.6	0.2	–	1.6	–	<b>17.4</b>	–	1.0	–	<b>2.6</b>
NMM	2.8	2.4	–	–	(0.6)	<b>4.6</b>	–	0.4	0.5	<b>0.3</b>
	<b>107.8</b>	<b>2.6</b>	<b>(0.1)</b>	<b>(0.8)</b>	<b>(0.6)</b>	<b>108.9</b>	–	<b>7.4</b>	<b>0.5</b>	<b>6.5</b>
<b>3i India Infrastructure Fund</b>	<b>73.9</b>	–	<b>(9.2)</b>	<b>(6.3)</b>	<b>4.8</b>	<b>63.2</b>	<b>1.0</b>	–	–	<b>(0.5)</b>
<b>Total portfolio</b>	<b>996.0</b>	<b>18.8</b>	<b>(21.4)</b>	<b>263.6</b>	<b>(33.9)</b>	<b>1,223.1</b>	<b>0.9</b>	<b>79.5</b>	<b>29.8</b>	<b>339.9</b>
Balance sheet adjustments related to unconsolidated subsidiaries <sup>2</sup>	0.6	–	1.0	6.8	–	<b>8.4</b>	–	–	–	–
Income statement adjustments related to unconsolidated subsidiaries <sup>2</sup>	–	–	–	–	–	–	13.6	(19.9)	(5.1)	<b>(4.6)</b>
Reported in the Consolidated financial statements	<b>996.6</b>	<b>18.8</b>	<b>(20.4)</b>	<b>236.5</b>	–	<b>1,231.5</b>	<b>14.5</b>	<b>59.6</b>	<b>24.7</b>	<b>335.3</b>

1 Capitalised income.

2 Income statement adjustments explained in Table 4 and Balance sheet adjustments explained in Table 5 in the Financial review.

## Investment and realisation activity

The Company was active in its markets in the year to March 2015, selling its investment in Eversholt Rail, which crystallised a very strong return for shareholders, and committing over £114 million to new investments in the Core infrastructure and primary PPP markets. The £77.6 million investment in the Oiltanking companies in the Core infrastructure mid market and the £36.6 million commitments to five new primary PPP projects across northern Europe are a demonstration of the Investment Adviser's ability to make investments in attractive areas of the infrastructure market in these very competitive market conditions.

### Core infrastructure

On 20 January 2015, 3i Infrastructure announced it had agreed to sell its entire holding in Eversholt Rail. The realisation generated net proceeds of £365 million upon completion on 16 April 2015; no proceeds were received in the financial year under review.

On 20 February 2015, the Company announced that it had signed an agreement with Oiltanking GmbH to acquire a 45% interest in each of Oiltanking Terneuzen B.V. in the Netherlands and Oiltanking Ghent N.V. in Belgium (together the "Oiltanking companies"). The commitment, excluding transaction costs, was €107 million (or £77.6 million) from 3i Infrastructure. Completion of the transaction remains conditional upon receiving clearance from the European Commission under the EU Merger Regulation. Since signing the transaction, the Company has sought to finance part of this investment through additional debt in Oystercatcher. Since the year end, Oystercatcher secured approval for this additional financing, which will reduce the Company's expected equity commitment requirement for this transaction to €72 million (£52 million).

The £16.1 million investment in Core infrastructure shown in Table 1, relates to capitalised interest in Eversholt Rail and Elenia. The Company also received proceeds of £3.9 million as a result of a shareholder loan repayment from Eversholt Rail and £8.2 million from Elenia relating to income capitalised in the previous financial year.

### Primary PPP and low-risk energy

The Company's remaining commitment of £2.4 million to the Dutch National Military Museum ("NMM") primary PPP project was drawn down in December 2014 following completion of construction in September 2014. This investment is now part of the Company's operational PPP portfolio. The NMM 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 approximately 60km south east of Amsterdam. The project is held through Heijmans Capital BV, a joint venture with the construction contractor, Heijmans NV, in which 3i Infrastructure has an 80% interest. The investment was made in November 2013, when the project was under construction. The Investment Adviser worked with its JV partner to manage the construction phase successfully. The new facility is now fully operational and exhibits military equipment, as well as holding various related events including workshops and symposia on military research.

During the year, 3i Infrastructure committed to invest £36.6 million in five new primary PPP projects. As these commitments will be drawn at the completion of the construction phase, the initial cash equity investment in this financial year for these projects totalled less than £0.1 million. These include:

- **Ayrshire College:** a 100% holding in a project, procured by Ayrshire College, to design, build, finance, operate and maintain a new college campus, against availability-based payments over a concession period of 25 years. The £4.6 million commitment is expected to be drawn at the completion of construction, anticipated to be in May 2016.
- **RIVM:** a 28% investment in a project to build the new premises of the National Institute for Public Health and the Environment and the Dutch Medicines Evaluation Board in Utrecht, the Netherlands, procured by the State of the Netherlands. The project scope comprises the design, build, finance, maintenance and operation of a 70,000m<sup>2</sup> facility comprising an office building and laboratories. The €4.8 million (£3.5 million) commitment is expected to be drawn at the completion of construction, anticipated to be in November 2018. The project is held through Heijmans Capital BV.

- **A12:** an 80% holding in a project, procured by the State of the Netherlands, comprising the refurbishment, widening and maintenance of an 11km section of the motorway, as well as the maintenance of an additional 8km section. The €5.3 million (£3.8 million) commitment is expected to be drawn at the completion of construction, anticipated to be by the end of calendar year 2016. The project is also held through Heijmans Capital BV.
- **A9:** a project including the design, build, management, maintenance and financing of the existing and new infrastructure of the A9 motorway between Diemen and Holendrecht in the Netherlands. The project will reconstruct and expand the A9 motorway between these junctions including a bridge over the river Gaasp. It will also include the construction of an approximately 3km overground tunnel. The Company committed €22.3 million (£16.2 million) to a 45% holding in this project, with the remaining equity in the project held by Heijmans NV, Ballast Nedam and Fluor Infrastructure BV.
- **La Santé:** a project involving the design, build, refurbishment, finance and maintenance of various prison buildings. The project will also include the provision of facilities management services once construction is complete, which is expected by the end of calendar year 2018. The Company committed €11.7 million (£8.5 million) to acquire an 80% holding in this project. The remaining equity in the project company is held by subsidiaries of Vinci Construction France and GDF-Suez.

The Company expects to complete an investment in the West of Duddons Sands OFTO project (approximately £25 million) in the summer of 2015.

### India

During the year, the 3i India Infrastructure Fund sold approximately 54% of its investment in Adani Power. Proceeds due to the Company in relation to the sale totalled £10.2 million. During the first half of the year, the Company received a distribution of proceeds from the India Fund of £7.4 million; at the year end the Company had a debtor balance for the remaining £2.8 million which will be received by the Company with the India Fund's next scheduled distribution.

# Investment Adviser's review

## Movements in portfolio value

As set out in Chart 1, the portfolio assets were valued at £1,223.1 million at 31 March 2015, compared to £996.0 million at 31 March 2014. The significant increase in portfolio value was attributable to the uplift in value of Eversholt Rail, as well as to valuation gains for the other investments in the Company's Core infrastructure portfolio. This was offset in part by unrealised foreign exchange retranslation movements, although these losses were significantly mitigated by gains in the foreign exchange hedging derivatives.

### Investment

The Company invested £18.8 million in the year to 31 March 2015. Of that, £5.1 million and £11.0 million related to capitalised interest for Eversholt Rail and Elenia respectively. In addition, £2.4 million was invested in the NMM project in the Netherlands as it became operational in September 2014. The Dalmore Capital Fund ("Dalmore") also drew a final £0.2 million from the Company's £15.0 million total commitment, which is now fully drawn. The remaining £0.1 million was the aggregate small initial cash investment to acquire equity in the five new primary PPP investments announced by the Company during the year, as described on page 23. The remaining investment commitments to these five investments will be drawn at the completion of their construction.

The €107 million (£77 million) investment commitment in the Oiltanking Terneuzen and Oiltanking Ghent terminals is not reflected, as it remains subject to clearance from the European Commission under the EU Merger Regulation. It is expected that the equity investment by the Company in these two terminals will be approximately £52 million, as it is anticipated that part of the commitment will be funded by further debt raised in Oystercatcher.

### Divestment proceeds/capital repayments

The Company received aggregate proceeds of £21.4 million in the year.

During the year, the India Fund sold approximately 54% of its shares in Adani Power, a listed company. This resulted in a distribution of proceeds due from the India Fund of £10.2 million, at a premium to the opening value of the shares divested of £1.0 million. Of this amount, £7.4 million was received by the Company in the first half of the year and is reflected in Chart 1, while the balance will be received with the India Fund's next scheduled distribution. The sales were achieved at an average price of 54.7 rupees per share, compared to the closing price at 31 March 2014 of 48.7 rupees per share and the closing price of 47.3 rupees per share at 31 March 2015.

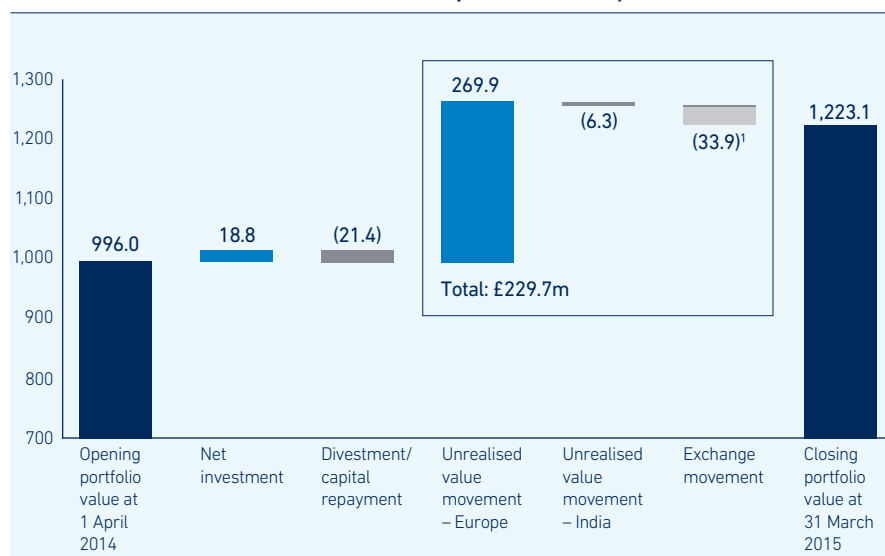
In addition, the Company received proceeds of £8.2 million from Elenia relating to repayment of interest capitalised in the previous financial year and a £3.9 million and £0.1 million partial shareholder loan repayment from Eversholt Rail and Elgin respectively.

The net proceeds of £365 million from the realisation of the Company's holding in Eversholt Rail were received on 16 April 2015, after the financial year end, and are therefore not shown in Chart 1.

### Unrealised value movement

The unrealised value movement in the year totalled £229.7 million (2014: £5.1 million). Unrealised value movement represents the change in the portfolio valuation within a measurement period. Changes to portfolio valuations arise due to several factors, as shown in the table opposite.

**Chart 1 Reconciliation of the movements in portfolio value** (year to 31 March 2015, £m)



1 The foreign exchange loss of £33.9 million was mitigated significantly by gains of £28.9 million on the hedging programme, designed to protect the NAV from foreign exchange movements.

**Table 2 Components of value movement** (year to 31 March 2015, £m)

Value movement component	Value movement in the first half of the year	Value movement in the second half of the year	Total value movement for the year	Description
Planned value growth	28.4	(2.4)	26.0	Net value movement resulting from the passage of time, consistent with the discount rate and cash flow assumptions at the beginning of the year, less distributions received in the year.
Asset performance	40.1	140.4	180.5	Net movement arising from actual performance in the year and changes to future cash flow projections, including financing assumptions and changes to regulatory determination assumptions. It also includes uplift to sales basis from last valuation.
Discount rate movement	57.1	73.9	131.0	Value movement relating to changes in the discount rate applied to the valuations.
Macro economic assumptions	(14.5)	(59.4)	(73.9)	Value movement relating to changes to macro economic out-turn or assumptions, eg inflation, interest rates on deposit accounts and taxation rates. This includes changes to regulatory returns that are directly linked to macro economic variables.
<b>Total value movement before exchange</b>	<b>111.1</b>	<b>152.5</b>	<b>263.6</b>	
Foreign exchange retranslation	(20.6)	(13.3)	(33.9)	Movement in value due to currency retranslation to year-end rate.
<b>Total value movement</b>	<b>90.5</b>	<b>139.2</b>	<b>229.7</b>	

The key driver of the increase in portfolio value in the second half of the year was asset performance, which includes the uplift in value from the most recent carrying value for Eversholt Rail. Discount rates were reduced for all Core infrastructure investments with the discount rates for AWG, Elenia and Oystercatcher being reduced in the second half of the year. The main driver of the changes in macroeconomic assumptions was the reduction in returns assumed for Elenia due to the fall in the Finnish 10-year gilt. Low inflation also had a negative impact in the second half of the year.

#### Core portfolio

The Core portfolio generated a strong unrealised value gain of £270.7 million in the year (or £232.6 million after exchange losses). This was driven principally by Eversholt Rail, which was valued on a sales basis as at 31 March 2015. The other Core infrastructure investments, other than Oystercatcher, also showed valuation gains in the year, reflecting the returns compression in the European Core infrastructure market which led in turn to a reduction in the discount rates applied to asset valuations across the portfolio, as well as robust performance and regulatory developments.

**Eversholt Rail** was valued at £359.8 million at 31 March 2015 (2014: £160.3 million). The investment was valued on a sales basis at 31 March 2015, based on the expected net sales proceeds of £365.2 million, which were received in April 2015 when the transaction completed, and after the deduction of: (i) accrued interest of £3.9 million, which is recorded as an interest debtor at 31 March 2015; (ii) £0.7 million to be recognised as income in the financial year to March 2016; and (iii) a provision of £0.8 million for the costs associated with the wind up of the investment.

**AWG** was valued at £242.3 million at the end of March 2015 (2014: £234.5 million). In December 2014, AWG received its final determination from Ofwat for the regulatory period beginning on 1 April 2015, which it accepted in February 2015. The valuation of the holding in AWG at the end of March reflected: (i) the revised business plan based on the final determination, the continued robust operational performance of AWG's core water and waste water business, and the progress achieved in the implementation of a broad range of efficiency initiatives for the 2010-2015 regulatory period; (ii) revised assumptions for the allowed WACC in future regulatory periods; and (iii) a reduction in the discount rate applied to value the investment, to take into account the Investment Adviser's assessment of the impact of the final

determination on AWG's performance and projected cash flows in this new regulatory period, as well as greater medium-term certainty following the acceptance of the final determination. These factors are described in the investment review on pages 40 and 41.

**Elenia** was valued at £238.5 million at the end of March 2015 (2014: £235.7 million). The significant value growth in the year of £29.5 million was offset by foreign exchange losses of £29.5 million as the euro weakened against sterling, although these foreign exchange losses were broadly hedged. The business continues to perform well both operationally and financially and the valuation increase reflects: (i) lower near-term allowed WACC, as Elenia's regulatory allowed return is determined annually with reference to the 10-year Finnish government bond yield, which fell further in the year; (ii) the positive impact on the business of draft guidelines for the next two regulatory periods issued by the Finnish Energy Authority in February 2015; and (iii) a reduction in the discount rate applied to value the investment. These factors are described in the investment review on pages 42 and 43.

# Investment Adviser's review

**Oystercatcher** was valued at £110.5 million at the end of March 2015 (2014: £119.8 million), including net foreign exchange losses of £8.6 million. The three terminals continue to perform well both operationally and financially, with capacity substantially let and a good level of throughput. The valuation was influenced by a number of factors: (i) the positive benefit of the refinancing in October 2014 on improved terms; (ii) a reduction in the discount rate applied to value the investment, reflecting the lower financing risk following the completion of the refinancing, as well as the pricing of recent transactions in the oil storage market; and (iii) more cautious assumptions for future storage tariffs, reflecting increasing capacity in the greater Singapore region and reduced demand for certain products in Europe. These are described in the investment review on pages 44 and 45.

**XLT** was valued at £99.8 million at the end of March 2015 (2014: £64.0 million). The investment is performing well and the manufacturing of the trains is proceeding ahead of schedule. The increase in valuation was due to the reduction in the discount rate applied to the valuation of the investment in September 2014, in light of evidence of returns compression in the market for the provision of finance for the procurement of new rail fleets. The valuation also increased in the second half of the year due to XLT's share of the benefit of a refinancing completed by the business in February 2015. These are described in the investment review on pages 46 and 47.

## PPP portfolio

The PPP portfolio was valued at £109.0 million at the end of March 2015, compared to £107.8 million at the end of March 2014, reflecting the continued solid operational performance of the investments, offset in part by income receipts in the year and by the impact of lower than expected inflation.

## 3i India Infrastructure Fund

The India Fund was valued at £63.2 million at the end of March 2015, compared to £73.9 million in March 2014, which includes the disposal of approximately 54% of the Fund's holding in Adani Power (£9.2 million of opening value), as described on page 23. The negative value movement of £6.3 million was due to a number of factors, including continued delays in project execution and funding constraints for the road projects, and the pricing and availability of fuel for the investments in the power sector. The Indian rupee increased by 8% against sterling over the course of the financial year, resulting in foreign exchange gains, as shown in Table 3.

## Foreign exchange impact

There was significant volatility in exchange rates in the financial year, which impacted portfolio valuations in sterling terms. As shown in Table 3, the reported net foreign exchange loss on investments of £33.9 million related mainly to euro and Singapore dollar exchange movements, which are broadly protected by a hedging programme. The Indian rupee increased against sterling in the year and this currency exposure is not hedged.

In March 2014, the Board extended the Company's existing hedging policy to partially cover the Singapore dollar exchange rate risk that arises from the underlying investment in Oiltanking Singapore.

The euro spot exchange rate, which is used to translate the euro-denominated assets, depreciated by 13% against sterling in the year, leading to a significant reduction in the value of euro-denominated assets. Against this, movements in the overall hedging programme contributed to a total value gain for the year of £29.8 million, providing protection against these exchange losses. The euro element of the hedging programme is valued using euro forward exchange rates which only partly benefited from the spot exchange rate depreciation as a result of decreases in Eurozone interest rate expectations relative to the UK. In addition, the valuation of Oiltanking Singapore is influenced by euro/Singapore dollar forward rates over the long term, while the Company's hedging programme only provides protection against forward exchange rate movements over a shorter time frame.

**Table 3** Impact of foreign exchange movements on portfolio value (year to 31 March 2015, £m)

	£/rupee	£/€/SGD	Net impact
Translation of assets £/rupee	4.8		4.8
Translation of assets £/€/SGD		(38.7)	(38.7)
<b>Foreign exchange gains/(losses) on investments</b>	<b>4.8</b>	<b>(38.7)</b>	<b>(33.9)</b>
Movement in the fair value of derivative financial instruments (£/€/SGD hedging)		29.8	29.8
<b>Net foreign exchange gains/(losses)</b>	<b>4.8</b>	<b>(8.9)</b>	<b>(4.1)</b>



## Portfolio risks

The portfolio was affected by a number of specific regulatory and market risks during the year, several of which are expected to continue to have an impact over the next financial year.

### Regulatory risks

The UK water sector was the subject of a regulatory review during the year, which determined the allowed return for industry participants for the 2015–2020 regulatory period. AWG received its final determination from Ofwat in December 2014 and accepted it in February 2015. This was a tough determination for the sector as a whole, although Anglian Water's business plan was well received by Ofwat and praised by customer groups. The Investment Adviser is working with AWG to implement the business plan for the regulatory period to 2020.

In February 2015, the Finnish Energy Authority, which regulates electricity distribution in Finland, announced draft guidelines for the next two regulatory periods (beginning in January 2016) which, if implemented in their current form, would have a positive impact on the performance and valuation of Elenia's networks business. Among other matters, the draft guidelines suggest changes to the calculation of the WACC, addressing the issue of the current low allowed return. These guidelines are still in draft form and the regulator is consulting with the industry in anticipation of the publication of the final regulatory settlement, expected by December 2015.

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

### Market risks

Interest rates remained low throughout the year. This had positive implications for some of the portfolio assets, including Elenia and Oystercatcher, which have been able to continue to raise debt on attractive terms. However, Elenia's regulatory allowed return is determined annually with reference to the 10-year Finnish government bond yield. There is continued downward pressure on Finnish 10-year government bond yields, driven by stimulus measures adopted by the European Central Bank in response to the low growth, low inflation environment across Europe, as well as by continued macroeconomic and geopolitical uncertainty, which has led some investors to seek the safety of Finnish sovereign debt. The Finnish Energy Authority has taken steps to address the low allowed return in its draft guidelines for the next two regulatory periods.

The current low interest rate environment is also one of the factors contributing to the continued returns compression in the Core infrastructure market, as detailed on page 8. These conditions have had a positive impact on the valuation of the Company's portfolio of Core infrastructure investments, which were acquired in a more favourable prospective returns environment. As a result, the Board has reviewed the Company's return objectives, as outlined on page 9.

Inflation also remained below previous expectations in the year, continuing to impact the assets with inflation-linked revenues, including AWG and the operational PPP portfolio. However, cost inflation has also been low across the portfolio.

### India

The India Fund's portfolio continued to be affected by a number of specific risks, which are set out in the asset review on pages 50 to 52.

## Summary of valuation methodology

Investment valuations are calculated 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. In light of the compression in returns and changes in asset pricing across the infrastructure sector, and the consequent changes to asset valuations within the Company's portfolio in this financial year, the Board and Audit and Risk Committee received additional independent advice in relation to the valuation of the Core infrastructure assets (Elenia, AWG, Oystercatcher and XLT) at 31 March 2015, which included comparison to relevant valuation benchmarks.

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.

# Investment Adviser's review

Chart 2 shows the movement in the weighted average discount rate applied to the portfolio at the end of each year since the Company's inception. The weighted average discount rate reduced from 11.8% at the beginning of the year to 10.2% at 31 March 2015.

As noted previously, the discount rates applied to the Company's valuation of AWG, Elenia and Oystercatcher were reduced at 31 March 2015 and the discount rate applied to value XLT was lowered in the first half of the year. In the first half of the year, the Dalmore Capital Fund reduced the discount rate it uses to value its portfolio and this was reflected in the Company's valuation of its LP interest in that fund. This discount rate is now in line with that used to value the Company's other operational PPP investments. In addition to these reductions, there were small increases in the discount rates used to value assets within the India Fund. Eversholt Rail was no longer valued on a DCF basis at the end of March 2015 (see below).

### Eversholt Rail

The Company's holding in Eversholt Rail was valued on a sales basis at 31 March 2015 as the sale was announced on 20 January 2015 and proceeds were received on 16 April 2015.

The sales basis is used when an investment is in a sale process and a price has been agreed or offers have been received, but the transaction has not completed or settled. The investment is then valued on the basis of the contracted sale proceeds for the transaction, or the best estimate of those proceeds. Where appropriate, the valuation may include a marketability discount to reflect any uncertainty on the completion of the transaction, which was not material in the case of Eversholt Rail and as at the date of the approval of this report, the proceeds had been received.

### 3i India Infrastructure Fund and Dalmore Capital Fund

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

Within the India Fund valuation, 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.

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

## Investment track record

As shown in Chart 3, 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
- consistent capital growth.

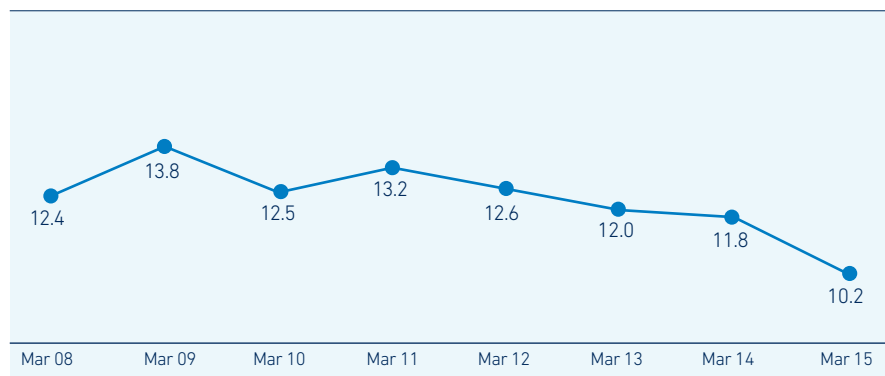
These have underpinned a 17% annualised IRR since the Company's inception. The Core infrastructure and PPP portfolios, in particular, have generated strong returns, in line with, or in many cases significantly ahead of, expectations.

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

The value created through this robust investment performance was crystallised in a number of instances through well managed realisations, shown as "Realised assets" in Chart 3. 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 Eversholt Rail in 2015, which generated an IRR in excess of 40%, as well as through the realisations of Alma Mater in 2008, I<sup>2</sup> in 2009, the junior debt portfolio in 2011–12 and Alpha Schools in 2013. The aggregate IRR generated through these realisations was 26.8%.

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

**Chart 2 Portfolio weighted average discount rate (31 March 2015, %)**



**Chart 3 Portfolio asset returns throughout holding period**  
(since inception, £m)

### Existing portfolio

Eversholt<sup>1</sup>



AWG



Elenia



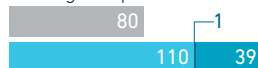
Oystercatcher



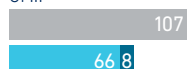
Cross London Trains



Existing PPP portfolio



3i IIF



### Realised assets

Realised PPP assets



Junior debt portfolio



T2C and Novera



■ Total cost

■ Value including accrued income/accrued disposal proceeds

■ Proceeds on disposals/capital returns

■ Cash income

<sup>1</sup>Sale completed in April 2015

# 17%

Annualised asset IRR from inception to 31 March 2015

## Financial review

## Key financial measures

	Year to 31 March 2015	Year to 31 March 2014
Total return	<b>£266.8m</b>	£71.0m
NAV per share	<b>149.9p</b>	126.4p
Portfolio income	<b>£79.5m</b>	£82.3m
Portfolio asset value <sup>1</sup>	<b>£1,223.1m</b>	£996.0m
Cash balances <sup>1</sup>	<b>£75.4m</b>	£92.3m
Liquidity <sup>2</sup>	<b>£259.6m</b>	£292.3m

1 Reconciliation of measure to the Financial statement balances is set out in Table 5.

2 Includes cash balances of £75.4 million and £184.2 million undrawn balances available under the £200 million revolving credit facility, prior to the renewal of the facility on 7 May 2015.

## 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 movements relating to portfolio assets; 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;
- costs: advisory and performance fees, Board and other operating costs, other transaction fees payable and net finance costs relating to the Company's borrowing facilities; and

- other net income/costs: includes other income and foreign exchange movements principally relating to euro balances held on deposit in relation to future commitments to fund investment.

Table 4 below shows the underlying aggregate returns from portfolio assets for each of these elements of returns and costs. The Financial statements' classification of these components of total return includes transactions within unconsolidated subsidiaries as the Company adopts the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) for its reporting.

## Total return

3i Infrastructure generated a total return for the year of £266.8 million, representing a 24.6% return on opening shareholders' equity (2014: £71.0 million, 6.6%).

This very strong return was driven by the value uplift generated through the sale of the Company's investment in Eversholt Rail, which was valued on a sales basis at 31 March 2015, by the value growth in the rest of the Company's Core infrastructure portfolio, as well as by income receipts. This was offset in part by net foreign exchange losses, a small value reduction in the India Fund and costs.

## Capital return

Total capital return for the year was £230.6 million (2014: £5.3 million), nearly all of which, £229.7 million (2014: £5.1 million), was an unrealised value gain, while the remaining £0.9 million balance (2014: £0.2 million) was a realised return.

The sale of Eversholt Rail was signed in January 2015, however, the proceeds were received after the year end on 16 April 2015.

As a result, the uplift to the valuation generated through the sale is not accounted for as a realised return in this financial year, but is recognised as an unrealised value movement as the asset remained in the portfolio as at 31 March 2015.

## Realised return

3i Infrastructure generated a realised capital return of £0.9 million (2014: £0.2 million) in the year predominantly from its share of the India Fund's sale of approximately 54% of its holding in Adani Power. The sale resulted in proceeds to the Company of £10.2 million, against an opening value of the shares divested of £9.2 million. The gain on Adani Power was partially offset by a small £0.1 million realised exchange loss on the partial repayment of capitalised income in Elenia.

## Unrealised value movement, including foreign exchange movements

The portfolio generated an unrealised value gain of £229.7 million in the year to 31 March 2015 (2014: £5.1 million). This comprised a £263.6 million value increase (2014: £29.2 million) and a £33.9 million foreign exchange loss (2014: £24.1 million).

The European portfolio achieved very strong returns, reflecting the valuation of the investment in Eversholt Rail on a sales basis, as well as by valuation gains across the Core infrastructure portfolio. This was offset by an unrealised value loss of £6.3 million for the India Fund. These value movements are described on pages 24 to 26.

## Net capital return

Net capital return, including the £29.8 million movement in the value of foreign currency hedging derivatives (2014: £4.9 million), was £260.4 million (2014: £10.2 million), as shown in Chart 4.

**Table 4 Summary total return** (year to 31 March 2015, £m)

	Underlying portfolio asset aggregate returns and costs	Adjustments for transactions in unconsolidated subsidiaries	Financial statements
Capital return	230.6	20.4 <sup>1,2,3</sup>	251.0
Movement in fair value of derivatives	29.8	(5.1) <sup>1</sup>	24.7
Total income	79.8	(19.9) <sup>2</sup>	59.9
	<b>340.2</b>	<b>(4.6)</b>	<b>335.6</b>
Costs	(72.8)	4.7 <sup>3</sup>	(68.1)
Other net income/(costs)	(0.6)	(0.1)	(0.7)
<b>Total return</b>	<b>266.8</b>	<b>–</b>	<b>266.8</b>

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

2 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 a capital return of £19.9 million as income, to reflect the nature of the original source of the return, as monitored by the Board. This principally relates to a dividend of £15.5 million received from Eversholt Rail.

3 Costs of £4.7 million were incurred within unconsolidated subsidiaries, comprising fees paid directly to 3i Group (£4.2 million), operating expenses (£0.3 million) and transaction fees (£0.2 million). These are reflected in capital returns or income as they have reduced either the carrying value, or the income distributed from these subsidiaries.

Movements in the fair value of derivatives of £29.8 million (2014: £4.9 million) represent the fair value movements of the euro and Singapore dollar hedging programme and reduced the overall foreign exchange losses to £4.1 million (2014: £19.2 million losses).

## Income

### Total income

Total income for the year to 31 March 2015 comprised portfolio income of £79.5 million (2014: £82.3 million) and interest receivable on cash balances of £0.3 million (2014: £0.4 million).

### Portfolio income

The portfolio generated income totalling £79.5 million in the year (2014: £82.3 million), of which £29.2 million (2014: £44.4 million) was through dividends and £48.8 million (2014: £36.8 million) through interest on shareholder loans. In addition, the Company received arrangement fees for the new primary PPP investments, totalling £1.5 million (2014: XLT, £1.1 million).

Eversholt Rail generated strong cash flows in the year. The Company received a dividend of £15.5 million (2014: nil) and accrued interest of £15.6 million (2014: £17.9 million). Since the year end, and until the completion of the sale of the investment, the Company accrued a further £0.7 million in interest payments from Eversholt Rail. This amount was included in the £365 million net proceeds and will be recognised as income in the year ending 31 March 2016.

AWG paid a dividend of £5.7 million in the financial year; the Company also accrued interest of £4.8 million (2014: £13.2 million, £4.8 million). AWG did not pay a further dividend to its shareholders in the second half of the

financial year, pending the final determination from Ofwat. We expect that AWG will resume dividend payments to its shareholders in the financial year ending 31 March 2016.

The Company accrued interest of £19.9 million from Elenia in the year (2014: £18.2 million dividend and £7.0 million interest). Elenia resumed interest payments to its shareholders following the completion of the refinancing of its acquisition debt in November 2013. Dividend income accrued and received from Elenia in the financial year ended March 2014 was above the level for this financial year, as it had benefited from the distribution of reserves that had been retained by the business pending that refinancing.

The Company received a dividend of £4.3 million from Oystercatcher in the year (2014: £9.6 million). In October 2014, the Investment Adviser concluded a successful refinancing of the debt in Oystercatcher, leading to the resumption of distributions in the second half of the year. The reduction in the dividend compared to the prior year was a consequence of the costs associated with this refinancing and of the impact on cash flows of the implementation of a significant capital expenditure programme, described on page 45.

The Company received interest payments of £4.8 million from XLT. This is an increase from £3.6 million in the prior year, when the investment had not been held for a full 12 months.

The PPP investments generated income of £7.4 million (2014: £6.9 million), of which £3.7 million (2014: £3.4 million) was through dividends and £3.7 million (2014: £3.5 million) was through interest. In addition, arrangement fees of £1.5 million (2014: nil) were received on the completion of new primary PPP projects.

## Interest receivable

Interest income from cash and cash equivalents totalled £0.3 million (2014: £0.4 million). The Company's cash balances generated interest at an average rate of 0.4% in the year (2014: 0.4%).

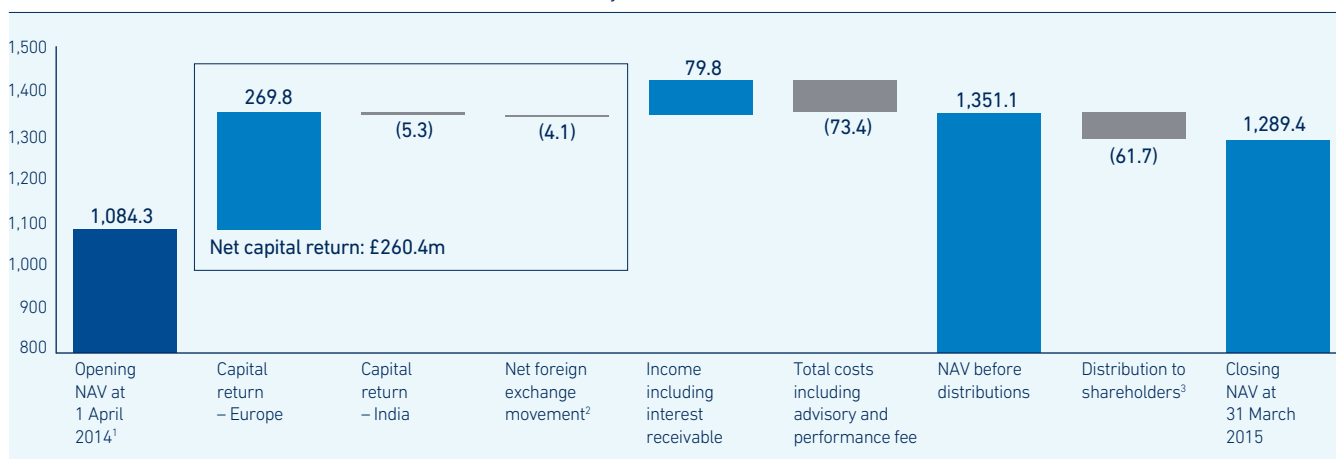
## Costs

### Advisory fees and performance fees

During the year to 31 March 2015, the Company incurred advisory fees of £15.2 million (2014: £14.0 million). The increase is due to the growth in portfolio value and to new investment activity. The advisory fee, payable to 3i plc, is calculated as 1.5% of the Gross Investment Value, which is based on the opening portfolio value and the cost of any new investments or commitments made during the year.

Following the adoption of the amendments to the Investment Advisory Agreement on 8 May 2014, the advisory fee for new primary PPP transactions was reduced to 1.0%. For non-primary PPP transactions, the advisory fee reduces from 1.5% to 1.25% for any proportion of an asset held for more than five years. As several of the Company's investments have been held for more than five years, the advisory fee rate chargeable for those investments (eg AWG, Oystercatcher, Octagon, Elgin and various assets within the 3i India Fund) is 1.25%.

**Chart 4 Reconciliation of the movement in net asset value** (year to 31 March 2015, £m)



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

<sup>2</sup> Foreign exchange movements are described in Table 3.

<sup>3</sup> Includes interim and final dividend payments but does not reflect the special dividend to be made in July 2015.



## Financial review

An annual performance fee is also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the growth in net asset value per annum. This hurdle was exceeded materially for the year ending 31 March 2015. Based on the total return achieved, the performance fee payable to the Investment Adviser in respect of the year ending 31 March 2015 totalled £45.0 million (2014: nil). The performance fee is also subject to a new high water mark requirement which was introduced with the adoption of the amendments to the Investment Advisory Agreement. As the closing net asset value per share at the end of the year (before deducting a performance fee) exceeded the previous highest net asset value per share used to calculate a performance fee, the high water mark requirement was met for the year ending 31 March 2015. For a more detailed explanation of how Advisory and Performance fees are calculated and of the high water mark definition, please refer to Note 18 on page 91.

#### Fees payable

Fees payable for costs in relation to transactions that did not reach, or have yet to reach, completion totalled £4.1 million (2014: £2.1 million). In addition, the Company accrued transaction costs of approximately £2.2 million relating to the new investments in the Oiltanking companies. The increase compared to last year reflects the high level of origination and investment activity across both Core infrastructure and primary PPP and the significantly higher number of opportunities which reached an advanced stage during the year.

#### Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £3.1 million in the year (2014: £2.3 million). The increase reflects several additional costs this financial year, including the legal and professional costs regarding the amendments to the Investment Advisory Agreement voted at the Extraordinary General Meeting, one-off costs relating to the appointment of a new Corporate Administrator and other advice received by the Board, including legal and independent valuation advice.

Finance costs of £3.2 million (2014: £3.1 million) comprise the arrangement, commitment and utilisation fees for the Company's £200 million revolving credit facility and the costs associated with the additional short-term borrowing facilities put in place during the year to position the Company to make commitments for new investments while awaiting the proceeds from the sale of Eversholt Rail.

#### Ongoing charges ratio

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

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ("AIC") recommended methodology, and was 1.47% for the year to 31 March 2015 (2014: 1.48%). Ongoing charges exclude several exceptional costs which are not expected to be recurring.

The AIC's methodology does not include performance fees, however the AIC recommends that the impact of performance fees on the ongoing charges ratio is noted, where performance fees are payable. The cost items that contributed to the ongoing charges ratio are shown opposite. The ratio, including the performance fee, was 5.18% (2014: 1.48%).

	2015 £m	2014 £m
Investment Adviser's fee	15.2	14.0
Auditors' fee	0.2	0.2
Directors' fees and expenses	0.4	0.4
Other ongoing costs	2.0	1.7
<b>Total ongoing charges</b>	<b>17.8</b>	<b>16.3</b>
<b>Ongoing charges ratio</b>	<b>1.47%</b>	<b>1.48%</b>

### Balance sheet

The net asset value at 31 March 2015 was £1,321.3 million (2014: £1,113.8 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 and the accrued performance fee.

The statutory Financial statements require cash or other net assets/liabilities held within intermediate holding companies to be presented as part of the fair value of the investments. The Directors consider that it is helpful for users of the accounts to be able to consider the valuation of the Company's portfolio assets and the total aggregate cash and net asset/liabilities within the Company and its unconsolidated subsidiaries. The adjustments required to provide this analysis are shown in Table 5.

At 31 March 2015, the Company's net assets totalled £1,321.3 million, or £1,289.4 million after the deduction of the final dividend (2014: £1,113.8 million, £1,084.3 million), comprising the asset portfolio, valued at £1,223.1 million (2014: £996.0 million), cash and cash equivalents of £75.4 million (2014: £92.3 million), other financial assets of £33.9 million (2014: £13.1 million), net derivative

**Table 5 Summary balance sheet** (as at 31 March 2015, £m)

	Underlying aggregate portfolio amounts and other balances	Adjustments for transactions in unconsolidated subsidiaries <sup>1</sup>	Financial statements
Portfolio assets	1,223.1	8.4	1,231.5 <sup>2</sup>
Cash balances	75.4	(2.9) <sup>3</sup>	72.5
Financial assets	33.9	–	33.9
Derivative financial instruments	28.2	(4.5) <sup>4</sup>	23.7
Other net liabilities	(39.3)	(1.0)	(40.3)
<b>Net asset value</b>	<b>1,321.3</b>	<b>–</b>	<b>1,321.3</b>

1 "Investments at fair value through profit and loss" in the statutory Financial statements includes £2.9 million of unrestricted cash balances and £1.0 million of other net assets within intermediate unconsolidated holding companies and a £4.5 million re-classification of derivative liabilities relating to the Oystercatcher subsidiary. These adjustments reclassify these balances to show the underlying value of the portfolio assets, the total cash holdings and the derivative and other net assets/(liabilities) position, as monitored by the Board.

2 Described as "Investments at fair value through profit and loss" in the Financial Statements.

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

4 A £4.5 million derivative liability relating to hedging specific to the Oystercatcher subsidiary, re-classified as Portfolio assets, to reflect the fact that it is monitored by the Board as part of the valuation of Oystercatcher.

financial instruments assets of £28.2 million (2014: £2.6 million) and other current assets of £14.2 million (2014: £12.7 million), primarily relating to accrued income from portfolio investments, offset by accrued transaction fees, advisory and performance fees and other operating and financing costs of £53.5 million (2014: £2.9 million). A summary balance sheet is included in Table 5.

### Cash and other financial assets

Cash balances at 31 March 2015 totalled £75.4 million (2014: £92.3 million), including £2.9 million (2014: £1.6 million) of unrestricted cash balances held within intermediate unconsolidated holding companies. In addition, an amount of £33.9 million (2014: £13.1 million), held on the balance sheet as "Other financial assets", comprises cash held on deposit in third-party bank accounts on behalf of the Mersey Gateway Bridge, Ayrshire College and A9 projects.

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.

### Revolving credit facility

On 2 May 2013, the Company entered into a three-year revolving credit facility of £200 million. At 31 March 2015, this revolving credit facility had been used to issue letters of credit for £4.8 million (£3.5 million) for the undrawn commitment to the RIVM primary PPP project, £5.3 million (£3.8 million) for the undrawn commitment to the A12 primary PPP project and £11.7 million (£8.5 million) for the undrawn commitment to the La Santé primary PPP project.

Since the year end, on 7 May 2015, the Company renewed its revolving credit facility and increased the size of the facility to £300 million. This will allow the Company to minimise returns dilution from holding excessive cash balances, while maintaining a good level of liquidity for further investment, including accommodating the further funding of new primary PPP investments through letters of credit. The new facility is a three-year facility. The Company has the right to increase the size of the facility by up to a further £200 million, provided that existing lenders have a right of first refusal, and the Company has rights to request one or two-year extensions to the maturity date of the facility, which may be granted at the discretion of each lender individually.

During the financial year, in February 2015, the Company also secured additional short-term borrowing facilities of £420 million, to enable it to continue to make commitments for new investments while awaiting the receipt of proceeds from the sale of its investment in Eversholt Rail. Additional borrowing facilities amounting to £210 million were still in place at 31 March 2015 but were subsequently cancelled, shortly after the year end.

### Net asset value per share

The total net asset value per share at 31 March 2015 was 149.9 pence (2014: 126.4 pence). This reduces to 146.3 pence (2014: 123.0 pence) after the payment of the final dividend of 3.62 pence. There are no dilutive securities in issue.

### Dividend and dividend cover

The Board proposed a total dividend for the year of 7.0 pence per share, or £61.7 million (2014: 6.70 pence; £59.0 million) in aggregate. This is ahead of the Company's target of paying a full year dividend of 5.5% of opening net asset value.

When considering the coverage of the proposed dividend, the Board assesses the income and fees earned from the portfolio, interest received on cash balances and any additional non-income cash distributions from portfolio assets which do not follow from a disposal of the underlying assets, as well as the level of ongoing operational costs incurred in the period. The Board also takes into account any surpluses retained from previous years, and net capital profits generated through previous asset realisations. At 31 March 2015, the Company had retained amounts which the Board considers available for distribution as dividend of approximately £33 million (2014: £80 million).

For the year to 31 March 2015, total income and interest, including non-income cash distributions from portfolio companies, amounted to £85.0 million (2014: £82.9 million). For dividend cover, operational costs relating to advisory fees, operating expenses and financing costs, totalled £21.5 million for the year (2014: £19.5 million). The total dividend of £61.7 million is therefore covered.

### Return of capital

The Board is announcing its intention to implement a return of capital of £150 million. This will be paid from the Company's retained reserves as a special dividend of 17.0 pence per share. The sale of Eversholt Rail generated a realised capital profit of £240 million, which more than covers the proposed special dividend of £150 million.

## Key financial risks

The principal financial risks faced by the Company in the year were:

### Liquidity risk

During the year, the Company had to manage the liquidity requirements of an active pipeline of investment activity with the objective of running its balance sheet efficiently. The Board carried out several assessments of liquidity risk and, during the year, the Company secured the availability of additional short-term borrowing facilities on attractive terms, to position it to continue to make commitments for potential new investments while awaiting the proceeds of the sale of its investment in Eversholt Rail.

### Currency risk

There was significant currency volatility in the year; the euro depreciated by 13% against sterling in the year to the end of March 2015. The Company's objective is to hedge partially its euro exposure and the Singapore dollar exposure (associated with the investment in Oiltanking Singapore within the Oystercatcher valuation). The revaluation of the hedging programme for both the euro and Singapore dollar is impacted by movements in forward exchange rates which are not matched by an equivalent change in the spot exchange rate at which the assets are translated. The Board monitors the effectiveness of the Company's hedging policy on a regular basis.

### Valuations risk

Following the compression in market returns and changes in asset pricing across the infrastructure sector, there were several significant changes to asset valuations within the Company's portfolio in this financial year. The Board and Audit and Risk Committee received additional independent advice in relation to the valuation of the Company's Core infrastructure assets (Elenia, AWG, Oystercatcher and XLT) at 31 March 2015.

# Key risks and mitigations

Effective risk assessment underpins the successful delivery of the Company's strategy. Integrity and responsibility are embedded in the Company's approach to risk management.

This section explains how the Company controls and manages its risks. It outlines the key risks, how they are mitigated and the Board's assessment of their potential impact on the Company in the context of the current market environment.

## Approach to risk governance

The Board is ultimately responsible for the risk management of the Company and has a risk management framework which provides a structured and consistent process for identifying, assessing and responding to risks in relation to its strategy and business objectives. The Board seeks to achieve an appropriate balance between mitigating risk and generating attractive risk-adjusted returns for shareholders. 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 Board manages these risks through updates from the Investment Adviser and other service providers and through representation on portfolio companies' boards. It considers the most significant risks facing the Company and also maintains a risk log.

The Board's oversight of the risk management methodology and process is exercised through the **Audit and Risk Committee**. In January 2015, the Board approved the extension of the terms of reference of the Audit Committee to include the formalisation of the Company's risk assessment methodology, including the identification of risk tolerances and limits for approval by the Board, to assess the effectiveness of risk mitigation factors and to oversee the reporting of risk management and risk monitoring. These responsibilities previously pertained to the whole Board.

The Committee was, at the same time, renamed the Audit and Risk Committee. In addition, the Audit and Risk Committee ensures that there is a consistent approach to risk across the Company's strategy, policies and procedures. The Audit and Risk Committee's activities are discussed further in that Committee's report on page 65.

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

The **Investment Committee**, which includes all Directors, meets as required to consider risk in relation to the acquisition, management and disposal of investments.

The **Management Engagement Committee** monitors the performance of the Investment Adviser and considers annually, and recommends to the Board, whether the continued appointment of the Investment Adviser is in the best interest of the Company and its shareholders.



## Risk review process

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

- Regular updates on the operational and financial performance of portfolio companies;
- Infrastructure and broader market overviews;
- Assessment of key macroeconomic indicators and their impact on the performance and valuation of portfolio companies;
- Liquidity management;
- Review of compliance with regulatory obligations;
- Review of the impact of international initiatives such as the EU Alternative Investment Fund Manager Directive, US Foreign Account Tax Compliance Act and the OECD's Action Plan on Base Erosion and Profit Shifting; and
- Review of the Company's Risk log.

The Board uses the above to identify a number of key risks. It then evaluates the impact and likelihood of each key risk, with reference to its key performance indicators. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

In 2015 the Board covered topics such as market risk, liquidity risk, valuation risk, foreign exchange risk and investment risk.

## Review of principal risks

The disclosures on the following pages are not an exhaustive list of risks and uncertainties faced by the Company, but rather a summary of those principal risks which are under active review by the Board, and have the potential to affect materially the achievement of the Company's strategic objectives and impact its financial performance. The Company's risk profile and appetite remains broadly stable.

## External, market and investment

The markets in which the Company seeks to invest, and in particular the European Core infrastructure market, have continued to see material returns compression over the financial year in review, as described on page 8. While this has supported strong value gains in the portfolio, it has also made it challenging for the Company to secure new investments in large Core infrastructure businesses at total returns and yields consistent with the Company's existing targets, posing a risk to the Company's ability to source attractive investment opportunities. In this challenging environment, the Investment Adviser continues to leverage its network and skills to make investments that can continue to deliver attractive risk-adjusted returns to the Company's shareholders.

## Financial and liquidity

Financial risks include risks relating to changes in market prices and rates, access to the capital markets to fund investments and the ability to optimise the underlying investments' capital structure. Interest rates remained low throughout the year. This had positive implications for some of the portfolio assets which have been able to continue to raise debt on attractive terms. However, Elenia's regulatory allowed return is determined annually with reference to the 10-year Finnish government bond yield. There is continued downward pressure on Finnish 10-year government bond yields, driven by stimulus measures adopted by the European Central Bank in response to the low growth, low inflation environment across Europe, as well as by continued macroeconomic and geopolitical uncertainty, which has led some investors to seek the safety of Finnish sovereign debt. This had negative implications on Elenia's valuation in the year. Please see pages 42 and 43 for further analysis of the factors affecting Elenia's performance.

There was significant currency volatility in the year; the euro depreciated by 13% against sterling in the year to the end of March 2015. The Company's objective is to partially hedge its euro and Singapore dollar exposure (associated with the investment in Oiltanking Singapore within the Oystercatcher valuation). The revaluation of the hedging programme for both the euro and Singapore dollar is impacted by movements in forward exchange rates which are not necessarily matched by an equivalent change in the spot exchange rate at which the assets are translated.

The Board monitors actively the net foreign exchange exposure during the year. Overall, 77% of the foreign exchange losses were offset by movements in the foreign exchange hedging derivatives.

During the year, the Company had to balance the funding requirements of its pipeline of investments with the objective of running its balance sheet efficiently. The Board assessed the Company's liquidity requirements periodically and, during the year, the Company secured additional short-term borrowing facilities on attractive terms, to position it to continue to make commitments for potential new investments while awaiting the proceeds of the sale of its investment in Eversholt Rail.

## Government policy and regulatory

The UK water sector was the subject of a regulatory review during the year, which determined the allowed return for industry participants for the 2015–2020 regulatory period. AWG received its final determination from Ofwat in December 2014 and accepted it in February 2015.

In February 2015 the Finnish Energy Authority, which regulates electricity distribution in Finland, announced draft guidelines for the next two regulatory periods (beginning in January 2016) which, if implemented in their current form, would have a positive impact on the performance and valuation of Elenia's networks business. Among other matters, the draft guidelines suggest changes to the calculation of the regulatory allowed return, addressing the issue of the low allowed return described previously. These guidelines are still in draft form and the regulator is consulting with the industry in anticipation of the publication of the final regulatory settlement, expected by December 2015.

## Operational

The key areas of operational risk include the loss of key personnel at the Investment Adviser, and whether the Investment Adviser's team can continue to support the delivery of the Company's objectives. The Board monitors the performance of the Investment Adviser through the Management Engagement Committee. It also monitors the performance of key service providers, receiving reports of any significant control breaches.

# Key risks and mitigations

Key risk factors	Risk description	Risk mitigation
<b>External</b>		
<b>Macroeconomic risk</b>	<ul style="list-style-type: none"> <li>■ Limited growth or reduction in NAV, or reduction of portfolio income levels owing to adverse market conditions for the Company's portfolio assets</li> <li>■ Impact on investment rates</li> </ul>	<ul style="list-style-type: none"> <li>■ Modelling of sensitivity of each investment to macroeconomic variables</li> <li>■ Regular reviews of hedging undertaken where appropriate</li> <li>■ Diversification of the portfolio across a range of infrastructure sectors with different economic cycles and across different geographies</li> </ul>
<b>Market risk</b>	<ul style="list-style-type: none"> <li>■ Impact on portfolio company valuations</li> <li>■ Impact on investment rates should market projected returns be inconsistent with the Company's return objectives</li> </ul>	<ul style="list-style-type: none"> <li>■ Regular monitoring of infrastructure market transactions and implied valuations and alignment of the Company's return objectives to market returns</li> <li>■ Leveraging Investment Adviser's network to find attractive investment opportunities</li> </ul>
<b>Geopolitical risk</b>	<ul style="list-style-type: none"> <li>■ Impacts general market confidence, bond yields in certain geographies and projected returns in certain asset classes</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>■ Extensive research and due diligence on any proposed investment in new markets</li> <li>■ Reports on the India Fund's portfolio performance including proposed actions by the Investment Adviser</li> </ul>
<b>Government policy and regulatory risk</b>	<ul style="list-style-type: none"> <li>■ Non-compliance with applicable regulations impacts the Company's ability to operate effectively</li> <li>■ Changes in regulation also affect the performance of the underlying portfolio</li> </ul>	<ul style="list-style-type: none"> <li>■ Changes to applicable legal and regulatory frameworks for the Company and each of the portfolio assets are closely monitored</li> <li>■ Rigorous processes to minimise risk of breach are in place</li> <li>■ Regular monitoring of compliance with relevant regulations is undertaken by the Company and Investment Adviser</li> </ul>
<b>Financial</b>		
<b>Currency risk</b>	<ul style="list-style-type: none"> <li>■ Unhedged foreign exchange rate movements impact total return and NAV</li> <li>■ Underlying portfolio companies are also exposed to currency risks. Where appropriate, they also need to implement foreign currency hedging policies to manage this risk</li> </ul>	<ul style="list-style-type: none"> <li>■ The Company's euro and Singapore dollar exposure is broadly hedged to stabilise returns using foreign exchange swaps or forward contracts (note that the exposure to the Indian rupee is unhedged)</li> <li>■ The hedging strategy is monitored regularly by the Board</li> <li>■ Underlying portfolio company hedging policies are monitored by the Investment Adviser to ensure their adequacy</li> </ul>
<b>Financing and interest rate risk</b>	<ul style="list-style-type: none"> <li>■ This affects: <ul style="list-style-type: none"> <li>– The cost of servicing the Company's debt</li> <li>– The ability of portfolio companies to finance themselves efficiently</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 capabilities of portfolio companies</li> <li>– The rate of return of the Company's liquid assets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Debt levels, refinancing risk and hedging requirements in underlying portfolio companies are monitored regularly</li> <li>■ Financing strategy limits the Company's borrowings to 50% of gross assets. The Company currently has net cash</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 interest rate risk</li> </ul>
<b>Liquidity risk</b>	<ul style="list-style-type: none"> <li>■ Impacts the Company's ability to fund its investment pipeline</li> <li>■ Holding excessive cash balances has a negative impact on returns</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> </ul>
<b>Credit risk</b>	<ul style="list-style-type: none"> <li>■ Debt availability is fundamental to completing new investments and financing capital expenditure in several portfolio assets</li> </ul>	<ul style="list-style-type: none"> <li>■ Regular portfolio monitoring provides 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 and counterparty limits undertaken regularly</li> </ul>



Key risk factors	Risk description	Risk mitigation
<b>Investment</b>		
<b>Investment decision risk</b>	<ul style="list-style-type: none"> <li>Poor investment decisions impact longer-term returns</li> <li>Poor investment performance negatively affects the attractiveness of the Company as a co-investment or financial partner</li> </ul>	<ul style="list-style-type: none"> <li>Investment prospects subject to thorough review processes by the Investment Adviser</li> <li>Thorough review undertaken by the Board prior to the final investment decision</li> </ul>
<b>Investment performance risk</b>	<ul style="list-style-type: none"> <li>Impacts capital and income returns from portfolio assets</li> </ul>	<ul style="list-style-type: none"> <li>Formal portfolio asset reviews, which include the assessment of environmental, social and regulatory/operating environment risks, are undertaken regularly and reviewed bi-annually by the Board</li> <li>The Investment Adviser represents the Company on the boards of portfolio companies</li> </ul>
<b>Investment concentration risk</b>	<ul style="list-style-type: none"> <li>Over-exposure to adverse developments in a particular sector or geography</li> </ul>	<ul style="list-style-type: none"> <li>No new investment should represent more than 20% of the portfolio at the time of investment. The Board has proposed to increase this limit to 25%, subject to shareholder approval in July 2015</li> <li>Portfolio concentration measures are reviewed periodically by the Board</li> <li>The Investment Adviser undertakes a concentration review for each new investment</li> </ul>
<b>Strategic</b>		
<b>Business strategy risk</b>	<ul style="list-style-type: none"> <li>Deviations from the assumptions factored into 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 the relevance and adequacy of the KPIs</li> <li>Plans and underlying assumptions for the Company and portfolio assets are updated continuously</li> </ul>
<b>Operational</b>		
<b>Exposure to the loss of key members of the investment advisory team</b>	<ul style="list-style-type: none"> <li>Inability to deliver strategic plan</li> <li>Potential to undermine investor and/or shareholder confidence</li> </ul>	<ul style="list-style-type: none"> <li>The Board monitors the performance of the Investment Adviser through the Management Engagement Committee and the Chairman has a regular dialogue with the CEO of 3i Group on the performance of the investment advisory team</li> </ul>
<b>Inadequate or failed processes and systems, and external factors affecting these processes</b>	<ul style="list-style-type: none"> <li>Ability of the Company to continue to operate effectively</li> </ul>	<ul style="list-style-type: none"> <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 Investment ("RI") and has embedded RI policies in its investment and asset management processes.

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

- the effective assessment and management of environmental, social, business integrity and corporate governance matters has a positive effect on the value of portfolio companies, and hence on 3i Infrastructure 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 the Company's investment.

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

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

The main features of the policy include:

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

Details of the Investment Adviser's RI policy are available on 3i Group's website: [www.3i.com/corporate-responsibility/responsible-investor](http://www.3i.com/corporate-responsibility/responsible-investor).

## Governance

Good corporate governance is fundamental to 3i Infrastructure and its activities.

For full details of the Company's governance structure, please see the Governance section of this report and visit the Governance & CSR section of the Company's website at [www.3i-infrastructure.com](http://www.3i-infrastructure.com).

## Bribery Act

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

## Environment

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

## Procurement

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

## Prompt Payment Code

3i Group performs most payment and treasury functions for the Company and is a signatory 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  
11 May 2015



# Review of investments



# Anglian Water Group

## Performance in the year

Cost

£161.9m

Closing value

£242.3m

Equity interest	10.3%
Opening value	£234.5m
Income in the year	£10.5m
Value movement in the year	£7.8m
Asset total return in the year	£18.3m
Valuation basis	DCF



## Description

Anglian Water Group Limited ("AWG") is the parent company of Anglian Water, the largest water and water recycling company in England and Wales by geographical area and the fourth largest 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 by the Investment Adviser.

## Investment rationale

AWG was taken private in 2006 by a group of investors, including 3i Group, which "seeded" part of its AWG holding into 3i Infrastructure when the Company 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 well maintained 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 will be maintained for the 2015-2020 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 team 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 achieved its cost efficiency and capital spending targets in the final year of the 2010-2015 regulatory period, driven by several initiatives including changes to working practices, better maintenance, improved sourcing, industrialised construction and lower energy consumption, all underpinned by a focus on customer service.

The core water business continues to perform well operationally, despite continued pressure on residential and small business demand during the year. Compared with recent years, which were affected by wet weather and flooding, the more benign conditions experienced in the year to March 2015 have led to a more typical profile, resulting in lower underlying operating costs.

Anglian Water ranked joint first (on a combined qualitative and quantitative basis) among the water and water recycling companies in Ofwat's Service Incentive Mechanism, which measures the performance of water companies against the experience of customers, for the year ending 31 March 2014.

The final determination for the 2015-2020 regulatory period, or AMP6, which began on 1 April 2015, was delivered by Ofwat in December 2014 and accepted by AWG in February 2015. This was a tough determination for the sector as a whole, although Anglian Water's business plan was well received by Ofwat and praised by customer groups. Customer bills will fall by an average of 8.8% in real terms next year, the largest decrease of all water and sewerage companies. This is in large part due to the efficiencies delivered by Anglian Water in AMP5, with that outperformance benefit now being shared with customers. The business is now focusing on implementing the capital spending programme for AMP6 and on achieving its cost efficiency targets through the period.

The Water Act became law in the year and sets out a number of changes to the structure of the industry, including placing water supply resilience at the heart of decision-making in the sector, extending competition for business customers and changing the abstraction regime to encourage more efficient use of water resources. Most of the changes in the Water Act had been well signalled and, as a top performing water and water recycling company, AWG is well placed to accommodate them. However, the structural nature of market liberalisation means that increasing amounts of management time will be consumed over the next few years as AWG works towards the non-household retail market opening in April 2017.

Sir Adrian Montague stepped down as chairman of AWG in January 2015 and was replaced as chairman on an interim basis by Robert Napier, previously the senior independent director. Stephen Billingham, formerly CFO of British Energy and currently chairman of Punch Taverns, took over as chairman from Robert Napier with effect from 1 April 2015.



## Performance in the year

Cost

£194.8m

Closing value

£238.5m

Equity interest	39.3%
Opening value	£235.7m
Net capitalised interest in the year	£2.8m
Income in the year	£19.9m
Value movement in the year	£29.5m
Net exchange movement in the year <sup>1</sup>	£(3.1)m
Asset total return in the year	£46.2m
Valuation basis	DCF

<sup>1</sup> Exchange movement of £(29.5) million net of allocated foreign exchange hedging movements of £26.4 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 market share of approximately 12%. 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 90% 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 10% of Elenia's overall value.

The investment is held through 3i Networks Finland LP, an intermediary limited partnership which is managed by the Investment Adviser.

## Investment rationale

The Company 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 and operates in an attractive market:

- 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. This allowed Elenia to begin distributing dividends to shareholders. In December 2013, Elenia's original acquisition debt was fully refinanced through a Whole Business Securitisation, the first of its kind to be applied to a non-UK European utility. 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.

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. Since acquisition in January 2012, Elenia has invested more than €250 million in developing its electricity network, with a particular emphasis on improving service reliability and weather proofing. The rate of underground cabling has improved from 23.3% to 30.9% as at 31 December 2014. A number of acquisitions have also been examined, with the first bolt-on acquisition of an adjacent network completed in August 2012.

Throughout the period of ownership, the consortium has supported the management team in its dialogue with the regulator. The regulator introduced a new security of supply incentive, aimed at improving the reliability of electricity supply in response to outages caused by severe weather conditions in 2011 and 2012, effective from January 2014, and more recently confirmed a revised approach to asset depreciation. These had a positive effect on returns.

## Developments in the year

Overall, both businesses continued to perform well operationally and financially, despite warmer than average weather conditions reducing demand.

Secondary market pricing for Elenia's debt has continued to tighten since its Whole Business Securitisation, which it completed in December 2013. During the year, Elenia was able to take advantage of these positive market conditions to issue new bonds, with maturities to 2026 and 2034, on attractive terms, which it has used to repay bank debt.

Elenia's regulatory allowed return (weighted average cost of capital, or WACC) is determined annually with reference to the 10-year Finnish government bond yield in May of the preceding year. The 10-year Finnish government bond yield fell significantly during the year, driven principally by the ECB's monetary policy and by geopolitical tensions, which have led some investors to seek the safe haven of Finnish sovereign debt. This has had a negative impact on returns.

In February 2015 the Finnish Energy Authority, which regulates electricity distribution in Finland, announced draft guidelines for the next two regulatory periods (beginning in January 2016) which, if implemented in their current form, would have a positive impact on the valuation of the networks business. Among other matters, the draft guidelines suggest changes to the calculation of the WACC, addressing the issue of the low allowed return. These guidelines are still in draft form and the regulator is consulting with the industry in anticipation of the publication of the final regulatory settlement, expected by December 2015.

In July 2014, Elenia became the first electricity distribution network in Europe and second in the world to receive ISO 55001 certification. ISO 55001 is a set of international standards establishing best practice for the systems and operations of companies in asset-intensive industries.

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.



# Oystercatcher

## Performance in the year

Cost **£84.5m**

Closing value **£110.5m**

Equity interest	45%
Opening value	£119.8m
Income in the year	£4.3m
Value movement in the year	£(0.7)m
Net exchange movement in the year <sup>1</sup>	£(5.7)m
Asset total return in the year	£(2.1)m
Valuation basis	DCF

<sup>1</sup> Exchange movement of £(8.6) million net of allocated foreign exchange hedging movements of £2.9 million.



## Description

Oystercatcher Luxco 2 S.à r.l. ("Oystercatcher") is the holding company through which the Company 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 72 terminals in 22 countries with a total storage capacity of 19 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. Storage capacity has been substantially let throughout the period of investment, and throughput levels have been high. All three terminals were 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.

The Investment Adviser was 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 28%.

Oystercatcher completed a refinancing of its acquisition debt facilities in March 2013, and a further refinancing in October 2014. Both achieved good terms, de-risking the financing structure and lowering debt servicing costs.

## Developments in the year

Market conditions for trading customers remained difficult for much of the year, with squeezed trading margins. This increases traders' attention on storage costs during contract renewal negotiations. Together with some reduction in demand for storage in parts of Europe, and increasing competition in Singapore, this put pressure on renewal rates. However, the strong market position of the terminals has continued to ensure that capacity at each terminal remains substantially let and that contract renewals have been agreed on good terms.

The Singapore and Malta terminals performed in line with expectations during the year, facing no significant operational issues. The Amsterdam terminal's performance continues to be affected by the implementation of a major programme of infrastructure process and safety upgrades, 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.

As noted above, in October 2014, the Investment Adviser completed a refinancing of the debt in Oystercatcher, extending the maturity profile and reducing interest costs. Since the year end, further debt was raised to finance the Company's acquisition, expected to be completed in May 2015, of 45% stakes in each of Oiltanking Terneuzen and Oiltanking Ghent, as described in the case study on page 19. When the transaction completes, these terminals will form part of Oystercatcher's portfolio.

The valuation of Oystercatcher is also affected by its exposure to the euro and Singapore dollar exchange rate, which is partially hedged. During the year, the Board broadened the Company's Singapore dollar hedging programme to seek to reduce the net exposure of the Company to exchange rate volatility.

# Cross London Trains ("XLT")

## Performance in the year

Cost £61.8m

Closing value £99.8m

Equity interest	33.3%
Opening value	£64.0m
Income in the year	£4.8m
Value movement in the year	£35.8m
Asset total return in the year	£40.6m
Valuation basis	DCF



## Description

Cross London Trains 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 is investing £1.6 billion in a fleet of new Siemens Desiro City commuter rail carriages 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 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. The Company 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.

## Achievements in the period of ownership

The manufacture of the trains has commenced and is proceeding according to plan. A senior management team was installed at XLT, comprising a new executive chairman and a managing director with relevant industry experience. Andy Pitt, executive chairman, was previously managing director of South West Trains. Charles Doyle, managing director, was previously a commercial principal at Transport for London. They have successfully set up all necessary business functions and built a strong working relationship with Eversholt Rail, which provides technical engineering and administrative services to the business under a long-term management services contract.

XLT, supported by its shareholders, has engaged proactively with a number of stakeholders, including Siemens, the Department for Transport, Network Rail and the new franchise holders.

The Company and Investment Adviser have built a strong working relationship with Siemens and Innisfree, the other shareholders in XLT.

## Developments in the year

The business is performing well and Siemens is ahead of schedule with the manufacturing of the new trains and the first units are being tested by Siemens. The investment, completed in June 2013, was immediately accretive to the Company through interest payments and a further £4.8 million in loan interest payments was received in the year.

The Thameslink franchise expired in September 2014 and the Department for Transport appointed Govia Thameslink Railway to replace First Capital Connect as the franchise holder in June 2014. XLT worked with both Govia Thameslink Railway and First Capital Connect to facilitate the transition of the franchise.

The business completed a refinancing of its debt at the end of February 2015, achieving lower pricing and an improved covenant package. The majority of the benefit of the refinancing flows to the Department for Transport, as agreed at the time of the original investment. Approximately 10% of the benefit is retained by XLT, and this has been included in the valuation at 31 March 2015.

The value of the Company's holding in XLT increased significantly in the year, due to the reduction in the discount rate used to value the investment, in light of evidence of returns compression in the market to finance the procurement of new rail fleets (see page 26). Previously, XLT was valued marginally above its investment cost, based on historic assumptions on future returns negotiated in different market conditions.



# PPP portfolio

## Performance in the year

Cost **£78.3m**

Closing value **£109.0m**

Opening value	£107.8m
Investment in the year	£2.7m
Income in the year	£8.9m
Value movement in the year	£(0.8)m
Net exchange movement in the year <sup>1</sup>	£(0.1)m
Asset total return in the year	£8.0m
Valuation basis	DCF and LP share of funds for Dalmore

Note: In addition to the value of the investments shown above (Octagon, Elgin, Dalmore and NMM), the Company also has undrawn commitments to primary PPP projects totalling £49.7 million. The total invested and committed portfolio value at 31 March 2015 was £158.7 million. Opening cost was £75.8 million.

<sup>1</sup> Exchange movement of £(0.6) million net of allocated foreign exchange hedging movements of £0.5 million.

## Description

### Primary project portfolio

**Mersey Gateway Bridge**, a project involving the design, build, finance, operation and maintenance 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 commenced 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 holds a 25% interest in the project.

**Ayrshire College**, a project to build a new campus for Ayrshire College in Kilmarnock, Scotland. The project, procured by Ayrshire College, involves the design, build, finance, operation and maintenance of a new college campus, against availability-based payments over a concession period of 25 years. Completion of construction is expected in May 2016. 3i Infrastructure has a 100% interest in the project.

**RIVM**, a project to build the new premises of the National Institute for Public Health and the Environment and the Dutch Medicines Evaluation Board in Utrecht, the Netherlands. The project scope involves the design, build, finance, maintenance and operation of 70,000m<sup>2</sup> facility comprising an office building and laboratories on the site of Utrecht Science Park. Completion of construction is expected in November 2018. 3i Infrastructure has a 28% interest in this project through Heijmans Capital BV.



**A12**, a project involving the refurbishment, widening and maintenance of an 11km section of the A12 motorway in the Netherlands, as well as the maintenance of an additional 8km section. Construction is expected to be completed by the end of 2016. 3i Infrastructure has an 80% interest in the project, through Heijmans Capital BV.

**A9**, a project involving the design, build, management, maintenance and financing of the existing and new infrastructure of the A9 motorway between Diemen and Holendrecht in the Netherlands. The project will reconstruct and expand the A9 motorway between these junctions, including a bridge over the river Gaasp. It will also include the construction of an approximately 3km overground tunnel. 3i Infrastructure has a 45% interest in the project, with the balance held by Heijmans NV, Ballast Nedam and Fluor Infrastructure BV.

**La Santé**, a project involving the design, build, refurbishment, finance and maintenance of various buildings for La Santé prison in Paris. The project will also include the provision of facilities management services once construction is complete, which is expected to be by the end of 2018. 3i Infrastructure has an 80% interest in the project, with the balance held by subsidiaries of Vinci Construction France and GDF-Suez.

### Operational PPP portfolio

**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** 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 Capital Fund** 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 2015, Dalmore had total commitments of £249 million, 100% of which were drawn.

**National Military Museum** is a project procured by the Dutch Ministry of Defence comprising the design, build, finance and maintenance of a museum facility on the site of the former Soesterberg Airbase, located approximately 60km south east of Amsterdam. The construction of the project was completed in September 2014. The facility exhibits military equipment and holds various related events including workshops and symposia on military research. The project is owned by Heijmans Capital BV, a joint venture in which 3i Infrastructure has an 80% interest, with the balance held by Heijmans NV, the Dutch construction group.

### 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 more general factors, including higher than expected inflation. The Investment Adviser has a strong track record in managing the development and construction risks for the primary PPP portfolio.

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 material uplifts over cost in 2008, 2009 and 2013 respectively, generating an aggregate IRR of 30%.

### Developments in the year

All assets in the operational 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 year.
- Octagon continues to perform well financially and operationally and has maintained its strong working relationship with the NHS Trust (despite significant pressures on the Trust as a result of increased budgetary constraints) and with Serco, which continues to provide a good service to the Trust.
- NMM became operational in September 2014, and the Company's remaining £2.4 million investment in the project was drawn upon the completion of construction.
- The Dalmore portfolio now comprises 46 investments, which overall are performing well, resulting in cash generation ahead of projections.

The Investment Adviser has been active in sourcing and making investments on behalf of the Company in the primary PPP market, adding to the holdings in the Mersey Gateway Bridge and NMM projects acquired last year. During the year, the Company committed to invest a total of £37 million in five new primary PPP projects: Ayrshire College in Scotland, the A9 and A12 motorways and RIVM laboratories in the Netherlands and La Santé Prison in France.

The Company's primary PPP portfolio is performing well, with construction proceeding to plan and within budget, except in relation to Mersey Gateway Bridge, where there have been minor delays due principally to high winds affecting the scheduling of some construction activities. The Company's commitments to the Mersey Gateway Bridge, Ayrshire College, RIVM, A9 and A12 motorways and La Santé projects will be drawn at completion of construction.

The Company expects to reach financial close on the West of Duddon Sands OFTO project when it is commissioned in the summer of 2015, with an expected commitment of approximately £25 million.

# 3i India Infrastructure Fund

## Performance in the year

Cost **£91.9m**

Closing value **£63.2m**

Partnership interest	20.9%
Opening value	£73.9m
Divestment in the year	£9.2m
Capital profit in the year	£1.0m
Value movement in the year	£(6.3)m
Exchange movement in the year	£4.8m
Asset total return in the year	£(0.5)m
Valuation basis	LP share of funds

Note: Opening cost was £106.8 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, 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 2015, the India Fund was invested in a portfolio of seven assets in the power and transportation sectors.

## Transportation

The investments in the Transportation sector accounted for 68% of the India Fund's value at 31 March 2015.

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

**KMC Roads** is developing an approximately 850km portfolio of "build-operate-transfer" ("BOT") road projects, one of the largest portfolios of its kind in India.

**Supreme Roads** is building a portfolio of BOT road projects.

**Soma Enterprise** 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 32% of the India Fund's value at 31 March 2015.

**Adani Power** focuses on the development and operation of power plants and the sale of power generated. With operational capacity of 9,240MW, 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 Odisha.

## 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.

The valuation of the India Fund's assets has been affected by a number of market and other external factors over its life, including the depreciation of the Indian rupee. At 31 March 2015, the India Fund's net asset value was 0.85x its investment cost in rupee terms, and 0.68x 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 challenges in the year. The Modi government, elected in May 2014, has made a number of important policy statements in support of investment in the infrastructure sector. However, these statements have yet to translate into concrete initiatives that can improve the performance of the portfolio materially.

During the second half of the year, the Indian rupee increased in value against the US dollar and other currencies, resulting in a modest foreign exchange gain, which more than reversed the losses incurred in the first half of the year.

## Transportation

The India Fund's transportation assets were valued in aggregate at £42.9 million at 31 March 2015 (2014: £39.4 million).

The road investments continue to be adversely impacted by challenges in project execution, due to delays in land acquisitions and environmental approvals. The road construction companies are also facing cash flow constraints due to an increase in raw material costs and pending claims with the National Highway Authority of India (the concessioning authority), leading to severe working capital constraints. A number of the construction companies have opted to restructure their debt obligations. These pressures are affecting all three of our road assets, Soma Enterprise, KMC Roads and Supreme Roads, and the Investment Adviser continues to work with the companies to address them.

Krishnapatnam Port continues to witness strong growth in traffic, led by the increase in coal imports, particularly by power plants located in the immediate vicinity of the port. On 30 September 2013, the India Fund exercised a put option over its holding in the company. The consideration due under the put option has not been paid and the India Fund is seeking to enforce its rights through legal action. There were no material developments in the year.

# 3i India Infrastructure Fund

### Power

The power sector investments were valued in aggregate at £20.3 million at 31 March 2015 (2014: £34.5 million). The factors affecting their performance have remained broadly unchanged, and include:

- the availability of domestic coal: Coal India continues to struggle to match supplies with the contracted demand from power producers and the resulting shortfall is being made up with expensive imports. In addition, during the year, the Supreme Court confirmed the cancellation of over 200 coal licenses awarded to private sector operators, which is expected to exacerbate the problem in the short term;
- the availability of gas: production from India's main gas fields has declined dramatically in recent years and today little gas is available for power production.

The Indian government has been working to resolve some of these issues, increasing the regulated price of gas to encourage increased exploration and production and developing a mechanism to allow power producers to pass through increased fuel costs through higher tariffs under existing long-term power purchase agreements ("PPAs"). However, the Supreme Court has ruled against these proposed changes to PPA tariffs, and the matter has been referred to the Regulator.

During the year, the India Fund sold approximately 54% of its holding in Adani Power, a listed company. The sale capitalised on the rally in the share price of that business around the time of the Indian general election and more recently. Proceeds due to the Company in relation to the sale totalled £10.2 million. During the first half of the year, the Company received a distribution of proceeds from the India Fund of £7.4 million; at the year end the Company had a debtor balance for the remaining £2.8 million which will be received by the Company with the India Fund's next scheduled distribution. The Company's residual holding in Adani Power was valued at £7.9 million at the end of the year, based on the closing bid price at 31 March 2015 of 47.3 rupees per share.

GVK continues to face gas availability issues, further delays in completion of its construction projects and was one of the companies to have a coal mining licence withdrawn by the Supreme Court in a recent ruling covering the historic allocation of India's coal mining rights. These factors together have increased funding requirements and caused a material reduction in its valuation in the year.

A close-up photograph of industrial machinery, likely a large pipe or vessel. The image shows several flanges connected by thick, silver-colored metal bolts. The bolts are arranged in a circular pattern, and the flanges are made of a light-colored metal, possibly stainless steel. The background is dark and out of focus, emphasizing the mechanical details in the foreground.

# Governance



# Introduction

This section 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.

The Board also has direct access to the Company's external advisers, including the Company's corporate brokers, financial adviser and legal advisers. The Board receives advice on a range of subjects but particularly on the infrastructure market, UK and Jersey legal matters and equity market issues.

## 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 five 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 59 and 62 to 63.

## 3i Infrastructure plc Board Committees

Audit and Risk Committee <sup>1</sup>	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>Doug Bannister</li> <li>Paul Masterton</li> </ul>	<ul style="list-style-type: none"> <li>Peter Sedgwick (chair)</li> <li>Philip Austin</li> <li>Doug Bannister</li> <li>Wendy Dorman</li> <li>Paul Masterton</li> <li>Steven Wilderspin</li> </ul>	<ul style="list-style-type: none"> <li>All Directors</li> </ul>	<ul style="list-style-type: none"> <li>Philip Austin (chair)</li> <li>Peter Sedgwick</li> <li>Doug Bannister</li> <li>Wendy Dorman</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>

<sup>1</sup> Renamed Audit and Risk committee with effect from 21 January 2015.

Note: The table shows the current membership of the committees. Details of membership throughout the year are on page 62.

# 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 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.



**Doug Bannister**  
Non-executive Director

Doug has over 20 years of experience in the transportation sector, having lead businesses trading around the world for P&O Nedlloyd and Maersk. He became Group CEO of the Ports of Jersey (Airports & Harbours) in 2011, with responsibility for the Island's strategic airport and maritime assets. Skilled in turnaround, restructuring and transformation of capital intense transportation businesses, he has been responsible for all manner of transportation in both the freight and passenger segments. Board member since 1 January 2015, resident in Jersey.



**Wendy Dorman**  
Non-executive Director

Wendy is a chartered accountant who went on to specialise in financial services taxation. In 2001 she moved from London to Jersey and leads the Channel Islands tax practice of PwC. Wendy has over twenty five years' experience in taxation gained both in the UK and the offshore environment, working both in practice and in industry. Wendy is Chairman of the Jersey branch of the Institute of Directors and was awarded the 2011 IOD Female Director of the Year. She is also a non-executive director of Jersey Finance. She is a former President of the Jersey Society of Chartered and Certified Accountants. Board member since 1 March 2015, resident in Jersey.



**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, Asia 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 and Risk 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. 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 is a 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 2015 ("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 92.

## 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.

## 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.

## 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 NMPIs 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.

## Results and dividends

The financial statements of the Company and its subsidiaries (together referred to as the "Group") for the year appear on pages 72 to 75. Total comprehensive income for the year was £266.8 million (2014: £71.0 million). An interim dividend of 3.38p per share (2014: 3.35p) in respect of the year to 31 March 2015 was paid on 8 January 2015. The Directors recommend that a final dividend of 3.62p per share (2014: 3.35p) be paid in respect of the year to 31 March 2015 to shareholders on the register at the close of business on 19 June 2015.

The Company announced a new dividend policy, which targets a progressive annual dividend per share, de-linking the dividend from the opening NAV. In light of the material profits generated through the sale of Eversholt Rail, the Company is providing dividend guidance for FY2016, and communicated a target dividend for FY2016 of 7.25 pence per share.

In addition, the Board announced its intention to pay a special dividend of 17.0 pence per share, amounting to £150 million. This special dividend will allow shareholders to participate in the successful realisation of Eversholt Rail, while ensuring that the Company retains a good level of liquidity for new investment.

The distribution of the dividend payments between interim and final dividends is evaluated by the Board each year, according to the Company's performance, portfolio income generation and other factors, such as profits generated on the realisation of portfolio assets.

## Strategy, performance and principal risks

The Strategic report on pages 6 to 38 provides a review of the performance and position of the Company, together with a description of the principal risks and uncertainties that it faces.

## 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 the Company 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.

On 8 May 2014, the Company and the Investment Adviser entered into an amendment agreement to the IAA (the "Amendment Agreement"), 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.

The Amendment Agreement was approved by an overwhelming majority of the Company's independent shareholders at the extraordinary general meeting held on 8 July 2014, following the receipt of the Jersey Financial Services Commission's approval on 11 June 2014.

The details of the Amendment Agreement are set out in the Company's 2014 annual report. In brief, they include a reduction in the advisory fee rate for future primary PPP and certain renewable energy project investments and, following feedback received from shareholders, the addition of a "high water mark" requirement to the performance fee calculation. With the exclusivity arrangements coming close to expiry at that time, the Board also agreed an extension of the fixed term of the IAA by four years, with one year's rolling notice thereafter. The term of the exclusivity provisions with the Investment Adviser was also extended to match the term of the IAA, provided that the Company maintains sufficient liquidity to continue investing through its cash holdings or undrawn debt facilities.

## 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 91.

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 2015, the Company was party to a £200 million multicurrency Revolving Credit Facility Agreement, which ran to 1 May 2016. This facility was renewed on 7 May 2015, to facilitate the management of the Company's liquidity requirements. The size of the facility was increased to £300 million. The new facility is secured by a fixed and floating charge over the directly held assets of the Company. Its maturity was extended to 7 May 2018 (subject to earlier cancellation by the Company or termination by the banks in certain circumstances, which are market standard for such a facility, including if there is a change of investment adviser to the Company). In addition, under the facility agreement, the Company has the right to increase the size of the facility by up to a further £200 million, provided that existing lenders have a right of first refusal. The Company also has rights to request one or two year extensions to the maturity date of the facility, which request(s) may be granted at the discretion of each lender individually.

During the year the Company also secured additional short-term borrowing facilities on attractive terms, to position it to make commitments for potential new investments while awaiting the receipt of proceeds from the sale of the investment in Eversholt Rail. These facilities were cancelled in two stages, on 23 March 2015 and 14 April 2015.

## Share capital

The issued share capital of the Company as at 31 March 2015 was 881,351,570 ordinary shares (2014: 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 2015 and 30 April 2015, 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 2015
3i Group plc (and subsidiaries)	34.1	300,922,661

<sup>1</sup> 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 2015 are shown below:

Directors' interests and beneficial interests <sup>1</sup>	Ordinary shares at 31 March 2015
Peter Sedgwick	104,653
Philip Austin	10,000
Doug Bannister <sup>2</sup>	—
Wendy Dorman <sup>3</sup>	—
Ian Lobley <sup>4</sup>	—
Paul Masterton	10,000
Steven Wilderspin	10,000

<sup>1</sup> No options have ever been granted since the inception of the Company.

<sup>2</sup> Served from 1 January 2015.

<sup>3</sup> Served from 1 March 2015.

<sup>4</sup> Served from 6 May 2014.

In the period from 1 April 2015 to 30 April 2015, there were no changes in the interests of each serving Director.

## 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 7 July 2015 ("the 2015 AGM"). The Company will seek to renew such authority until the end of the AGM in 2016, 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' 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' report

## 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 in accordance with applicable law and regulations and those International Financial Reporting Standards ("IFRSs") which have been adopted by the European Union.

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 Company are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended.

In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable;
- 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.

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

The Directors of the Company and their functions are listed on pages 54 and 55.

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2015.

## 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 6 to 38 and in the Financial statements and related Notes on pages 72 to 93. 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 72 to 93. 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  
11 May 2015

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 ("the 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 2015.

The Board has adopted a code for 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 and divestment 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" on page 64.

## Matters reserved for the Board

The Board has approved a formal schedule of matters reserved to it and the Audit and Risk 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

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 15 full Board meetings arranged at short notice and three 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 2015)	Number of meetings while a Director	Attendance
Peter Sedgwick	7	7
Philip Austin	7	6
Doug Bannister <sup>1</sup>	2	2
Sir John Collins <sup>2</sup>	5	5
Wendy Dorman <sup>3</sup>	1	1
Ian Lobley <sup>4</sup>	6	5
Ben Loomes <sup>5</sup>	–	–
Paul Masterton	7	7
Steven Wilderspin	7	7

1 Served from 1 January 2015.

2 Served until 31 December 2014.

3 Served from 1 March 2015.

4 Served from 6 May 2014.

5 Served until 16 April 2014.

The Board's responsibilities and business model to deliver the Company's strategy is set out on page 14 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

The Board conducted a review of the Company's strategy through a series of Board meetings, taking advice from the Investment Adviser, the Company's Corporate Brokers and Financial Adviser. These meetings involved the following:

- review of the infrastructure market segments in which the Company operates, and of competitors' activity and the returns available from investing in those markets;
- review of the Company's total return objective;
- review of the Company's dividend policy;
- review of the Company's portfolio balance and portfolio concentration;
- assessment of the Company's route to investment in the primary PPP market (direct, or via a non-exclusive fund managed by the Investment Adviser);
- regular reviews of portfolio asset performance, including the underlying performance of assets within the India Fund and review of the expected future returns from the portfolio;
- review of the recommendations of the Investment Adviser on the valuation of portfolio investments, including the benchmarking of those valuations in the context of prevailing market conditions. In conducting this review, the Board and Audit and Risk Committee received additional independent advice in relation to the valuation of the Company's Core infrastructure investments (Elenia, AWG, Oystercatcher and XLT), which included comparisons to relevant valuation benchmarks; and
- regular reviews of feedback from shareholders following key strategic and financial announcements.

# Corporate governance statement

As a result of these reviews, the Board announced a revised total return target of 8% to 10%, to be achieved over the medium term, and a new dividend policy, de-linking the annual dividend payment from the opening NAV, and targeting a progressive dividend per share. The Board is also proposing, subject to shareholder approval at an EGM, a change in the single-asset concentration limit from 20% to 25%.

## Add selectively to the portfolio and sell investments when appropriate

- approval of new investment decisions, including the decision to invest in five new primary PPP projects and in the Oiltanking companies;
- approval of the divestment of the Company's holding in Eversholt Rail;
- review of regular reports from the Investment Adviser relating to the infrastructure market and early stage work-in-progress;
- review of the investment decision-making process for smaller investments;
- review of the primary PPP market and opportunity by geography; and
- review of the market opportunity in a number of European geographies.

## Financial management

- management of the Company's liquidity and review of the Company's liquidity policy;
- approval of the arrangement of additional short-term borrowing facilities to position the Company to make commitments for potential new investments while awaiting the receipt of proceeds from the sale of the investment in Eversholt Rail;
- review of the Company's existing revolving credit facility, and decision to renew the facility in May 2015 to benefit from improved terms and to increase its size to £300 million;
- ongoing review of foreign exchange hedging;
- review and ongoing monitoring of the OECD's Action Plan on Base Erosion and Profit Shifting;
- approval of the Company's annual budget for the year to 31 March 2016; and
- following the year end, approval of its intention to implement a £150 million return of capital.

## Manage relations with the Investment Adviser

- preparation of the Extraordinary General Meeting to approve the amendments to the Investment Advisory Agreement entered into on 8 May 2014; and
- a review with the Investment Adviser of its origination capabilities.

## Other matters considered by the Board

- review of the Company's corporate brokers. Following a competitive process, the Board approved the appointment of RBC Capital Markets as joint corporate broker to the Company. JPMorgan Cazenove Limited was retained as the other joint corporate broker;
- the Board received updates to UK and Jersey law and regulations and considered their impact on the Company; 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 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, an independent external review was conducted to evaluate the performance and effectiveness of the Board and that of its committees. The review was undertaken by Dr Tracy Long of Boardroom Review, a specialist consultancy, which is fully independent from the Board, the Company and any other related party. As part of that process, Dr Tracy Long led the review, which explored the Board's definition of its role and its approach, the culture and composition of the Board, and the optimisation of the Board's effectiveness and governance. Dr Tracy Long also facilitated the following:

- a review of the performance of the Board and its committees, as well as of individual Directors, led by the Chairman;
- a review of the Chairman, led by the Senior Independent Director;
- a review of the Audit and Risk Committee, led by the chairman of the Audit and Risk Committee.

The results of the processes were formally reported to the Board and Audit and Risk Committee respectively. All Board members and 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 Board's: (i) open and collaborative culture, fostered by the Chairman during Board meetings; (ii) strong relationship with the Investment Adviser; (iii) focus on, and quality of the strategic debate; (iv) shareholder relationships; (v) frequency and quality of meetings; and (vi) use of committees. The quality of the support received by the Board from its advisers, as well as the quality of the information used by the Board to inform its decision making were also noted.

The following recommendations were made as a result of the review:

- to continue to accelerate and deepen the level of Directors' knowledge and understanding of the markets in which the Company operates, to allow them to provide constructive challenge to the Investment Adviser. In this context, it was agreed that priorities for both internal and external Board presentations, detailing aspects of the infrastructure sector, should be reviewed and agreed by the Board within the context of the broader corporate calendar; and
- to continue to address the future composition and succession requirements for the Board, including the succession of the Chairman. The role of the Senior Independent Director and of the Nominations Committee with respect to the Chairman's succession should be set out in detail.

## Investment Adviser

The Board has a Management Engagement Committee (comprising all Board members, with the exception during the year of Ben Loomes, the 3i Group nominee Director who served until 14 April 2014 and Ian Lobley, who has 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. Following its assessment, and based on the good performance of the Investment Adviser, the Directors believe that the continued appointment of the Investment Adviser on the terms set out in Note 18 is in the interest of shareholders.

## 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 2015 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 the Company's appointed member to the Advisory Board for the 3i India Infrastructure Fund. He receives no additional remuneration for this role. 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 shareholder 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 six non-executive Directors. Biographical details for each of the Directors are set out on page 55. All Directors served throughout the year under review, with the exception of Sir John Collins, who served until 31 December 2014, Ben Loomes, who served until 16 April 2014, Ian Lobley, who was appointed with effect from 6 May 2014, Doug Bannister, who was appointed with effect from 1 January 2015 and Wendy Dorman, who was appointed with effect from 1 March 2015.

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. Each of the Directors has an appointment letter which reflects the best practice guidelines published in December 2011 by the Institute of Chartered Secretaries and Administrators.

Following the formal appraisal process of Directors, and in accordance with Section B.7.2 of the Code, the Chairman will propose the election or re-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.

## Changes to the Board of Directors

During the year, there were several changes to the Board. Following the appointment of Ben Loomes as Managing Partner of 3i's Infrastructure business, Ian Lobley replaced Ben Loomes as the 3i Group nominee Director. Sir John Collins stepped down in December 2014 and two new Directors, Doug Bannister and Wendy Dorman, were appointed. On 11 May 2015, Peter Sedgwick, the Chairman, notified the Board of his intention to stand down at the end of calendar year 2015, and the likelihood is that one Director will stand down in each of the following two years.

## 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, Ben Loomes and Ian Lobley did not participate in the Board's evaluation of the performance of the Investment Adviser.

# Corporate governance statement

## 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, but on occasion by other advisers, including the Company's corporate brokers and financial 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, 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, including recent transactions and the returns available from investing in the Core infrastructure market, as well as the market opportunity in primary PPP in Europe. The Board also received briefings on legal updates in relation to changes to laws and regulations in Jersey and the UK.

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.

## 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 and Risk 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 and Risk Committee

The Audit and Risk Committee, chaired by Steven Wilderspin, in the year under review also comprised Philip Austin, Doug Bannister, Sir John Collins and Paul Masterton. All members served throughout the year, except for Doug Bannister, who was appointed on 1 January 2015, and Sir John Collins, who served until 31 December 2014. The qualifications of the members of the Audit and Risk Committee are set out in the biographical details of the Directors on page 55. All the members of the Audit and Risk Committee are independent non-executive Directors. The Board is satisfied that the Audit and Risk Committee chairman, Steven Wilderspin, has recent and relevant financial experience and is a qualified Chartered Accountant.

During the year to 31 March 2015, there were four meetings of the Audit and Risk Committee, attended by all members. A report from the Audit and Risk Committee is set out on page 65.

During the year, it was agreed that the remit of the Audit Committee would be broadened to Audit and Risk with effect from 21 January 2015 and the committee was renamed Audit and Risk Committee with effect from the same date.

### 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, Doug Bannister, Sir John Collins, Wendy Dorman and Paul Masterton). All members served throughout the year, except for Sir John Collins, who served until 31 December 2014, and Doug Bannister and Wendy Dorman, who were appointed on 1 January 2015 and 1 March 2015 respectively. The Remuneration Committee had two meetings in the year to 31 March 2015, attended by all members. A report from the Remuneration Committee is set out on page 67.

### Nominations Committee

The Nominations Committee, chaired by Peter Sedgwick, in the year under review comprised Philip Austin, who served throughout the year, and Paul Masterton. Paul Masterton was appointed to this Committee on 1 May 2014, replacing Sir John Collins, who served until that date. The Committee held five scheduled meetings in the year to 31 March 2015, attended by all members, with the exception of Sir John Collins and Phil Austin, who were absent for one meeting each. 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 use the services of external search consultancies when new directors are being recruited. During the year, the Nominations Committee approved the nomination of Doug Bannister and of Wendy Dorman. As part of the process to appoint new Directors to the Board, the Committee availed itself of the services of Thomas & Dessain, an external search consultancy which is independent from the Company.

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 and diversity. 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. For most of the financial year, the Board had no female members. In line with its policy objectives, the Nominations Committee searched for suitable female candidates during the year and Wendy Dorman was appointed as a non-executive Director with effect from 1 March 2015.

### Investment Committee

As outlined on page 54, 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 (until 31 December 2014), Doug Bannister (from 1 January 2015), Wendy Dorman (from 1 March 2015), Paul Masterton and Steven Wilderspin.

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 five meetings of the Management Engagement Committee, attended by all members, with the exception of the meeting on 1 October 2014, which Phil Austin did not attend, as well as the meeting on 12 December 2014, which Sir John Collins did not attend. In those meetings, the Committee monitored the overall relationship and among specific topics it:

- reviewed the amendments to the Investment Advisory Agreement, as set out in detail on pages 56 and 57;
- 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

The Company has appointed Capita Financial Administrators (Jersey) Limited as Company Secretary.

All Directors have access to the advice and services of the Company Secretary, who advise the Board, through the Chairman, on governance matters. The Company's Articles of Association 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 would be a matter for the full Board.

The Board reviewed the Company Secretary's performance during the year and approved their continued appointment.

## Relations with shareholders

### Approach to Investor Relations

The Board recognises the importance of maintaining a purposeful relationship with shareholders and the Company has a comprehensive Investor Relations programme, devised and implemented by the Investment Adviser, to help existing and potential investors to understand its activities, strategy and financial performance. The Chairman maintains a dialogue with shareholders on strategy and corporate governance as required and shareholders are offered the opportunity to meet with the Chairman and with the Senior Independent Director. The Board receives reports from the Company's brokers on shareholder issues and Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders at the AGM.

## Board oversight

The Investment Adviser briefs the Board on a regular basis on the implementation of the Investor Relations programme and on feedback received from analysts and investors. Any significant concern raised by shareholders in relation to the Company is also communicated to the Board. In addition, research reports published by investment banks on the Company are circulated to the Board on a regular basis.

The Board also receives periodic feedback from existing shareholders and potential investors through the Company's corporate brokers, JPMorgan Cazenove Limited and RBC Capital Markets.

## Institutional investor programme

### Meetings with principal shareholders

The Investment Adviser meets with the Company's principal shareholders regularly on a twice yearly basis, following the publication of annual and half yearly results and as required during the year. The Chairman and Senior Independent Director are also available to meet with institutional shareholders as required. The Chairman held several meetings with institutional shareholders during the year, including meetings in advance of changes to the Investment Advisory Agreement.

### Meetings with potential investors

During the year, the Investment Adviser held regular meetings with potential investors in the UK and internationally to communicate the strategy and performance of the Company.

### Annual and half yearly results presentations

The Chairman and Investment Adviser present the annual and half yearly results to a broad group of analysts.

### Capital markets day

The capital markets day, held on 23 September 2014, consisted of a presentation to significant shareholders and analysts by senior members of the Investment Adviser and the management teams of Elenia and Oiltanking's Amsterdam, Malta and Singapore's terminals, businesses in which the Company is invested. The presentations focused on Elenia's and Oiltanking's business model and strategy and on their recent financial performance. There was also a presentation outlining the Investment Adviser's primary PPP investment capability and strategy and its view of the primary PPP market across Europe. The presentation materials used on the day were made available on the Company's website to enable those investors and analysts that could not attend to access the information provided at the meeting.

### Industry conferences

Throughout the year, the Investment Adviser also participated in a number of industry conferences and seminars organised by investment banks for their institutional investor base. These included conferences organised by JPMorgan Cazenove and Oriel Securities.

## Individual investors

Individual investors are encouraged to engage with the Company and provide feedback through the Company Secretary, whose contact details are available on the website.

## Website

The Company's website provides a description of strategy and portfolio, as well as a full archive of news and historical financial information and details of forthcoming events for shareholders and analysts.



# Corporate governance statement

## Annual General Meeting

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are generally made by the Chairman and the Investment Adviser. The Senior Independent Director and chairman of the Audit and Risk Committee are also generally available to answer shareholders' questions. Business to be discussed at the Meeting is notified to shareholders in advance through the Notice of Meeting and covers matters such as the annual election of directors, the appointment of the auditors and the dividend declaration. During the Meeting, shareholders are also asked to approve the financial statements and report of the Directors and auditors. In addition, shareholders are asked to approve the Directors' remuneration report and any proposed changes to non-executive Directors' fees.

The 2014 Notice of AGM 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 poll 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 system of internal control. The Audit and Risk 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 and Risk 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 and Risk 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 and Risk 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 and Risk Committee which considers significant control matters and receives relevant reports from key service providers' compliance, control or internal audit functions. The remit of the Audit and Risk Committee was expanded to also cover risk management with effect from January 2015.

# Report of the Audit and Risk Committee

## Committee remit

During the year, the Audit Committee undertook its responsibilities in accordance with its Terms of Reference, as detailed on the Company's website. The remit of the Audit Committee was broadened to include risk with effect from 21 January 2015. The Committee has since been renamed the "Audit and Risk Committee" and its Terms of Reference have been amended accordingly.

## Matters reviewed in the year

The principal matters reviewed by the Audit and Risk Committee during the year are described below.

### Financial reporting

The Committee reviewed and made recommendations to the Board regarding significant accounting matters and the accounting disclosures in the Half-yearly and Annual report and accounts of the Company. The most significant matters of judgment considered by the Committee were:

- valuation of the Company's infrastructure assets – this year, the areas examined included the level of discount rates applied in valuation models, with a particular focus on those used for all Core infrastructure assets, where changes were proposed. The Committee discussed these matters with the Investment Adviser and the auditor, including the auditor's infrastructure valuation expert. In light of the significant compression in returns and changes in asset pricing across the infrastructure sector, and the consequent changes to asset valuations within the Company's portfolio in this financial year, the Audit and Risk Committee also received additional independent advice in relation to the valuation of the Company's Core infrastructure assets, which included comparison to relevant valuation benchmarks;
- calculation of the advisory and performance fees payable to the Investment Adviser – as well as the review of valuations, which drive advisory and performance fees, noted above, the Committee engaged the auditor to perform additional work to agree that the advisory and performance fees were calculated in accordance with the underlying Investment Advisory Agreement;
- investment recognition and de-recognition – the Committee reviewed the treatment of the disposal of Eversholt Rail, given that the transaction was contingent on regulatory clearance at the balance sheet date. The Committee concluded that Eversholt Rail should continue to be treated as an investment at the balance sheet date.

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 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.

In addition to the above matters, the Committee reviewed the following areas:

- the methodology and content of enhanced disclosure in the Half-yearly and Annual report and accounts to describe the underlying components of movements in the portfolio valuation between reporting periods. The Committee believes this additional voluntary disclosure provides a better explanation of movements in valuation during the year, the key driver of the Company's performance for the financial year reported; and
- the Group structure and accounting treatment for the entities within the Group. This included the criteria assessed by the Directors to conclude that the Company continues to meet the definition of an Investment Entity as required for the adoption of the Investment Entities exception to IFRS 10, which defines how the Company presents its financial statements within the Half-yearly and Annual report and accounts.

The Committee presented its conclusions on the above areas to the Board and advised the Board that it considered the Annual report and accounts, 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.

### External audit

The Audit and Risk 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 has been the Company's auditor since inception in 2007 and the audit has not been re-tendered. The engagement audit partner was rotated this year. The Committee is aware of the provisions of the UK Corporate Governance Code that state that an audit should be retendered every 10 years and the EU Audit Directive and Regulation which has introduced a requirement (pending UK implementation) to undertake a tender of the external audit every 10 years, and change auditor at least every 20 years. Given transitional arrangements, the Committee has decided that it will conduct a full audit tender at an appropriate time before 2019, when the current audit partner will be due for rotation. In reaching the conclusion to re-appoint the auditors, the Directors noted that the Company continues to benefit from the insight and knowledge that its auditors, which are also the Investment Adviser's auditors, have of the Investment Adviser's processes and controls in relation to the Company. This benefit will also inform the Committee's decision on a tender of the Company's audit in the future.

The Audit and Risk 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 and Risk 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.

# Report of the Audit and Risk Committee

Ernst & Young LLP provided non-audit services for fees totalling £221,000 for the year to 31 March 2015 (2014: £5,000). This related to a review of the advisory and performance fees and to due diligence costs in relation to investment transactions and tax advice relating to the sale of Eversholt Rail. This excludes a fee of £39,000 (2014: £39,000) for the Ernst & Young LLP review of the interim financial statements which has been included in the statutory audit fee of £0.2 million. In addition, in this financial year and 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 and therefore are not included in the expenses of the Group.

### Other matters

Other matters reviewed by the Committee during the year were:

- the effectiveness of the internal control environment of the Company and the Company's compliance with its regulatory requirements;
- the coverage of the proposed interim and final dividends, including a review of the Board's assessment of the coverage of dividend payments through income generated by the Company, non-income cash distributions received from portfolio companies and net capital profits generated from the sale of portfolio assets;
- the debt levels in the underlying portfolio companies;
- the Company's compliance with its regulatory obligations in Jersey, including a review of compliance with the Codes of Practice for Certified Funds;
- the risk management framework and risk assessment methodology of the Company, risk tolerances and the risk appetite for approval by the Board and the effectiveness of risk mitigation factors. The Committee also reviewed the Company's risk log; and
- the ongoing impact of international initiatives such as the EU Alternative Investment Fund Management Directive, including the timing of the Company's registration under the Directive and the impact of marketing provisions under the Directive.

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.

### Steven Wilderspin

Chairman, Audit and Risk Committee  
11 May 2015

# 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 2015, the Directors who served during that period were due the following:

Directors' fees	Amount paid in the year ending 31 March 2015 (£)	Amount paid in the year ending 31 March 2014 (£)
Peter Sedgwick	140,000	140,000
Philip Austin	54,000	53,000
Doug Bannister	12,000	–
Sir John Collins	33,750	45,000
Wendy Dorman	4,000	–
Ian Lobley <sup>1</sup>	37,829	–
Ben Loomes <sup>1</sup>	1,841	30,473
Paul Masterton	48,000	47,126
Steven Wilderspin	55,000	55,000

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

Directors' fees for the year under review were calculated on the following basis:

Directors' fees	Annual fee for year to 31 March 2015 (£)	Annual fee for year to 31 March 2014 (£)
Chairman's fee	140,000	140,000
Non-executive Director base fee	42,000	42,000
Additional fee for the Senior Independent Director	7,000 <sup>1</sup>	5,000
Additional fee for the Audit and Risk Committee Chairman	10,000	10,000
Additional fee for Audit and Risk Committee members	3,000	3,000
Additional fee for Directors resident in Jersey	3,000	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.

1 Increase from £5,000 to £7,000 implemented during the year.

## Remuneration review

During the year, the Remuneration Committee considered the level of the Directors' fees and agreed a number of changes, supported by our review of market trends by Kepler Associates Partnership LLP ("Kepler Associates"), an independent board remuneration specialist, which has advised the Board on Directors' fees since 2011. Kepler Associates is a founding member of the Remuneration Consultants Group and a signatory of, and adheres to, its Code of Conduct.

The changes agreed are as follows:

- Non-executive Director base fee to increase from £42,000 to £45,000; and
- Additional fee for Directors resident in Jersey to increase from £3,000 to £5,000.

These increases reflect the increased number of Board meetings and higher requirement for documentation approval in Jersey, as the Company has grown and completes more primary PPP investments.

The Committee also considered the aggregate limit for the remuneration of Directors, which is currently set at £500,000 per annum and agreed, subject to shareholder approval at the Company's AGM, that this should be increased to £600,000 per annum. This increase reflects the Committee's decision to continue to attract high calibre directors. The limit had not been increased since the Company's IPO in 2007.

There are no further proposed changes to Directors' remuneration and the changes proposed above will be voluntarily submitted to shareholders for approval at the Company's AGM. Should these changes be approved, they will be implemented on 1 September 2015.





**Financials and  
other information**



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

## 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

## What we have audited

We have audited the financial statements of 3i Infrastructure plc for the year ended 31 March 2015, 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 20. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of 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 and 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 Statement of Directors' responsibilities set out on page 58, 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 adopted 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 any 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.

## Our assessment of risks of material misstatement and our audit response

The Group consists of the Company and a single wholly owned subsidiary, which are both subject to a full scope audit by the Group audit team.

We identified the following risks of material misstatement which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. The table also includes our audit response to each of these risks:

### Risk identified (as disclosed in the Report of the Audit and Risk Committee on page 65)

#### Valuation of investment portfolio

The valuation of the Group's investment portfolio is a key driver of the Group's investment return and represents a material proportion of the Group's net assets. The value of the Group's investment portfolio at 31 March 2015 was £1,231.5 million and movements in the investment portfolio are shown in Note 7 to the financial statements.

Inappropriate assumptions made in determining the fair value of the assets could have a significant impact on the value of the investment portfolio and, therefore, the return generated for shareholders.

### Our response

- With the assistance of our valuation experts, we performed the following procedures for a sample of assets in the investment portfolio (representing 57% of the portfolio by value):
  - agreed that the valuation techniques adopted by management to value the assets within the investment portfolio were consistent with IFRSs as adopted by the European Union and IPEV guidelines;
  - challenged the accuracy of the cash flow forecasts to prior year assumptions in order to assess the accuracy of management's forecasting process;
  - challenged the application of other key valuation drivers in the valuation models to current market data in order to assess the appropriateness of these drivers; and
  - confirmed whether management's valuation conclusions were in line with fair value as defined by IFRSs as adopted by the European Union and IPEV guidelines.
- We obtained independent confirmation from the underlying investee companies of the share of equity and debt held by the Group in each investment and agreed this to inputs within the valuation models.
- We used the contractual terms relating to the Group's proposed disposal of Eversholt Rail Group (representing 29% of the portfolio by value) to agree the carrying value at 31 March 2015 and that the treatment as an investment at fair value through profit or loss was appropriate and in accordance with IFRSs as adopted by the European Union.

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

Risk identified (as disclosed in the Report of the Audit and Risk Committee on page 65)	Our response
<p><b>Advisory and performance fees</b></p> <p>The fees payable by the Group for investment advisory services are a material component of the Group's cost base and, therefore, impact the Group's total return. For the year to 31 March 2015, the advisory fee was £11.0 million and the performance fee was £45.0 million (as disclosed in Note 2 to the financial statements).</p> <p>As described in Note 18, the calculation methodology for both the advisory and performance fee is complex and requires a number of subjective inputs from the Group's own financial records.</p> <p>If the advisory or performance fee is not calculated in accordance with the methodology described in the investment advisory agreement this could have a material impact on both the costs incurred and overall performance of the Group.</p>	<ul style="list-style-type: none"> <li>■ We used the terms contained in the signed investment advisory agreement to perform a recalculation of the advisory and performance fees.</li> <li>■ We agreed the inputs used in the calculation of the advisory and performance fee to the Group's financial records and audited valuation of the investment portfolio.</li> <li>■ In respect of the advisory fee, we agreed the monthly cash payments made to bank statements.</li> </ul>
<p><b>Incomplete or inaccurate investment income</b></p> <p>The investment income receivable by the Group during the year (in the form of dividend and interest entitlements due from underlying investee companies) is another key driver of the investment return. The investment income receivable for the year to 31 March 2015 was £58.1 million.</p> <p>If the Group is not entitled to receive the investment income recognised in the financial statements, or the investment income recognised is inaccurate or does not relate to the current financial year, this could have a material impact on the return generated by the Group.</p>	<ul style="list-style-type: none"> <li>■ We obtained a breakdown by each investee company of investment income recognised by the Group and, on a sample basis, agreed dividends to Board minutes from the investee companies and recalculated interest income based on the underlying agreements.</li> <li>■ We agreed a sample of investment income receipts to bank statements.</li> <li>■ We performed cut-off procedures by checking that a sample of investment income receipts around the year end date were recognised in the correct financial year.</li> </ul>

Our audit opinion for 31 March 2015 identifies incomplete or inaccurate investment income as a significant risk, which was not identified as a significant risk in the prior year. Based on our risk assessment in current year, specifically in light of the performance fee paying position of the Company, we have increased our focus on the Company's investment income.

## Our application of materiality

We applied the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements on the financial statements, and in forming our audit opinion. When establishing our overall audit strategy, we determined the magnitude of omissions or uncorrected misstatements that we judged would be material to the financial statements as a whole. This provided a basis for determining the nature of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

When establishing our overall strategy we determined materiality for the Group to be £13.2 million, (2014: £11.1 million) which is 1% of total equity (2014: 1% of total equity). This provided a basis for determining the nature, timing and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We have derived our materiality calculation based on a proportion of total equity as it is a key financial metric on which shareholders investing in the Group would judge the Group.

On the basis of our risk assessments our judgment was that overall performance materiality (ie our tolerance for misstatement in an individual account or balance) for the Group should be 75% of materiality, namely £9.9 million (2014: 50% of materiality, namely £5.6 million). Based on our risk assessment in the current year, we have increased our materiality threshold to 75% as, in our view, the risk of there being an error in the current year has decreased compared to the risk of there being an error in the prior year given an additional year of no unadjusted differences being identified. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

We agreed that all audit differences in excess of £0.7 million (2014: £0.6 million) would be reported to the Audit and Risk Committee as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

## 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 and Risk 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 Company's compliance with the 10 provisions of the UK Corporate Governance Code specified for our review.

**David Robert John Moore, ACA**  
**for and on behalf of Ernst & Young LLP**  
 Jersey, Channel Islands  
 11 May 2015

1. The maintenance and integrity of the 3i Infrastructure plc web site 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 web site
2. Legislation in Jersey 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 2015 £m	Year to 31 March 2014 £m
Realised gains over fair value on the disposal of investments		14.5	2.0
Net gains on investments at fair value through profit or loss	7	236.5	7.8
		<b>251.0</b>	9.8
Portfolio income			
Investment income		58.1	71.5
Fees payable on investment activities		(6.1)	(2.0)
Fees receivable on investment activities		1.5	1.1
Interest receivable		0.3	0.4
<b>Investment return</b>		<b>304.8</b>	80.8
Advisory, performance and management fees payable	2	(56.0)	(9.6)
Operating expenses	3	(2.8)	(2.2)
Finance costs	4	(3.2)	(3.1)
Unrealised gains on the fair value of derivative financial instruments	5	23.3	4.9
Net realised gains over fair value on the settlement of derivative financial instruments	5	1.4	–
Other income		1.1	0.2
Exchange movements		(1.8)	–
<b>Profit before tax</b>		<b>266.8</b>	71.0
Income taxes	6	–	–
<b>Profit after tax and profit for the year</b>		<b>266.8</b>	71.0
<b>Total comprehensive income for the year</b>		<b>266.8</b>	71.0
<b>Earnings per share</b>			
Basic and diluted (pence)	14	30.3	8.1

# Consolidated statement of changes in equity

For the year to 31 March

	Stated capital account £m	Retained reserves £m	Total shareholders' equity £m
<b>For the year to 31 March 2015</b>			
Opening balance at 1 April 2014	181.6	932.2	1,113.8
Total comprehensive income for the year	–	266.8	266.8
Dividends payable to shareholders of the Company during the year	–	(59.3)	(59.3)
<b>Closing balance at 31 March 2015</b>	<b>181.6</b>	<b>1,139.7</b>	<b>1,321.3</b>
<b>For the year to 31 March 2014</b>			
Opening balance at 1 April 2013	181.6	921.7	1,103.3
Total comprehensive income for the year	–	71.0	71.0
Dividends payable to shareholders of the Company during the year	–	(60.5)	(60.5)
Closing balance at 31 March 2014	181.6	932.2	1,113.8



## Consolidated balance sheet

As at 31 March

	Notes	2015 £m	2014 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments at fair value through profit or loss	7	1,231.5	996.6
<b>Investment portfolio</b>		1,231.5	996.6
Derivative financial instruments	10	24.4	2.5
<b>Total non-current assets</b>		1,255.9	999.1
<b>Current assets</b>			
Trade and other receivables	8	13.0	12.7
Derivative financial instruments	10	11.9	2.3
Other financial assets		33.9	13.1
Cash and cash equivalents		72.5	90.7
<b>Total current assets</b>		131.3	118.8
<b>Total assets</b>		1,387.2	1,117.9
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Derivative financial instruments	10	(6.0)	(2.1)
Trade and other payables	12	(0.5)	–
<b>Total non-current liabilities</b>		(6.5)	(2.1)
<b>Current liabilities</b>			
Trade and other payables	12	(52.8)	(1.9)
Derivative financial instruments	10	(6.6)	(0.1)
<b>Total current liabilities</b>		(59.4)	(2.0)
<b>Total liabilities</b>		(65.9)	(4.1)
<b>Net assets</b>		1,321.3	1,113.8
<b>Equity</b>			
Stated capital account	13	181.6	181.6
Retained reserves		1,139.7	932.2
<b>Total equity</b>		1,321.3	1,113.8
<b>Net asset value per share</b>			
Basic and diluted (pence)	14	149.9	126.4

The Financial statements and related Notes on pages 72 to 93 were approved and authorised for issue by the Board of Directors on 11 May 2015 and signed on its behalf by:

**Steven Wilderspin**  
Director

# Consolidated cash flow statement

For the year to 31 March

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(2.6)	(67.8)
Investment in other financial assets	(22.1)	(13.1)
Proceeds from partial realisations of investments	26.8	25.2
Investment income	49.5	56.5
Fees received on investment activities	1.4	1.1
Fees paid on investment activities	(1.8)	(1.0)
Operating expenses paid	(2.6)	(2.3)
Interest received	0.3	0.4
Advisory and performance fees paid	(10.3)	(10.9)
Carried interest paid	–	(1.4)
Temporary loan repaid to unconsolidated subsidiaries	–	(7.2)
Other income received	1.2	0.2
<b>Net cash flow from operations</b>	<b>39.8</b>	<b>(20.3)</b>
<b>Cash flow from financing activities</b>		
Amounts received on the settlement of derivative contracts	5.1	0.5
Amounts paid on the settlement of derivative contracts	(0.9)	(0.7)
Fees paid on financing activities	(2.9)	(4.1)
Dividends paid	(59.3)	(60.5)
<b>Net cash flow from financing activities</b>	<b>(58.0)</b>	<b>(64.8)</b>
<b>Change in cash and cash equivalents</b>	<b>(18.2)</b>	<b>(85.1)</b>
Cash and cash equivalents at the beginning of the year	90.7	175.8
<b>Cash and cash equivalents at the end of the year</b>	<b>72.5</b>	<b>90.7</b>

# 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 2015 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 Board of Directors on 11 May 2015.

## 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, rounded to the nearest hundred thousand pounds (£0.1 million) except where otherwise indicated.

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

## Basis of consolidation

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

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

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

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

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

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

During the year the Company acquired a number of new subsidiary entities. The Directors have assessed whether each of these entities provide investment-related services and have concluded that none of these entities should be consolidated and that all new subsidiaries should be held at fair value through profit or loss.

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

## Valuation of the investment portfolio

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

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

## Standards and interpretations issued but not yet effective

As at 31 March 2015, the following new or amended standards and interpretations, which have not been applied in these financial statements, had been issued by the International Accounting Standards Board (IASB) but are yet to become effective.

IFRS Annual improvements 2010 to 2012 and 2011 to 2013 (effective for accounting periods commencing on or after 1 July 2014).

IFRS Annual improvements 2012 to 2014 (effective for accounting periods commencing on or after 1 July 2016).

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

IFRS 15 Revenue from contracts with customers (effective for accounting periods commencing on or after 1 January 2017).

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 (Revised) – Consolidated Financial Statements

The IASB issued a narrow scope amendment to IFRS 10 in December 2014 and subsequently the Group revisited its initial assessment of all of its subsidiaries and concluded that the initial assessment remained appropriate.

## A Classification

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

**(ii) Associates** – Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group’s investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those 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 in relation to transactions between the Company and 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 de-recognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and obtaining capital appreciation from changes in the fair value of investments. Therefore, all quoted investments and unquoted investments are designated as at fair value through profit or loss upon initial recognition and subsequently carried in the balance sheet at fair value. All investments are initially recognised at the fair value of the consideration given and 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.

# Significant accounting policies

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

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

## Income

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 Company's rights to receive payment have been established with the exception of dividends paid out of pre-acquisition reserves that are recognised by adjusting the 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 Company's rights as a Limited Partner 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 (subject to a high water mark requirement being exceeded). The fee is payable annually in arrears and is accrued in the period it is incurred. Further explanations are provided in Note 18.

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

## E Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used to manage cash flows and the overall costs of borrowing. Financial assets and liabilities are recognised in the 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. Where issue costs are incurred in relation to arranging debt finance facilities these are capitalised and disclosed within Trade and other receivables and amortised over the life of the loan. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

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

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

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



## F Other assets

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

## G Other liabilities

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

## H Equity and reserves

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

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

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

## I Income taxes

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

The tax currently payable is based on the taxable profit for the period. This may differ from the profit included in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws for each relevant tax jurisdiction in which the 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 55% (2014: 61%) of its investment income in the period from investments held in the UK and Ireland and 45% (2014: 39%) of investment income from investments held in continental Europe. During the year, the Group generated income from its investments in Elenia of £18.1 million (2014: £23.2 million), Eversholt Rail of £15.6 million (2014: £17.9 million) and AWG of £8.0 million (2014: £15.6 million) which represents 31% (2014: 33%), 27% (2014: 33%) and 14% (2014: 22%), 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 cyclicity that would impact the financial results of the Group during the period or the financial position of the Group at 31 March 2015.

	UK and Ireland <sup>1</sup> £m	Continental Europe <sup>2</sup> £m	Asia £m	Total £m
<b>For the year to 31 March 2015</b>				
<b>Investment return</b>				
Realised gains/(losses) over fair value on the disposal of investments	13.7	(0.1)	0.9	14.5
Net movement on investments at fair value through profit or loss	242.8	(4.8)	(1.5)	236.5
Investment income	32.1	26.0	–	58.1
Net fees payable on investment activities	(4.6)	–	–	(4.6)
Interest receivable	0.3	–	–	0.3
<b>Investment return/(loss)</b>	<b>284.3</b>	<b>21.1</b>	<b>(0.6)</b>	<b>304.8</b>
Finance costs	(3.2)	–	–	(3.2)
Other net expenses	(27.9)	(6.9)	–	(34.8)
<b>Profit/(loss) before tax</b>	<b>253.2</b>	<b>14.2</b>	<b>(0.6)</b>	<b>266.8</b>
<b>As at 31 March 2015</b>				
<b>Balance sheet</b>				
Investments at fair value through profit or loss	806.1	358.8	66.6	1,231.5
Cash and cash equivalents	72.5	–	–	72.5
Other financial assets	17.7	16.2	–	33.9
Derivative financial instruments	36.3	–	–	36.3
Other assets	8.8	4.2	–	13.0
<b>Assets</b>	<b>941.4</b>	<b>379.2</b>	<b>66.6</b>	<b>1,387.2</b>
Derivative financial instruments	(8.1)	(4.5)	–	(12.6)
Other liabilities	(52.6)	(0.7)	–	(53.3)
<b>Liabilities</b>	<b>(60.7)</b>	<b>(5.2)</b>	<b>–</b>	<b>(65.9)</b>
<b>Net assets</b>	<b>880.7</b>	<b>374.0</b>	<b>66.6</b>	<b>1,321.3</b>

<sup>1</sup> Including Channel Islands.

<sup>2</sup> 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

For the year to 31 March 2014	UK and Ireland <sup>1</sup> £m	Continental Europe <sup>2</sup> £m	Asia £m	Total £m
Investment return				
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
Investment return/(loss)	83.2	22.5	(24.9)	80.8
Finance costs	(3.1)	–	–	(3.1)
Other net expenses	(6.7)	–	–	(6.7)
Profit/(loss) before tax	73.4	22.5	(24.9)	71.0
As at 31 March 2014				
Balance sheet				
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	4.8	–	–	4.8
Other assets	5.6	7.1	–	12.7
Assets	678.0	365.4	74.5	1,117.9
Derivative financial instruments	(2.2)	–	–	(2.2)
Other liabilities	(1.9)	–	–	(1.9)
Liabilities	(4.1)	–	–	(4.1)
Net assets	673.9	365.4	74.5	1,113.8

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

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Advisory fee paid directly by the Company	11.0	9.6
Performance fee	45.0	–
	56.0	9.6

Total advisory, performance and management fees paid for the year to 31 March 2015 were £60.2 million (2014: £14.0 million) which includes, in addition to the fees described above, management fees of £4.2 million (2014: £4.4 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 fees.

## Notes to the accounts

## 3 Operating expenses

Operating expenses include the following amounts:

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Audit fees	0.2	0.2
Directors' fees and expenses	0.4	0.4

In addition to the fees described above, audit fees of £0.07 million (2014: £0.05 million) were paid by unconsolidated subsidiary entities for the year to 31 March 2015.

## 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 2015 £m	Year to 31 March 2014 £m
<b>Audit services</b>		
Statutory audit      Group	0.20	0.19
UK unconsolidated subsidiaries <sup>1</sup>	0.02	0.01
Overseas unconsolidated subsidiaries <sup>1</sup>	0.05	0.04
	<b>0.27</b>	<b>0.24</b>

<sup>1</sup> These amounts were paid from unconsolidated subsidiary entities and do not form part of operating expenses but are 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 £221,000 for the year to 31 March 2015 (2014: £5,000). This related to a review of the advisory and performance fees and to due diligence costs in relation to investment transactions and tax advice relating to the sale of Eversholt Rail. This excludes a fee of £39,000 (2014: £39,000) for the Ernst & Young LLP review of the interim financial statements which has been included in the statutory audit fee of £0.2 million in the table above. In addition, in this financial year and 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 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 65.

## 4 Finance costs

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Finance costs associated with the debt facilities	2.4	2.0
Professional fees payable associated with the arrangement of debt financing	0.8	1.1
	<b>3.2</b>	<b>3.1</b>

## 5 Movements in the fair value of derivative instruments

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Net unrealised gains on the fair value of forward foreign exchange contracts	24.2	4.9
Net unrealised losses on the fair value of interest rate swaps	(0.9)	–
	<b>23.3</b>	<b>4.9</b>
Net realised gains over fair value on the settlement of forward foreign exchange contracts	1.5	–
Net realised losses over fair value on the settlement of interest rate swaps	(0.1)	–
	<b>1.4</b>	<b>–</b>

## 6 Income taxes

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Current year charge	–	–

Profits arising from the operations of the Company are subject to tax at the standard corporate income tax rate in Jersey of 0% (2014: 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) for each reporting period.

At 31 March 2015, 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 2015, there were no transfers of financial instruments between Levels of the fair value hierarchy (2014: none). There were no non-recurring fair value measurements.

### Financial instruments classification

	As at 31 March 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Investments at fair value through profit or loss	–	–	1,231.5	1,231.5
Derivative financial instruments	–	36.3	–	36.3
	–	36.3	1,231.5	1,267.8
<b>Financial liabilities</b>				
Derivative financial instruments	–	(12.6)	–	(12.6)
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)



## 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 2015 £m
<b>Level 3 fair value reconciliation</b>	
<b>Opening fair value</b>	<b>996.6</b>
Additions	18.8
Disposal proceeds and repayments	(20.4)
Fair value movement (including exchange movements)	236.5
<b>Closing fair value</b>	<b>1,231.5</b>
	As at 31 March 2014 £m
<b>Level 3 fair value reconciliation</b>	
<b>Opening fair value</b>	<b>928.9</b>
Additions	83.4
Disposal proceeds and repayments	(23.5)
Fair value movement (including exchange movements)	7.8
<b>Closing fair value</b>	<b>996.6</b>

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

## Unquoted investments

The Group invests in private companies which are not quoted on an active market. These investments are valued 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 2015, the fair value of unquoted investments was £1,205.7 million (2014: £980.4 million). Individual portfolio asset valuations are shown within the Portfolio summary on page 22.

The majority of the assets held within Level 3 are valued on a discounted cash flow basis. During the year the primary methodology for valuing Eversholt Rail was changed from a discounted cash flow to a sales basis. This followed the announcement on 20 January 2015 that the Company had agreed to sell Eversholt Rail. For those assets that continue to be valued on a discounted cash flow basis, the valuations are sensitive to the discount rate assumed in the valuation of each asset. Other significant unobservable inputs include the long-term inflation rate assumption and interest rates assumption used to project the future cash flows.

A discussion of discount rates applied can be found on page 28. Increasing the discount rate used in the valuation of each asset by 1% would reduce the value of the portfolio by £84.2 million (2014: £88.1 million). Decreasing the discount rate used in the valuation of each asset by 1% would increase the value of the portfolio by £101.6 million (2014: £106.0 million).

The majority of assets held within Level 3 have revenues that are linked, partially linked or in some way correlated to inflation. The long-term inflation rate assumptions for the country of domicile of the investments in the portfolio range from 5.0% (India) 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 £17.0 million (2014: £18.2 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 £16.4 million (2014: £18.4 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 £56.2 million (2014: £44.8m). Decreasing the interest rate assumption used in the valuation of each asset by 1% would increase the value of the portfolio by £52.7 million (2014: £43.1m). 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 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 2015, the fair value of unlisted managed funds was £17.4 million (2014: £15.6 million). There are no adjustments currently made to the NAV of the fund (2014: none). A 10% adjustment in the NAV of the fund would result in a £1.7 million (2014: £1.6 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 2015, the fair value of the other assets and liabilities within these intermediate holding companies was £8.4 million (2014: £0.6 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 held by the Group is performed on a half-yearly basis by the valuation team of the Investment Adviser and reviewed by the Investment Committee of the Investment Adviser. The valuations are also subject to quality assurance procedures performed within the valuation team. The valuation team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents and market information. On a half-yearly basis, the Investment Adviser presents the valuation results to the Board. This includes a discussion of the major assumptions used in the valuations, with an emphasis on the more significant investments and investments with significant fair value changes. The Investment Committee considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen. Any changes in valuation methods are discussed and agreed with the Audit and Risk Committee before being approved by the Board.

## 8 Trade and other receivables

	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Prepayments and accrued income	11.6	11.3
Capitalised finance costs	1.4	1.4
	13.0	12.7

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 (2014: same). No balances are considered to be past due or impaired (2014: same).

## 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 Key risks and mitigations section on page 34. This Note provides further detail on financial risk management, cross-referring to the Key risks and mitigations 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 are to be met ahead of planned investment.

## Notes to the accounts

## 9 Financial risk management continued

## Capital structure

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

The Company is regulated under the provisions of the Collective Investment Funds (Jersey) Law 1988 as a 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 low-risk 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 currently 20% of gross assets (including cash holdings) at the time of investment. At an Extraordinary General Meeting to be held on 7 July 2015 the Board will ask shareholders approval for the limit to be increased to 25%.

## 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 2015, the Group had no investments subject to impairment (2014: 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 (2014: nil).

The Company actively manages counterparty risk. Counterparty limits are set and closely monitored by the Board and a regular review of counterparties is undertaken by the Investment Adviser and the Board. As at 31 March 2015, the Group did not consider itself to have a significant exposure to any one counterparty and held deposits and derivative contracts with a number of different counterparties to reduce counterparty risk.

Due to the size and nature of the investment portfolio there is concentration risk due to the size of the investments. This risk is managed by diversifying the portfolio by sector and geography. The risk exposure at this year end is considered to be representative of the year as a whole.

## 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
	£m	£m	£m	£m	£m	£m
<b>2015</b>						
<b>Liabilities</b>						
Loans and borrowings <sup>1</sup>	–	(2.2)	(0.2)	–	–	(2.4)
Trade and other payables	(52.8)	–	–	(0.5)	–	(53.3)
Derivative contracts	–	(6.6)	(3.9)	(2.1)	–	(12.6)
Financial commitments	(25.3)	(77.6)	(8.4)	(41.3)	–	(152.6)
<b>Total undiscounted financial liabilities</b>	<b>(78.1)</b>	<b>(86.4)</b>	<b>(12.5)</b>	<b>(43.9)</b>	<b>–</b>	<b>(220.9)</b>

## 9 Financial risk management continued

	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
	£m	£m	£m	£m	£m	£m
2014						
Liabilities						
Loans and borrowings <sup>1</sup>	–	(2.0)	(2.0)	(0.2)	–	(4.2)
Trade and other payables	(1.9)	–	–	–	–	(1.9)
Derivative contracts	–	(0.1)	–	(2.1)	–	(2.2)
Financial commitments	(25.3)	–	(13.1) <sup>2</sup>	–	–	(38.4)
Total undiscounted financial liabilities	(27.2)	(2.1)	(15.1)	(2.3)	–	(46.7)

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

2 Restated – see Note 16.

All derivatives are settled net and therefore the liability shown is the net cash flow expected to be paid on settlement. The financial commitment relates to the Company's commitments to the 3i India Infrastructure Fund, RIVM, A12, La Santé, A9, Ayrshire College and Mersey Gateway Bridge PPP projects.

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

### Market risk

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio, but the valuation of the portfolio and the carrying value of other items in the financial statements can also be affected by interest rate, currency and 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 Key risks and mitigations section.

An increase or decrease of 250 basis points in interest rates over 12 months (2014: 250 basis points) would lead to an approximate increase or decrease in net assets and to the net profit of the Group of £1.8 million (2014: £2.3 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 £84.9 million (2014: £105.7 million) and the weighted average interest earned was 0.4% (2014: 0.4%). The risk exposure at this year end is considered to be representative of the year as a whole.

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

#### (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 2015			
	Sterling £m	Euro £m	US dollar £m	Total £m
<b>Net assets</b>	<b>880.7</b>	<b>374.0</b>	<b>66.6</b>	<b>1,321.3</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	36.4 <sup>1</sup>	(34.0)	(6.1)	(3.7)
Impact of exchange movements on net assets	36.4 <sup>1</sup>	(34.0)	(6.1)	(3.7)

1 Sterling impact relates to the impact of fair value movement in derivatives held by the Company to hedge foreign currency fluctuations in the valuation of the investment portfolio.

## Notes to the accounts

## 9 Financial risk management continued

	As at 31 March 2014			
	Sterling £m	Euro £m	US dollar £m	Total £m
Net assets	673.9	365.4	74.5	1,113.8
Sensitivity analysis				
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)

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 Key risks and mitigations 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 2015 Investments at fair value £m	As at 31 March 2014 Investments at fair value £m
Increase in net profit	123.2	99.7
Increase in net assets	123.2	99.7

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

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

## (iv) Fair values

The fair value of the investment portfolio is described in detail in the Portfolio valuation methodology section and in Note 7. The fair values of the remaining financial assets and liabilities approximate to their carrying values (2014: same).

The sensitivity analysis in respect of the interest rate, currency and market price risks is considered to be representative of the Group's exposure to financial risks throughout the period to which they relate (2014: same).

## 10 Derivative financial instruments

	As at 31 March 2015 £m	As at 31 March 2014 £m
<b>Non-current assets</b>		
Forward foreign exchange contracts	24.4	2.5
<b>Current assets</b>		
Forward foreign exchange contracts	11.9	2.3
<b>Non-current liabilities</b>		
Forward foreign exchange contracts	(5.1)	(2.1)
Interest rate swaps	(0.9)	–
<b>Current liabilities</b>		
Forward foreign exchange contracts	(6.6)	(0.1)



## 10 Derivative financial instruments continued

### Forward foreign exchange contracts

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

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

As at 31 March 2015, the notional amount of the forward foreign exchange contracts held by the Company was £527.6 million (2014: £330.0 million).

### Interest rate swaps

The Company uses interest rate swaps to minimise the effect of fluctuations in interest rates to fix the value of expected future cash payments payable on debt obligations resulting from non-recourse borrowings made by Oystercatcher Luxco 2 S.à r.l., a subsidiary of the Company.

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

As at 31 March 2015, the notional amount of the interest rate swap contracts held by the Company was £58.0 million (2014: nil).

### 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 (2014: nil).

## 11 Loans and borrowings

On 2 May 2013 the Company entered into a three-year, unsecured £200 million revolving credit facility at a fixed margin above LIBOR. The facility has certain loan covenants, including a debt service coverage ratio and loan to value ratio. As at 31 March 2015, the Company had utilised the facility to issue Letters of Credit for the investments into A12, RIVM and La Santé which totalled £15.8 million (€21.8 million) (2014: nil). These are disclosed as contingent liabilities in Note 17.

On 7 May 2015 the Company renewed this facility and increased the size of the facility to £300 million. Please see Note 20 for more details.

On 20 February 2015, the Company signed two 10 month, unsecured bilateral facilities of £210 million each at a fixed margin above LIBOR. The facilities have certain loan covenants, including a debt service coverage ratio and loan to value ratio. Half of the facilities were cancelled in March 2015 and, as at 31 March 2015, the Company had not drawn down against these remaining bilateral facilities. The facilities were subsequently cancelled in full on 14 April 2015.

## 12 Trade and other payables

	As at 31 March 2015 £m	As at 31 March 2014 £m
Trade payables	0.7	0.3
Advisory, performance and management fees	45.9	0.2
Accruals	6.7	1.4
	53.3	1.9

The carrying value of all liabilities is representative of fair value (2014: same).

## Notes to the accounts

## 13 Issued capital

The Company is authorised to issue an unlimited number of shares with no fixed par value (2014: same).

	As at 31 March 2015		As at 31 March 2014	
	Number	£m	Number	£m
Issued and fully paid				
Opening balance	881,351,570	887.8	881,351,570	887.8
<b>Closing balance</b>	<b>881,351,570</b>	<b>887.8</b>	881,351,570	887.8

Aggregate issue costs of £13.1 million arising from IPO and subsequent share issues were offset against the stated capital account in previous years. In addition, the stated capital account was reduced by Court order on 20 December 2007 with an amount of £693.1 million transferred to a new, distributable reserve which has been combined with retained reserves in these accounts. Therefore as at 31 March 2015, the residual value on the stated capital account was £181.6 million (2014: £181.6 million).

## 14 Per share information

The earnings and net assets per share are based on the following data:

	Year to 31 March 2015	Year to 31 March 2014
<b>Earnings per share (pence)</b>		
Basic	30.3	8.1
Diluted	30.3	8.1
<b>Earnings (£m)</b>		
Profit after tax for the year	266.8	71.0
<b>Number of shares (million)</b>		
Weighted average number of shares in issue	881.4	881.4
	Year to 31 March 2015	Year to 31 March 2014
<b>Net assets per share (pence)</b>		
Basic	149.9	126.4
Diluted	149.9	126.4
<b>Net assets (£m)</b>		
Net assets	1,321.3	1,113.8

## 15 Dividends

	As at 31 March 2015		As at 31 March 2014	
	Pence per share	£m	Pence per share	£m
Declared and paid during the year				
Interim dividend paid on ordinary shares	3.38	29.8	3.35	29.5
Prior year final dividend paid on ordinary shares	3.35	29.5	3.52	31.0
	<b>6.73</b>	<b>59.3</b>	6.87	60.5

The Company proposes paying a final dividend of 3.62p per share (2014: 3.35p) which will be payable to those shareholders that are on the register on 19 June 2015. On the basis of the shares in issue at year end, this would equate to a total final dividend of £31.9 million (2014: £29.5 million).

The final dividend is subject to approval by shareholders at the AGM in July 2015.

In addition, the Company has announced its intention to implement a return of capital by way of a special dividend of 17.0p per share which is expected to be paid in July 2015. On the basis of the shares in issue at year end, this would equate to a special dividend of £149.8 million.

## 16 Commitments

	As at 31 March 2015 £m	As at 31 March 2014 restated £m
Unquoted investments	152.6	38.4

As at 31 March 2015, the Group was committed to investing €107.0 million (£77.6 million) for a 45% interest in Oiltanking Terneuzen B.V. and Oiltanking Ghent N.V., subject to EU merger clearance, a further US\$37.5 million (£25.3 million) (2014: US\$37.5 million, £22.5 million) to the 3i India Infrastructure Fund and a total of £49.7 million (2014: £15.7 million) in PPP projects including Mersey Gateway Bridge, Ayrshire College, A9, La Santé, RIVM, A12 and NMM. As at 31 March 2015 the Group's remaining commitment to the Dalmore Capital Fund was fully drawn down (2014: £0.2 million). The commitments to Mersey Gateway Bridge, A9 and Ayrshire College are currently backed by cash held in third-party bank accounts and reported as 'Other financial assets' in the balance sheet.

The comparative has been restated to include £13.1 million Mersey Gateway Bridge which was disclosed previously but not included in the table above.

## 17 Contingent liabilities

At 31 March 2015 the Company had issued €21.8 million (£15.8 million) in the form of Letters of Credit, drawn against the Revolving Credit Facility, for the investments into the A12, RIVM and La Santé PPP projects (2014: nil).

## 18 Related parties

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

3i Group plc ("3i Group") holds 34.1% (2014: 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 (2014: nil) 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 £124.2 million re-translated (2014: US\$183.7 million or £110.4 million) had been drawn down at 31 March 2015 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 2015, the outstanding commitment was US\$37.5 million, or £25.3 million re-translated (2014: US\$37.5 million or £22.5 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, £2.1 million (2014: £2.2 million) was payable directly to 3i Group, of which the Company's share was £1.8 million (2014: £2.0 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2015, nil remained outstanding (2014: 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 (2014: £3.5 million) was payable directly to 3i Group, of which the Company's share was £2.4 million (2014: £2.4 million) and which was therefore offset against the total advisory fee payable by the Company. As at 31 March 2015, £0.3 million remained outstanding (2014: £0.3 million).

3i Investments plc, a subsidiary of 3i Group, acts as the exclusive Investment Adviser to the Company and provides its services under an Investment Advisory Agreement ("IAA"). It also acts as the manager for the 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 the Company at the end of each financial period. Gross Investment Value is defined as the total aggregate value (including any subscription obligations) of the investments of the Group as at the start of a financial period plus any investment (excluding cash) made during the period valued at cost (including any subscription obligations). The applicable annual rate is 1.5%, dropping to an annual rate of 1.25% for investments that have been held by the Group for longer than five years. On 8 May 2014 the Company entered into an agreement with the Investment Adviser to amend the IAA (the "Amended Agreement"), which was subsequently approved by the Company's shareholders at an extraordinary general meeting on 8 July 2014 and by the Jersey Financial Services Commission ("JFSC"). The Amended Agreement included a new, lower fee of 1% per annum for any future investments in primary PPP and individual renewable energy projects. The advisory fee accrues throughout a financial period and quarterly instalments are payable on account of the advisory fee for that period. The advisory fee is not payable in respect of cash or cash equivalent liquid temporary investments held by the Group throughout a financial period. For the year to 31 March 2015, £15.2 million (2014: £14.0 million) was payable and £1.5 million (2014: £0.8 million) remained due to 3i plc at 31 March 2015. This amount includes fees of £4.2 million (2014: £4.4 million) which were paid directly from unconsolidated subsidiary entities to 3i plc.

# Notes to the accounts

## 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 Amended Agreement, from the year commencing 1 April 2014, the performance fee includes a high water mark requirement so that, before payment of a performance fee, besides the 8% performance hurdle, the return must also exceed the performance level in respect of which any performance fee has been paid in the previous three financial years. The performance hurdle and high water mark requirement was exceeded for the year to 31 March 2015 and a performance fee of £45.0 million (2014: nil) has been accrued and £45.0 million (2014: nil) remained due to 3i plc.

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 Amended Agreement, the IAA was 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 8 May 2019.

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 2015 was £0.8 million (2014: £0.8 million). The outstanding balance payable as at 31 March 2015 was £0.2 million (2014: £0.2 million).

## 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	100%
Heijmans Capital B.V.	The Netherlands	80%
NMM Company B.V.	The Netherlands	80%
C3 Investments in Ayrshire College Education Holdco Limited	UK	100%
C3 Investments in Ayrshire College Education Limited	UK	100%
Quartier Santé SAS	France	80%
Heijmans A12 B.V.	The Netherlands	80%
Oystercatcher Holdco Limited	UK	100%

The list above comprises the principal unconsolidated subsidiary undertakings of the Group as at 31 March 2015.

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), C3 Investments in Ayrshire College Education Limited (a project special purpose vehicle set up to design, build, finance, operate and maintain a new campus in Kilmarnock), Heijmans A12 B.V. (a project special purpose vehicle set up to refurbish, widen and maintain a section of the A12 motorway in the Netherlands) and Quartier Santé SAS (a project special purpose vehicle set up to design, build, refurbish, finance and maintain various buildings for La Santé, the Paris prison).

## 19 Principal unconsolidated subsidiaries continued

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 (2014: none). No such financial or other support was provided during the year (2014: none).

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 total borrowings of €190.0 million or £137.8 million (2014: €189.0 million, £156.7 million). These consist of a term loan (bank tranche) of €80.0 million or £58.0 million from a consortium of three banks and a further €110 million or £79.8 million term loan (PP tranche) with a financial institution. These facilities were agreed in October 2014 and are repayable in full in October 2019 and October 2026 respectively. The facilities have certain loan covenants including interest cover ratios and a leverage ratio which may restrict the future payment of cash dividends from the subsidiary. 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 2015 was £251.7 million (2014: £278.8 million).

## 20 Post balance sheet events

On 16 April 2015 the sale of Eversholt Rail, first announced in January 2015, completed following receipt of regulatory clearance. Proceeds received on disposal were £365.2 million net of divestment costs. This is discussed further in the Strategic report on page 20.

On 14 April 2015, the Company cancelled the unsecured £420 million revolving credit facility it had signed in February 2015.

On 7 May 2015 the Company renewed its £200 million revolving credit facility and increased the size of the facility to £300 million. The new facility is a three year facility, secured by a fixed and floating charge over the directly held assets of the Company. The Company has the right to increase the size of the facility by up to a further £200 million, provided that existing lenders have a right of first refusal, and the Company has rights to request one or two year extensions to the maturity date of the facility, which request(s) may be granted at the discretion of each lender individually.



# 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 2015
Record date for final dividend	19 June 2015
Annual General Meeting	7 July 2015
Extraordinary General Meeting	7 July 2015
Final dividend expected to be paid	10 July 2015
Special dividend expected to be paid <sup>1</sup>	July 2015
Half-yearly results	November 2015

<sup>1</sup> The record date for participation in the special dividend and the ex-dividend date for the special dividend will be announced in June 2015 through the issue of a shareholder circular for the Extraordinary General Meeting.

## 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:  
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Channel Islands  
Tel: +44 (0)1534 847 410

Registered in Jersey No. 95682

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



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### 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:  
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